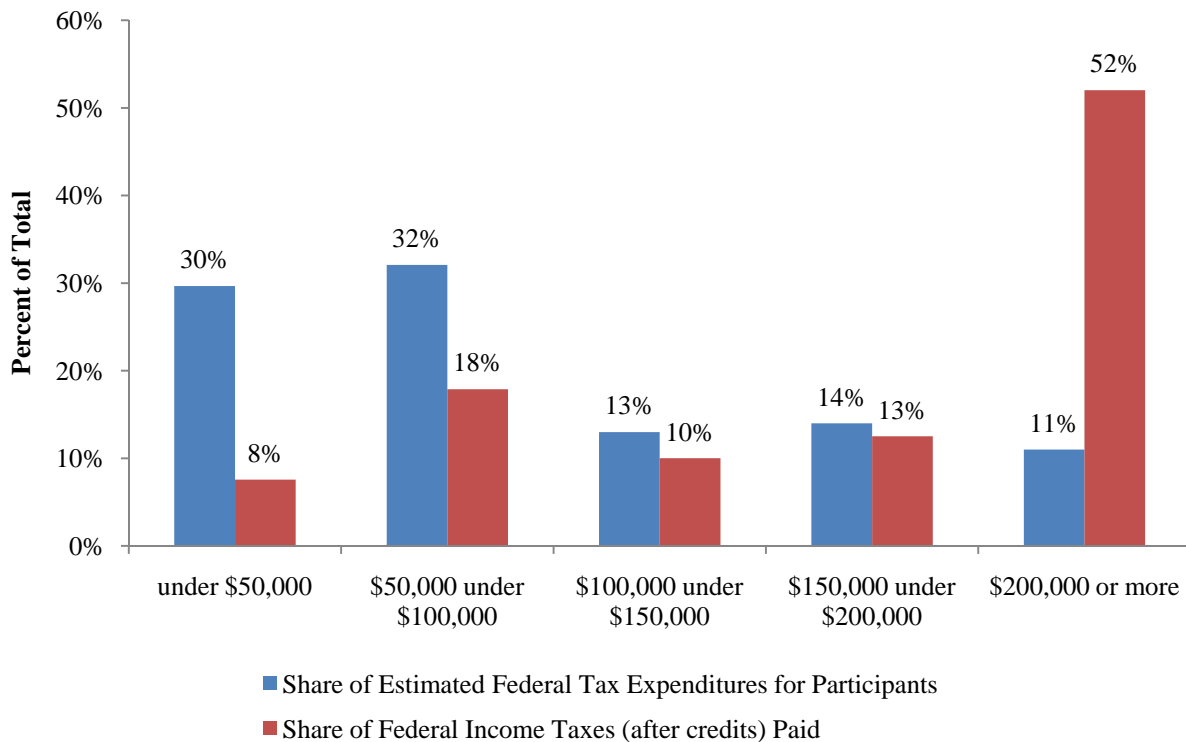


Estimated Benefits of Tax Expenditure Estimates for Defined Contribution Plan Participants and Retirees with Account Balances

The following graph displays the estimated tax expenditure benefits and the Federal income taxes (after credits) paid by income class. As displayed in this graph, the distribution of benefits for defined contribution plans shows that approximately 62 percent of the benefits are attributable to taxpayers with less than \$100,000 of adjusted gross income (AGI). However, only 26 percent of the total income taxes paid were attributable to taxpayers with less than \$100,000 of AGI. As the graph indicates, the greatest share of taxes paid (52 percent) is attributable to taxpayer with AGI of \$200,000 or more.

**Estimated Distribution of Federal Tax Expenditure Estimates for
Defined Contribution Plans and Federal Income Taxes Paid,
by Adjusted Gross Income, tax year 2010**



The distribution includes active participants in all defined contribution plans, including public plan participants (Federal, State, and Local). In addition to the active participants, the estimated benefits includes those retirees with account balances.

Estimating the Distribution Benefits of the Tax Expenditure Estimates –

1. The estimated number of taxpayers relies on primary data from the Internal Revenue Service (IRS) Statistics of Income Division (SOI). This data source matched Form 1040 with the corresponding Form W-2 to determine pension participation in a defined contribution plan.¹ This analysis identifies active participants for the given tax year, in this case tax year 2004. The analysis extrapolated base numbers for 2004 to reflect the 2008 return data (the most current data).²

The active participants include any:

- Qualified pension, profit-sharing, or stock-bonus plan (including 401(k) plans) described in section 401(b)
- Annuity plan described in section 403(a)
- Annuity contract or custodial account described in section 403(b)
- Simplified employee pension (SEP) plan described in section 408(k)
- SIMPLE retirement account described in section 408(p)
- Trusts described in 501(c)(18)
- Plans for Federal, State and Local governments

In addition to these active participants, retirees with account balances were included to reflect the benefit of the tax deferral for inside buildup.

2. The analysis estimated the average deferrals, associated inside buildup by income class, and applied to the distribution of participants. Data from the PSCA's Annual Survey provided the foundation for estimating the average elective deferrals and the corresponding employer matching contributions. Based on the average deferral rates for (lower- and higher-paid) workers, the percent of elective deferrals was determined. The estimated employer matching or profit sharing contributions relied on PSCA's statistics and overall contribution rates.
3. Average account balances were estimated to reflect the inside buildup attributable to retirees.
4. The analysis applied the aggregate deferrals and inside buildup by income class and the corresponding income tax rates by each income class to create the final distribution of benefits.

¹ The number of taxpayers with pension coverage is determined from Form W-2 box 13, which indicates participation in a retirement plan.

² To remain consistent with the 2008 return data, the analysis estimated the change in the number of returns by detailed income classes.