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SENATE REBATE PROPOSAL TARGETS MORE FUNDS TO LOW-INCOME HOUSEHOLDS, BOOSTING STIMULUS IMPACT

Lifting Income Cap Reduces Bang-for-the-Buck, But Changes Are an Improvement Overall

By Aviva Aron-Dine and Robert Greenstein

The stimulus legislation that was adopted by the Senate Finance Committee on Wednesday would make several changes to the House-passed stimulus package, including significant changes to the tax rebate proposal that on balance would make the rebate more effective as stimulus. While retaining the House rebate's basic structure, the Finance Committee legislation would modify the rebate in three ways: (1) it would provide rebates to low- and moderate-income working families that are the *same size* as — rather than smaller than — the rebates going to families at higher income levels; (2) it would extend the rebate to low- and moderate-income *seniors* who receive Social Security but do not have earnings; and (3) it would make the rebate available to somewhat higher income households than would qualify under the House bill. Rebates for households not affected by these changes would be slightly smaller than under the House proposal.

The Finance Committee package also makes a crucial technical change. When tax rebates were provided in 2001, the legislation included a provision ensuring that the receipt of rebates by lower-income working families would not cause their food stamps, housing assistance, or other benefits to be cut. The stimulus bill passed by the House inadvertently omitted such a provision, with the result that many working-poor families that received the rebate would face reductions in other forms of assistance. The Finance Committee package remedies the problem.

When Senator Baucus initially unveiled his legislation, it placed no income cap on the rebates. In response to criticism, Senator Baucus modified his package to include income limits, but ones twice as high as the House bill's ($300,000 for married couples and $150,000 for singles, as opposed to $150,000 for married couples and $75,000 for singles under the House proposal). Since households with incomes of $150,000 or higher are unlikely to quickly spend their rebate checks, setting income limits higher than the House bill adds to the cost of the package while doing little to increase its stimulus impact.

Less noticed, however, have been the two other major changes the Finance Committee plan makes to the House rebate, both of which would *increase* the rebate's bang-for-the-buck as economic stimulus. These changes would put more money in the hands of low- and moderate-income households that are likely to spend it quickly.

Finance Committee Changes Would Speed, Not Delay, Stimulative Effects*

Considerable confusion has marked discussion of the revisions to the stimulus package that the Senate Finance Committee adopted Wednesday. A constant refrain of critics is that the Finance Committee changes would delay the package and thereby harm the economy. The claim is mistaken, however, in two respects.

- Whether the stimulus package is enacted this week, next week, or later in the month will not affect the timing of the rebate checks — in each case, they will not begin to go out until mid-May, with many families not receiving their rebates until July or possibly early August.

- But the additional weeks of unemployment benefits that the Finance Committee package provides would begin to reach jobless workers — and to be spent — within a matter of weeks, well before the first rebate checks would go into the mail.

As a result, the changes would speed the delivery of stimulus — unless Senate and House leaders cannot quickly work out their differences. Once the full Senate acts, Congressional leaders and the Administration should negotiate quickly, with an eye to putting together a package that would be most effective and most rapid in delivering needed stimulus.

* For further discussion of these issues, see Robert Greenstein, "Senate Action Will Not Delay Rebates One Day," Center on Budget and Policy Priorities, January 31, 2008, http://www.cbpp.org/1-31-08tax.htm.

- Under the House bill, a mother with one child who works full time at the minimum wage would receive a rebate of $600, while a mother with one child and an income of $75,000 would receive a rebate of $900, and a married couple with no children and an income of $150,000 would get $1,200. The Finance Committee proposal would reduce or eliminate these disparities.

- Under the House bill, a senior with $70,000 in pension, capital gains, and dividend income would get a rebate, while a senior living on $7,000 in Social Security benefits would be left out. The Finance Committee plan would include low-income seniors.

Joint Committee on Taxation estimates show that, even though it has higher income limits than the House plan, *the Finance Committee package directs a larger share of the total value of the rebate to low- and moderate-income households than the House package does.* While it adds about $4 billion in rebates for households with incomes above $100,000, it adds three times that amount — $12 billion — in additional rebates for households with incomes below $30,000. As a result, the rebate in the Finance Committee proposal likely would have larger bang-for-the-buck as stimulus than the House rebate.

The remainder of this analysis explains the differences between the Finance Committee and House rebate proposals and examines how these differences affect the distribution of the rebates' benefits.

Differences Between the Finance Committee and House Rebate Proposals

As Table 1 shows, the Finance Committee proposal retains the House rebate's structure, but with several important differences.

Table 1: How the Proposed Rebates Would Work		
	House	**Finance Committee**
Maximum rebate	$600 per individual/$1,200 per couple + $300/child	$500 per individual/$1,000 per couple + $300 per child
Earnings threshold	Households must have at least $3,000 in earnings to qualify.	Households can meet the $3,000 test with either earnings or Social Security or veterans' benefits.
Households with incomes too low to owe taxes	Households with insufficient income tax liability qualify for only $300 per individual/$600 per couple (+ $300/child).	All households that qualify for the rebate qualify for the full amount.
Income phaseout	Rebate phases out at a 5% rate beginning at $75,000 (singles) or $150,000 (couples)	Rebate phases out at a 5% rate beginning at $150,000 (singles) or $300,000 (couples)

- It would provide larger rebates to low- and moderate-income working households. Under the House proposal, the full rebate of $600 per individual or $1,200 per couple would be available only to those with incomes high enough to owe sufficient income tax. Low- and moderate-income households would qualify for rebates of only $300 per individual or $600 per couple. A married couple with two children, for instance, would need an income of at least $36,000 to qualify for the full rebate under the House legislation.[1] Under the Finance Committee proposal, low- and moderate-income households would qualify for the full rebate, which would be set at $500 per individual and $1,000 per couple. (Under both proposals, households would qualify for an additional rebate of $300 per child.)

- The Finance Committee proposal would extend the rebate to low- and moderate-income seniors without earnings. Under the House proposal, households must either have positive income tax liability or have at least $3,000 of work earnings to qualify for the rebate. As a result, the Urban-Brookings Tax Policy Center estimates that 17 million elderly households — 56 percent of all such households in the nation — would not qualify for the House rebate. Under the Finance Commitee proposal, households may count Social Security benefits toward the $3,000 threshold. The Tax Policy Center estimates this would allow an additional 15 million elderly households to qualify for the rebate (although it is important to note that many of these additional households do not normally file income tax returns, and it is not clear how many of them would file to claim the rebate).

- The Finance Committee package would begin phasing out the rebate at an income level of $300,000 for married couples and $150,000 for singles; it would be fully phased out for married filers without children at $324,000 . Under the House proposal, the rebate would begin phasing out at an income level of $150,000 for married couples and $75,000 for singles.

Overall Effect Is to Direct a Larger Share of the Rebate to Low-Income Households

As various analysts have noted, a key determinant of a rebate's effectiveness as stimulus is the share of the rebate that goes to low- and moderate-income households. As Federal Reserve Chair

[1] For further discussion of the House proposal, see Aviva Aron-Dine, "An Analysis of the Rebate Proposal in the Announced Stimulus Deal," Center on Budget and Policy Priorities, revised January 29, 2008.

Ben Bernanke recently testified to the House Budget Committee, "If you're somebody who has lots of financial assets and you receive an extra dollar, you may not change your spending much… If you're somebody who lives paycheck to paycheck, you're more likely to spend that extra dollar."[2] In its recent report on stimulus options, the Congressional Budget Office concluded that a rebate available to low- and moderate-income households would provide significantly more powerful stimulus than one that shut out these families.[3] A new analysis by Mark Zandi of Moody's Economy.com quantifies the difference: it estimates that a rebate that is available to low- and moderate-income households is 24 percent more effective than one that is not.[4]

Joint Tax Committee estimates show that, even though the Finance Committee proposal sets higher income limits for the rebate than the House bill, it would direct a larger share of the rebate's total value to low- and moderate-income households. As Table 2 shows, while the Finance Committee package targets additional funds to both low- and high-income households, the value of the additional rebates going to low- and moderate-income households is about three times the value of the additional rebates going to high-income households.

Table 2: Distribution of the Finance Committee and House Rebate Proposals

	Total Value of the Rebate (Billions)		
Income Class	**House**	**Finance**	**Difference**
Less than $10,000	$3	$8	+$4
$10,000 - $20,000	$7	$14	+$7
$20,000 - $30,000	$9	$11	+$1
$30,000 - $40,0000	$10	$11	$0
$40,0000 - $50,000	$10	$10	$0
$50,000 - $75,000	$22	$20	-$2
$75,000 - $100,000	$16	$15	-$1
$100,000 - $200,000	$20	$21	$0
Above $200,000	$0	$3	+$3
Total	$98	$111	+$12

Source: Joint Committee on Taxation. Totals may not add due to rounding.

The impact of the two changes that increase the rebate's effectiveness as stimulus appears to be greater than the impact of the one change that decreases its effectiveness. Thus, the Finance Committee changes likely would enhance the rebate's effectiveness overall.

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2 Quoted in Sarah Lueck, John D. McKinnon, and Michael M. Phillips, "Bush, Democrats, Rush to Roll Out Stimulus Plan," Wall Street Journal, January 18, 2008

3 Congressional Budget Office, "Options for Responding to Short-Term Economic Weakness," January 2008.

4 See http://www.economy.com/home/article_ds.asp?cid=102598.