

February 21, 2001

## THOSE \$1,600 TAX CUT CHECKS

On February 14, the Center on Budget and Policy Priorities released an analysis, "Those \$1,600 Tax Cut Checks." The report examines the Administration's claim that the typical American family of four would receive a tax cut of \$1,600 under President Bush's tax-cut plan. The report includes the following findings:

The full report can be viewed at  
<http://www.cbpp.org/2-14-01tax.htm>

- The \$1,600 figure was calculated by combining the Bush Administration's proposed expansion of the child tax credit (from a maximum of \$500 per child to a maximum of \$1,000 per child) and the proposed reduction in the marginal tax rate from 15 percent to 10 percent for the first \$12,000 in a two-parent family's taxable income. These two provisions could reduce the taxes of a married couple with two children by \$1,600 when the plan is fully in place, which would be in 2006. To qualify for this full \$1,600 tax cut, such a family would need income of about \$39,200 in that year.
- The large majority of families would receive a tax cut of less than \$1,600 in 2006. Using a computer model that has yielded findings similar to those produced by the Treasury Department, Citizens for Tax Justice has calculated that some 85 percent of families and individuals would receive less than \$1,600 or no tax cut at all in that year. This is because individuals and most families with one child would receive no more than \$500 from the child credit expansion and because a significant proportion of families would not have sufficient income to pay \$1,600 in income taxes (as distinguished from payroll taxes) and thus could not qualify for an income tax reduction of this amount. The Administration's tax cut plan does not address the payroll tax burden, even though the payroll tax is the largest tax for three of every four families.
- The proposed tax changes would not take full effect for five years and in the meantime would provide much less than \$1,600 to a middle-class two-parent family of four. The maximum benefit would be \$320 in 2002, rising in subsequent years to \$640, \$960, and \$1,280 before reaching \$1,600 in 2006. Furthermore, due to the effects of inflation, the \$1,600 maximum benefit that the plan would provide in 2006 is worth \$1,405 in today's dollars.
- Only about one-third of the total cost of the Bush plan comes from expanding the child tax credit and creating the new 10 percent bracket (the two provisions directly related to the \$1,600 figure). More than half of the cost comes from reductions in tax rates in the higher tax brackets (which would not affect the bottom 75 percent of the population) and repeal of the tax on large estates (which would affect only the largest two percent of estates).

It is possible to design a tax package that, as compared to the Bush plan, provides similar tax reductions to middle-class families and more adequate relief to lower-income working families — and does so at a much lower cost. Such a package could include making the child tax credit available to low-income families that pay payroll taxes and expanding the Earned Income Tax Credit in order to, for example, reduce marginal tax rates and marriage penalties.