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FACT-CHECKING THIS WEEK'S BUDGET RESOLUTION DEBATE

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In the ongoing debates over the House and Senate budget resolutions, some members of Congress have made questionable or inaccurate statements regarding various issues. This brief factsheet, which will be updated as needed throughout the debates, corrects the record regarding some of the most egregious examples.

1. “Eighteen million seniors will see their taxes jump \$2,200 because of this budget — \$2,200 each. That is a lot of money.” — Senator Judd Gregg, Ranking Member of the Senate Budget Committee, during the debate on the Senate budget resolution, March 11, 2008

Senator Gregg's claim is that allowing the 2001 and 2003 tax cuts to expire would greatly harm elderly households. But according to estimates by the Urban-Brookings Tax Policy Center, the typical elderly household receives a tax benefit of \$0 from the 2001 and 2003 tax cuts (<http://www.taxpolicycenter.org/numbers/Content/Excel/T06-0289.xls>).¹ In fact, 57 percent of all elderly households receive no benefit from these tax cuts, and another 16 percent of seniors gain by less than \$500. Only 9 percent of elderly households gain by \$2,000 or more.

Senator Gregg's \$2,200 figure was apparently derived by: (1) leaving out the majority of elderly households, which owe no federal income taxes and receive no tax benefit, and (2) taking an average, which is skewed by a small number of high-income seniors who receive very large tax cuts. (For example, if four seniors received tax cuts of \$0, and one senior received a tax cut of \$100,000, Senator Gregg's methodology would lead him to conclude that five seniors saw their taxes reduced by \$20,000 each.)

2. “Under their budget, the definition of rich would reach down to... couples who earn \$63,000.” — Senator Mitch McConnell, Senate Minority Leader, at a press conference on taxes, March 12, 2008

“Even with the Baucus amendment added to this budget, there would be marginal rate increases on millions of taxpayers. . . . These marginal rate increases would reach taxpayers with incomes as low as \$31,850 for singles and \$63,700 for married couples.” — Senator

¹ \$0 is the median tax cut for elderly household, i.e. at least half (specifically, 57 percent) of elderly households receive tax cuts of \$0.

Charles Grassley, Ranking Member of the Senate Finance Committee, during the debate on the Senate budget resolution, March 10, 2008

Senators McConnell and Grassley are referring to the income levels at which taxpayers can begin to benefit from 2001 tax cut's reduction in the 28 percent tax rate. But in calculating these levels for 2007, they failed to factor in the personal exemption and standard deduction. With those included, the then-28 percent, now-25 percent bracket begins at \$40,600 for singles and \$81,200 for couples. (To benefit in full from the 25 percent bracket, a single individual needs an income of at least \$85,850, and a married couple needs income of at least \$146,000. This explains why the Tax Policy Center estimates that some 80 percent of the benefits of reducing the 28 percent rate to 25 percent go to households with incomes above \$100,000; see <http://www.taxpolicycenter.org/numbers/Content/Excel/T07-0018.xls>.)

3. “*Small businesses pay 54 percent of all individual income taxes.*” — Senator Jon Kyl, Senate Minority Whip, during the debate on the Senate budget resolution, March 10, 2008

Senator Kyl's claim relies on a Tax Foundation report² that classifies any tax filer who reports *any* income or loss from a sole proprietorship, farm proprietorship, partnership, S corporation, or rental income as a small business owner. Using this definition, the Tax Foundation concludes that the large majority of high-income taxpayers (for example, 75 percent of those in the top 1 percent) are small business owners — so it is hardly surprising that it also concludes that small business owners pay a large share of income taxes. But this definition turns wealthy individuals who are passive investors, not business proprietors, into small business owners.

According to Tax Policy Center estimates, a majority of tax filers with incomes over \$1 million who qualify as small business owners under this definition receive some or all of their “small business income” from passive investments. Others are doctors or lawyers who organize their practices as sole proprietorships, CEOs who receive fees for sitting on corporate boards, or journalists and others who receive honoraria. Both President Bush and Vice President Cheney qualify as “small business owners” under this definition, which also counts large amounts of income earned by businesses that are by no measure “small.” (For more on this topic, see <http://www.cbpp.org/3-21-07tax.htm>.)

4. “*It is interesting to me that the United States has the third highest estate tax rate in the world and is 37 percent above the international average. Twenty-four nations have no estate tax. There are only two countries that have rates higher than ours.*” — Senator Jon Kyl, Senate Minority Whip, during the debate on the Senate budget resolution, March 10, 2008

Outside the United States, many countries tax accumulated wealth by means of an inheritance or wealth tax, rather than an estate tax, and so it makes sense to count all these forms of taxes for purposes of international comparisons. Of 30 countries for which OECD data is available, 27 levied some form of estate, inheritance, or wealth tax in 2004.

² Scott A. Hodge and J. Scott Moody, “Wealthy Americans and Business Activity: Helped by Tax Cuts, Businesses Producing Lion's Share of Tax Revenue,” Tax Foundation Special Report No. 131, August 2004.

Moreover, experts agree that the right way to compare revenue levels across countries is to look at revenues as a share of GDP, not at statutory tax rates, since some countries levy taxes on a broader tax base than others. In 2004, U.S. estate tax revenues as a share of GDP were about equal to the international average for wealth and wealth transfer taxes. But in 2004, U.S. estates paid tax based on a \$1 million exemption and a 49 percent rate. Senator Kyl has said that he will offer an amendment to raise the estate tax exemption level to \$5 million and lower the rate to 35 percent. If this proposal were adopted, the United States would be well below the international average in the share of GDP it raised from wealth and wealth transfer taxes.