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PRESIDENT BUSH'S DEFINITION OF A "FAIR" TAX CUT COULD BE ACCOMPLISHED AT ONE-FOURTH THE COST OF HIS OVERALL PLAN AND AT LESS THAN HALF THE COST OF THE SMALLER SENATE PACKAGE

By Isaac Shapiro and Andrew Lee

As part of the Administration's new campaign to raise the size of the tax cut to "at least \$550 billion" through 2013, President Bush has given two recent speeches on tax cuts. In both of them, he focused on one example of how his package is of use to a family. In his most recent speech, he put it this way:

"...let me just give you the facts, and you can decide whether this plan is fair. If you're a family of four, making \$40,000 a year, this tax plan will reduce your taxes from \$1,178 to \$45."¹

While it is true that this family's income taxes would be cut by \$1,133, closer examination reveals that the tax cuts that would benefit this family cost \$157 billion through 2013. Thus, in combination, the tax cuts affecting this family:

- Constitute only about one-fifth of the \$726 billion in tax cuts proposed by President Bush;
- Are less than a third the size of the \$550 billion in tax cuts that may be reflected in the upcoming House tax bill; and
- Would even be less than half the \$350 billion in tax cuts expected to be included in the "moderate" Senate tax bill.

Thus, the example unintentionally illustrates the point that the tax cuts of importance to middle-income families could be adopted at a much lower cost than the President insists is necessary. These provisions could be adopted intact even under the Senate bill, while still leaving plenty of room for other priorities such as state fiscal relief or assisting the unemployed. Similarly, President Bush's example illustrates the point that the bulk of his proposed tax cuts do not in fact help middle- or lower-income families.

The family of four with \$40,000 receives its \$1,133 tax cut through three provisions:

- The acceleration of the widening of the 10 percent bracket from \$12,000 to \$14,000 saves this family \$100. (The family will have \$2,000 taxed at the 10 percent rate instead of the 15 percent rate, saving \$100.)

¹ President Bush, "President Discusses Plan for Economic Growth in Ohio," April 24, 2003.

Administration Percentage Includes Only Federal Income Taxes

The family of four making \$40,000 would receive a 96 percent cut in federal *income* taxes. The family's federal income tax liability would fall from \$1,178 to \$45. This family, however, pays much more in federal payroll taxes than in federal income taxes. When one includes just the family's *employee* share of \$3,060 in payroll taxes, the family would receive a 27 percent cut in federal income and payroll taxes. Furthermore, most economists have concluded that workers bear the burden of both the employee and the employer payroll taxes, with the employer portion being passed on to workers in the form of lower wages. If one includes both the employee and employer portions, the family pays \$6,120 in payroll taxes and would receive a 16 percent reduction in federal income and payroll taxes under the Administration's plan.

A recent analysis from the Urban Institute-Brookings Institution Tax Policy Center shows that among tax filers with wage earnings, 90 percent of those with income below \$100,000 pay more in payroll taxes than in individual income taxes.*

*William Gale and Jeffrey Rohaly, "Three-Quarters of Filers Pay More in Payroll Taxes Than in Income Taxes," *Tax Notes*, January 6, 2003.

- The acceleration of the "marriage penalty relief" increase in the standard deduction from \$7,950 to \$9,500 saves the family \$233. (The family will have its taxable income reduced by \$1,550. Since it faces a 15 percent marginal tax rate, this saves the family \$233.)
- The acceleration of the increase in the child tax credit from \$600 to \$1,000 saves the family \$400 per child, or \$800 overall.

From 2003-2013, the increase in the 10 percent bracket costs \$45 billion, the "marriage penalty relief" increase in the standard deduction costs approximately \$22 billion, and the increase in the child tax credit costs \$90 billion. The three provisions thus cost a combined \$157 billion.

Furthermore, the provisions that benefit middle-income families would merely accelerate scheduled tax cuts that have already been enacted — in contrast to the \$396 billion dividend exclusion, which would provide a new, permanent tax cut primarily for high-income earners. Over the long-term, many middle-class families would receive no new tax-cut benefits while high-income earners would receive large and permanent new tax cuts from the dividend exclusion.

It is also worth noting that many lower-income families are entirely left out of the Administration's tax plan. For example, a married family with two children and \$20,000 in earnings (such as a family with two minimum wage earners) would receive no benefit whatsoever from the tax package. According to the Urban Institute-Brookings Institution Tax Policy Center, nearly 11 million families with children — or one-fourth of all families with children — would receive no benefits from the proposed tax cuts. These lower-income families are excluded despite the fact that they are most in need and most likely to spend additional funds and stimulate the economy.