

January 22, 2008

TAX POLICY CENTER ESTIMATES SHOW FEWER THAN 60 PERCENT OF WORKING HOUSEHOLDS WOULD BENEFIT IN FULL FROM PRESIDENT'S PROPOSED REBATE To Provide Effective Stimulus, Rebates Need to Reach Lower-Income Households

By Aviva Aron-Dine

The centerpiece of the President's economic stimulus proposal reportedly is a tax rebate that would be provided by temporarily reducing the 10 percent income tax rate to zero. The plan has been described as featuring a rebate of \$800 for individuals and \$1,600 for couples. This description, however, is misleading. Only those filers with incomes high enough to put them in the 15 percent tax bracket or a higher tax bracket could qualify for the full rebate, while most low- and moderate-income households would receive no rebate at all. This approach would not only deny help to the individuals hardest hit by a weakening economy; it would also make the rebate considerably less effective than it could be as economic stimulus.

New estimates from the Urban Institute-Brookings Institution Tax Policy Center show that:

- One in four working households — about 30 million households— would receive *no rebate* under the President's proposal.¹ (See Table 1.)

- An additional 16 percent of working households — 19 million households — would qualify for less than the full rebate amount.

- In total, 42 percent of working households — close to 50 million such households— would receive a partial rebate or be shut out entirely.² That is, fewer than 60 percent of working households would qualify for the touted \$800 or \$1,600 rebate.

Table 1: Working Households Receiving Less than the Full Rebate Under the President's Proposal

	Number of Households	Percent of All Working Households
Receive no rebate at all	30 million	26%
Receive <u>partial rebate</u>	<u>19 million</u>	<u>16%</u>
Receive less than full rebate	49 million	42%

Source: Tax Policy Center

¹ Another 26 million households without earnings would also be shut out of the rebate. Most of these households do not file income tax returns, making them difficult to reach through the tax system, but they are among the people hardest hit by a weakening economy and would quickly spend any funds they received. This group of very vulnerable households could best be reached through non-tax assistance, such as a temporary increase in food stamp benefits.

² While a few million of these households are upper-income households who do not receive the rebate (or receive less than the full amount) because they are on the Alternative Minimum Tax, the overwhelming majority are low- and moderate-income working families.

The President’s proposal shuts out low- and moderate-income working families because households must have significant income tax liability to fully qualify. Thus, even though low- and moderate-income workers pay substantial payroll taxes, they would be disqualified because they do not earn enough to have sufficient *income* tax liability. For example:

- A married couple with two children would need an income of \$25,000 to get the rebate *at all*, and an income of at least \$41,000 to get the full \$1,600 rebate.³
- Parents who work but whose earnings leave them in poverty — the very people struggling the most in the weakening economy — would be ineligible for the rebate. (See Table 2.)
- Meanwhile, the most affluent households would qualify for the full rebate amount. For example, a couple with an income of \$1 million would receive the full \$1,600 benefit, since the first \$16,000 of its taxable income would be taxed at a 0 percent instead of a 10 percent rate.

Table 2: Working-Poor Families Would Not Benefit From the Rebate			
	2008 Poverty Line	Income Needed to Benefit From the Rebate at All	Income Needed to Benefit From the Rebate in Full
Single Parent, One Child	\$14,620	\$17,230	\$26,450
Single Parent, Two Children	\$17,088	\$22,630	\$29,950
Married Couple, One Child	\$17,072	\$21,400	\$37,450
Married Couple, Two Children	\$21,509	\$25,190	\$40,950

Source: CBPP estimates.

Unavailability to Lower-Income Households Makes Rebates Less Effective

Economists across the political spectrum agree that putting money in the hands of low- and moderate-income households has the highest bang-for-the-buck in stimulating the economy because these households are the most likely to quickly spend whatever funds they receive. As Federal Reserve Chair 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.”⁴ In a recent report, the Congressional Budget Office concluded that a rebate available only to those with income tax liability would provide less powerful stimulus than one that was also available to low- and moderate-income households.⁵ Similarly, a new analysis by Mark Zandi of Moody’s economy.com estimates that a rebate that includes low-income workers who do not earn enough to owe income tax would be 24 percent more effective as stimulus (per dollar of cost) than a rebate that leaves these workers out.⁶

³ This figure reflects the lowest income level at which a married couple with two children that qualify for the Child Tax Credit could possibly benefit from the rebate (or benefit from it in full). Families that claimed additional tax credits, like the dependent care tax credit, or that itemized deductions would need even higher incomes to qualify.

⁴ 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.

⁵ Congressional Budget Office, “Options for Responding to Short-Term Economic Weakness,” January 2008.

⁶ See http://www.economy.com/home/article_ds.asp?cid=102598

Any rebate intended as stimulus should be available to as many low- and moderate-income households as possible. Not only would this target those most likely to need help during a recession, it would also have the greatest impact in stimulating the economy and saving jobs.