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ADMINISTRATION'S USE OF "AVERAGE" TAX CUT FIGURES CREATES MISLEADING IMPRESSION ABOUT THE TAX CUTS MOST HOUSEHOLDS WOULD RECEIVE

By Isaac Shapiro and Joel Friedman

The Administration has sought to portray its "growth package" as providing substantial benefits to a broad spectrum of the population. To do so, it has repeatedly asserted that "92 million taxpayers would receive, on average, a tax cut of \$1,083 in 2003."¹ This information is misleading. Most taxpayers would receive far less than this average amount. According to data from the Urban Institute-Brookings Institution Tax Policy Center, 80 percent of tax filers would receive a tax cut of less than \$1,083 in 2003.²

How can this be? The *average* tax cut is much larger than the tax cut a typical household would receive largely because, in generating these figures, the Administration has averaged the big tax cuts that those at the top of the income spectrum would receive with the far more modest tax cuts those in the middle of the income spectrum would get (and the small or non-existent tax cuts that would go to working families with low incomes). Take, for example, a hypothetical situation where one taxpayer gets a \$10,500 tax cut and 9 taxpayers receive a \$500 tax cut. Among these 10 taxpayers, the average tax cut amounts to \$1,500. Yet 9 of the 10 taxpayers are receiving a tax cut only one-third that size.³

The Urban-Brookings Tax Policy Center data indicate the following about the tax cuts the Administration's plan would provide in 2003:

- The average tax cut for tax filers in the middle fifth of the population — those filers right in the middle of the income spectrum — would be \$256, only one-fourth the \$1,083 figure the Administration is citing for the average taxpayer.
- Almost half of all tax filers — 49 percent — would receive tax cuts of less than \$100.
- The average tax cut for the bottom 80 percent of tax filers would be \$226. Even the next-to-top fifth of tax filers would get an average tax cut of only \$574.

¹ "Taking Action to Strengthen America's Economy," White House website.

² www.taxpolicycenter.org, Table 6 on the Administration's stimulus proposal. Other data used in this analysis come from the Tax Policy Center's Tables 1 and 2 on the Administration's stimulus proposal.

³ 9 times \$500 is \$4,500. \$4,500 plus \$10,500 is \$15,000. \$15,000 divided by 10 is \$1,500.

- By contrast, the top one percent of tax filers would receive an average tax cut of \$24,100. Those with incomes of more than \$1 million would get tax cuts averaging a whopping \$90,200.
- Overall, *80 percent of tax filers would get less than the average tax cut of \$1,083 the Administration is touting.*

The Administration also is promoting other highly stylized “facts” about how much in tax cuts would go to specific groups. These figures are similarly distorted. For example, the White House claims “13 million elderly taxpayers would receive an average tax cut of \$1,384.” The Tax Policy Center data indicate that only 3.1 million elderly tax filers actually would get tax cuts of this size or greater. Some 79 percent of elderly tax filers — nearly four of every five — would get less than the amount the White House is advertising.

Similarly, the Administration says the average tax cut among six million single women with children would be \$541. Yet 85 percent of such women would receive tax cuts of less than \$500, and 49 percent would receive nothing. The average is \$541 because a small number of such women would receive massive tax cuts, thereby raising the average.