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MORE THAN HALF OF BLACK AND HISPANIC FAMILIES WOULD NOT BENEFIT FROM BUSH TAX PLAN

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More than one of every two black and Hispanic families with children would receive *no* assistance from the tax plan of the Bush Administration.¹ Altogether, six million black and Hispanic families — and 12.6 million black and Hispanic children — would not be aided by the bill. They would not have their taxes cut or their incomes raised. The large majority of the excluded families have workers.

This analysis investigates these figures in more detail and examines the reason that so many families and children do not benefit — the families have incomes too low to owe federal *income* taxes; the Bush plan cuts only income taxes and taxes on large estates. Since black and Hispanic families have significantly lower average incomes than the rest of the population and thus are less likely to pay income taxes, they are also less likely to benefit from income tax cuts. This leads to a discussion of whether families that do not owe income taxes should benefit from a large tax-cut proposal and the extent to which they owe taxes other than income taxes, most notably the payroll tax. The large majority of the excluded families do pay payroll taxes and other taxes, and can have significant overall tax bills. Indeed, among *all* American families, three of every four pay more in payroll taxes than in income taxes.

Who Would Be Excluded?

We examined the latest data from the Census Bureau to estimate the number of families and children under 18 who would receive no assistance from the Bush tax plan. The data are for 1999; our analysis considers the effects of the plan as if it were in full effect that year. When *all* families with children (including non-minority children) were examined, we found that about one in three would not receive any benefits from the Bush plan.²

This finding is consistent with the findings of independent analyses of who is left out of the Bush plan that have been conducted by researchers at the Brookings Institution, the Urban

¹ "African-American" and "Latino" are not used here because the U.S. Census Bureau, the source of data for this analysis, uses the categories of "black" and "Hispanic."

² An estimated 12.2 million low- and moderate-income families with children — 31.5 percent of all families — would not receive any tax cut from the Bush proposal. Approximately 24.1 million children — 33.5 percent of all children — live in the excluded families.

Institute, and the Institute on Taxation and Economic Policy.³ All three sets of analyses indicate that among all families with children, nearly one in three would not receive any assistance from the Administration's proposal.

Our analysis also examines the effects of the tax plan on black and Hispanic families. Among these groups, the figures are especially striking.

- Among non-Hispanic blacks, three million families with children — 52.8 percent of all such families — would not benefit from the Bush tax plan.
- The figures among Hispanic families are nearly identical. Among Hispanics, three million families with children — 52.9 percent of Hispanic families with children — would not be aided.
- Similarly, *more than half* of black and Hispanic children would not receive any assistance. An estimated 55 percent of black children and 56 percent of Hispanic children live in families that would receive nothing from the tax cut.
- Of the 24.1 million children living in families that would receive no benefit from the tax cuts, an estimated 10.1 million are non-Hispanic whites, 6.1 million are black, and 6.5 million are Hispanic.
- Black and Hispanic children would be more than twice as likely to fail to receive assistance from the Bush plan as non-Hispanic white children would be.⁴

A sizable majority of the black and Hispanic families that are excluded from assistance under the Bush plan are families with workers. Some 72 percent of the excluded black families have workers while 79 percent of the excluded Hispanic families include a worker.

Even the Bush proposal to double the child tax credit — the feature of the President's tax plan that one might expect to provide the most assistance to children in low- and moderate-income families — would be of little or no help to many of them. This proposal would provide the largest tax reductions to families with incomes above \$110,000 and confer a much larger share of its benefits on upper-income families than on low- and middle-income families. Blacks and Hispanics are under-represented among these high-income families.

³ Isabel Sawhill and Adam Thomas, *A Tax Proposal for Working Families with Children*, Policy Brief No. 3, Brookings Institution, January 2001; Frank J. Sammartino, *Federal Income Tax Cuts and Low-Income Families*, The Urban Institute, January 2001; and Institute on Taxation and Economic Policy, unpublished tables prepared for the Children's Defense Fund.

⁴ An estimated 22.2 percent of non-Hispanic white children live in families that would not receive any aid from the Bush tax plan.

- Under the Bush plan, the maximum child credit would be raised from \$500 per child to \$1,000 in 2006.
- All families with two children in the \$110,000 to \$250,000 range, however, would receive an increase in their child tax credit *of more than* \$500 per child. For most of these affluent taxpayers, the child credit would rise from zero under current law to \$1,000 per child under the Administration's plan. This is because the Bush proposal extends the child tax credit to many families with high incomes who currently receive no credit at all.⁵
- By contrast, the Bush plan does not extend the credit to any low- and moderate-income families who currently receive nothing from the credit. Under the plan, increased coverage for high-income families with children is not accompanied by increased coverage for low-income families.⁶

Why Don't Families Benefit?

During 2000, Bush campaign officials touted their tax-cut plan as benefitting lower-income taxpayers substantially in two key ways — by doubling the child credit to \$1,000 per child and by establishing a new 10 percent tax-rate bracket. Some married families also would benefit from the plan's two-earner deduction. None of these features, however, affect a family that has no income taxes under current law.

The majority of black and Hispanic families fall into this category. As a result of the combination of the standard deduction (or itemized deductions if a family itemizes), the personal exemption, and existing credits such as the child tax credit, these families do not owe federal income taxes. (As described below in more detail, these families can pay substantial amounts in other taxes, such as payroll and excise taxes, even after the Earned Income Tax Credit is taken into account.)

The level at which families now begin to pay federal income taxes is well above the poverty line. For example, in 2001, a two-parent family of four does not begin to owe income

⁵ This outcome results from two provisions of the Bush plan. The plan both increases the point at which the child credit begins to phase out and slows the rate at which it phases out. Under current law, the credit for a family with two children phases out between \$110,000 and \$130,000. Under the Bush plan, starting in 2006, it would not phase out between \$200,000 and \$300,000. For families with more than two children the income level at which the child tax credit phases out would be greater than \$300,000.

⁶ More than 700,000 moderate-income black and Hispanic families with children who will receive an expansion in their child credit, will receive an increase of less than \$500 per child. These are families who, under current law and after the application of the existing child credit — pay income taxes of less than \$500 per child. Since they now pay income taxes of less than \$500 per child their benefits from a credit expansion would also be less than \$500 per child.

tax — and thus does not begin to benefit from the Bush plan — until its income reaches \$25,870, some 44 percent above the poverty line of \$17,950. Families below the poverty line would receive no assistance from the tax cut. Nor would many families modestly above the poverty line.⁷

The framers of the Bush plan could have assisted low-income working families by improving the EITC, a program that provides tax relief and income support to low- and moderate-income families. Alternatively, the Bush plan could have expanded the dependent and child care tax credit — a credit which can offset a family's child care costs — and made it available to the low-income working families who currently are denied access to this credit because it is not “refundable” (that is, it cannot exceed the income taxes a family otherwise owes). Or, the plan could have increased the degree to which the child tax credit is refundable and can be used to offset taxes other than income taxes. The plan takes none of these steps.

What Families Should Benefit?

Since the reason that millions of families and their children would not benefit from the Bush plan is that they do not owe federal income taxes, some have argued that it is appropriate they not benefit. "Tax relief should go to those who pay taxes" is the short-hand version of this argument. This line of reasoning is not persuasive for several reasons.

1. A significant number of these families owe taxes other than federal income taxes, often paying significant amounts. For most families, their biggest federal tax burden by far is the payroll tax, not the income tax. Data from the Congressional Budget Office indicate that in 1999, three-quarters of all U.S. families paid more in federal payroll taxes than in federal income taxes. (This comparison includes both the employee and employer share of the payroll tax; most economists concur that the employer's share of the payroll tax is passed along to workers in the form of lower wages.) Among the bottom fifth of households, 99 percent pay more in payroll than income taxes. Low-income families also pay excise taxes and state and local taxes. While the Earned Income Tax Credit offsets these taxes for many working families with incomes below the poverty line, many families with incomes modestly above the poverty line who would not benefit from the Bush plan are net taxpayers.

Consider two types of families earning \$25,000 a year in 2001, an income level President Bush has used in some of his examples, including in his first radio address to the nation about his tax package. In this radio address, the President used the hypothetical example of a waitress who is a single-mother with two children and earns \$25,000 a year, and indicated her family would be a prime beneficiary of the tax cut. The figures suggest otherwise.

⁷ These issues are explained in greater detail in a recent Center on Budget and Policy Priorities publication, *Taking Down the Toll Booth to the Middle Class? Myth and Reality Governing the Bush Tax Plan and Lower-Income Working Families*, February 2001.

- A single mother with two children and income of \$25,000 would pay \$3,825 in payroll taxes (again, counting both the employee and employer share) and lesser amounts in gasoline and other excise taxes. The family pays various state taxes as well. The family would receive an Earned Income Tax Credit of \$1,500, well under half of its payroll taxes.

As a result, even if just payroll taxes and the EITC are considered, the family's net federal tax bill would be \$2,325. Nonetheless, this family might receive no tax cut under the Bush plan. If this single-mother waitress pays at least \$170 a month in child care costs so she can work and support her family — an amount that represents a rather modest expenditure for child care — she would receive no tax cut under the Bush plan despite having a significant net tax burden. (If she had no child care costs, she would receive a modest income tax cut, though it would be far below what she owes in payroll taxes.)⁸

- A two-parent family of four with income of \$25,000 would not receive a tax cut under the Bush plan, whether or not the family has child care costs. For such families as well, their payroll taxes exceed their EITC by \$2,325.

2. *Consistent with the objective of helping working families lift themselves out of poverty, an additional income boost would be worthwhile.* A key theme of welfare reform has been to prod, assist, and enable families to work their way out of poverty. The principle of helping families work their way out of poverty has gained support across the political spectrum. This principle is important for married families and single-parent families, and there is considerable evidence that welfare reform — in combination with a strong economy, low unemployment rates, and the EITC — has significantly increased employment rates among single mothers. Providing increased assistance to the working poor through the tax system could further the goal of "making work pay."

Such assistance is particularly important since much of the recent gain in the earnings of the working poor has been offset by declines in other supports. For example, from 1995 to 1999 the poorest 40 percent of families headed by a single mother experienced an average increase in earnings of about \$2,300. After accounting for their decrease in means-tested benefits and increases in taxes, their net incomes rose a mere \$292.⁹ (Both changes are adjusted for inflation.)

⁸ If the single-mother waitress with two children who earns \$25,000 has child care costs of \$100 a month, she would receive a small income tax cut — less than \$200 a year. If she has no child care costs, does not itemize deductions, and makes no pension contributions, she could receive a total tax cut of \$447. In both scenarios, the waitress would receive a tax cut of less than \$500 per child (the amount of the expansion in the child tax credit) even though her net tax bill (including payroll and other taxes) would be significant.

⁹ Speech by Wendell Primus at the University of Michigan Conference on The New World of Welfare: An Agenda for Reauthorization and Beyond, February 1-2, 2001.

In addition, a study the Manpower Demonstration Research Corporation has just released finds that improving income — and not just employment — is important if the lives of children in poor families are to improve.¹⁰ The MDRC report examined five studies covering 11 different welfare reform programs. The report's central finding was that increased employment among the parents in a family did not by itself significantly improve their children's lives. It was only in programs where the parents experienced increased employment *and* increased income that there were positive effects — such as higher school achievement — for their elementary school-aged children.

3. *The Bush approach fails to reduce the high marginal tax rates that many low-income families face.* Throughout the campaign and early into the new Presidency, President Bush and his advisors have cited the need to reduce the high marginal tax rates that many low-income working families face as one of their tax plan's principle goals. They have observed that a significant fraction of each additional dollar these families earn is lost as a result of increased income and payroll taxes and the phasing out of the EITC.¹¹ Ironically, however, a large number of low-income families that confront some of the highest marginal tax rates of any families in the nation would not be aided at all by the Bush plan.

Analysts across the ideological spectrum have long recognized that the working families who gain the least from each additional dollar earned are those with incomes between about \$13,000 and \$20,000. For each additional dollar these families earn, they lose up to 21 cents in the EITC, 7.65 cents in payroll taxes (15.3 cents if the employer's share of the payroll tax is counted), 24 cents to 36 cents in food stamp benefits, and additional amounts if they receive housing assistance or a child care subsidy on a sliding fee scale or are subject to state income taxes. Their marginal tax rates are well above 50 percent. Yet the Bush plan does not provide any assistance to them.

Ways to reduce marginal tax rates for such families are available and not especially expensive. They basically entail raising the income level at which the EITC begins to phase down as earnings rise, and/or reducing the rate at which the EITC phases down. Bipartisan legislation introduced last year by Senators Rockefeller, Jeffords, and Breaux follows such a course, as do proposals made by Rep. Ben Cardin and the Clinton Administration.

4. *The rewards from the surplus should be spread throughout the population.* The Bush tax package is likely to consume most, if not all, of the available surplus outside Social Security and Medicare. A recent Center on Budget and Policy Priorities analysis pegs the cost of the Bush plan at more than \$2 trillion over 10 years, which would exceed the surplus that is likely to

¹⁰ Pamela A. Morris, et. al., *How Welfare and Work Policies Affect Children: A Synthesis of Research*, January 2001.

¹¹ For example, for a family with two children, the size of the Earned Income Tax Credit is reduced by 21 cents for each dollar of income between \$13,090 and \$32,121.

be available outside Social Security and Medicare when realistic budget assumptions are used.¹² If large tax cuts are to be provided, it is appropriate to dedicate some portion of those tax cuts to the people with the most pressing needs, such as low-income families with children.

¹² See Robert Greenstein and Richard Kogan, *What the New CBO Projections Mean: Can the New Surplus Projections Accommodate a Large Tax Cut?*, January 31, 2001.