

BUSH TAX CUT TILTS TOWARD TOP

On February 5, the Center on Budget and Policy Priorities issued an analysis, "Taking Down the Toll Booth to The Middle Class? Myth and Reality Governing the Bush Tax Plan and Lower-income Working Families." In recent statements, President Bush has said that his plan will provide tax relief to low-income families and help them enter the middle class. In his Saturday radio address on February 3, the President cited the example of a low-income waitress earning \$25,000 and a lawyer she waits on who makes \$250,000, presenting both individuals as important beneficiaries of his plan. This analysis asks how low-income working families would fare under the Administration's proposal. It finds:

The full report can be viewed at
<http://www.cbpp.org/2-5-01tax.htm>

- The Bush tax cut proposal entirely leaves out working-poor families. They would receive no assistance under the plan. No relief is provided until a family's income exceeds 130 percent to 160 percent of the poverty line, depending on family size and configuration.
- The plan does not reduce taxes for all who pay them. Many low-income working families that do not owe income tax pay significant amounts in payroll taxes, even when the impact of the Earned Income Tax Credit is taken into account. These families are not aided by the Bush plan.
- On February 2, President Bush cited a waitress who is a single mother earning \$22,000 a year as an example of someone who would benefit significantly from his plan. But a waitress who earns \$22,000 and has two children would receive no tax cut under the plan.
- The next day in his Saturday radio address, the President cited the example of a single-mother waitress with two children who earns \$25,000 a year as someone who would benefit significantly from his plan. Such a waitress, however, would either get no tax cut or receive a tax cut of a few hundred dollars, depending on her child care costs. By contrast, the lawyer on whom she waits who earns \$250,000 would receive a tax cut of approximately \$3,100, a figure that would rise to \$8,400 if the Alternative Minimum Tax were eliminated as some Members of Congress are suggesting.
- The bottom 40 percent of the population would receive just four percent of the tax cuts under the plan. This is about one-ninth of what the richest one percent would receive.
- While many workers would see their marginal tax rates reduced, the Bush plan fails to reduce marginal rates at all for the working families that face the highest marginal rates of any families in the nation — working families with children that have incomes between about \$13,000 and \$20,000. For each additional dollar these families earn, they lose up to 21 cents in the EITC, 15.3 cents in payroll taxes (including the employer's share, which most economists believe is passed on to workers in the form of lower wages than they otherwise would receive), 24 cents to 36 cents in food stamp benefits, and additional amounts if they receive housing assistance or a child care subsidy or pay state income tax. Ways to reduce marginal rates on these families are well known. The Bush plan does not include any of them.
- The plan departs from a bipartisan Congressional consensus of the past two years by failing to include any marriage-penalty relief for low-income working families and limiting such relief to middle- and upper-income families, even though low-income working families face some of the most severe marriage tax penalties.