CENTER ON BUDGET AND POLICY PRIORITIES

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CENTER RESPONDS TO SECRETARY O'NEILL ON THE BENEFITS OF THE BUSH TAX CUT FOR HIGHEST-INCOME TAXPAYERS

At a White House press briefing on the budget February 28, Treasury Secretary Paul O'Neill attacked a statistic he attributed to the Center on Budget and Policy Priorities regarding the share of the Bush tax cut that would go to the wealthiest one percent of taxpayers. He has subsequently repeated these criticisms at several Congressional hearings.

Unfortunately, Secretary O'Neill misattributed the statistic in question to the Center (it is a finding from a study that another policy analysis organization has conducted) and misconstrued what Center analyses say on this matter. He also incorrectly charged that the Center's analysis of this matter includes data on payroll taxes and that the Center has never explained its assumptions. Finally, he contended that the Bush tax cut would cause the top one percent of taxpayers to bear a larger share of the federal tax burden, a statement that can be made only if the part of the Bush plan that eliminates the estate tax is ignored. Estate tax repeal accounts for one-quarter of the tax reductions when the Bush tax cut is fully in effect.

As Center analyses on this matter have explained, the primary data on the distribution of the estate tax that the Center's analyses use come directly from a highly respected September 1999 Treasury analysis of the distribution of federal taxes, including the estate tax. In claiming that the Bush tax cut would increase the share of taxes that high-income taxpayers face, Secretary O'Neill ignored the Treasury findings on the distribution of the estate tax. Center director Robert Greenstein noted "The Center's findings on this matter seem rooted more firmly in the findings of analyses conducted by the highly respected career staff at Treasury than is the statement that high-income taxpayers would pay a larger share of taxes under the administration's plan." In addition, payroll taxes do not figure in the Center's analysis of the proportion of the Bush tax cut that would go to the top one percent of taxpayers.

Secretary O'Neill's Statement

At the White House press briefing, a reporter asked OMB Director Mitchell Daniels the following question:

Q. Mr. Daniels, the Senate minority leader also says that 43 percent of the tax cut goes to the upper 1 percent. If that's the wrong number, what's the right number? What proportion of the 1.6 trillion goes to the top 1 percent?

In response, Treasury Secretary Paul O'Neill harshly questioned whether reporters had examined the assumptions behind that estimate saying:

"So they're playing games with the numbers. What I'm trying to flush out is for somebody to write down the assumptions underneath this mantra that [CBPP Executive Director] Bob Greenstein created for people and trying to make the point that all those people who are asking questions about it haven't examined the assumptions. And so it doesn't seem to me legitimate to even try to respond to a question that's based in a fiction of combining not just income taxes, but payroll taxes and cobbling up a bunch of other pieces of stuff to make a populist point that has no basis in fact, because the fact is, what the president has proposed for tax changes moves the incidence of taxes proportionally to the higher-income group, not to the lower-income group."

The Center's Findings on this Matter

The 43 percent figure comes not from the Center but from an analysis conducted by Citizens for Tax Justice, using the well-regarded Institution for Taxation and Economic Policy (ITEP) model. In testimony the Center's executive director Robert Greenstein presented to the House Ways and Means Committee on February 13, he explained the Center's analysis on this issue. (The testimony, along with other Center analyses that contain similar explanations of the methodology, are on the Center's website.) The testimony (edited slightly here to condense it) stated:

"The best data available on who pays what share of all federal taxes — including income, payroll, estate, excise, and other taxes — come from a major study conducted by Treasury career staff and released in September 1999. The study shows that the top one percent of families pays 20 percent of all federal taxes.[1]"

"The top one percent of families would receive at least 36 percent of the tax cuts under the Administration proposal when the plan is fully in effect. The top one percent also would have the federal taxes that it pays reduced by a greater percentage than middle- or low-income households, while low-income households would receive the smallest percentage tax cut of any group."

"The data presented here on how the benefits of the Bush tax cut would be distributed come from two sources: an analysis by Citizens for Tax Justice, using the Institute for Taxation and Economic Policy (ITEP) model, and the aforementioned Treasury study on how the burdens of various taxes are apportioned among various income categories."

"The ITEP model that CTJ uses is a well-respected model developed in part by a former staff member of the Joint Tax Committee. CTJ tax distribution

[1] Following Treasury usage, "families" includes single people as well as family units. All families are included whether or not any member of the family files an income tax return. The ITEP model uses a similar definition.

analyses, using the ITEP model, have been validated over the years by the fact that they generally have yielded results very similar to those the Treasury Department has produced. The Center generally relies on Treasury analyses of the distributional effects of various tax proposals when such analyses are available, but the Treasury has not issued an analysis of the distributional effects of the Bush plan."

"The CTJ analysis of the effect of the plan, when the plan's provisions are fully in effect, finds that the top one percent of families would receive 43 percent of the tax cuts and would receive more in tax cuts than the bottom 80 percent of the population. Some supporters of the Administration's proposal have cited alternative figures from the Joint Tax Committee that are said to show the proportion of the tax cut that would go to the top one percent of families would be significantly smaller. Those figures, however, do not actually show that to be the case. The JCT figures in question do not include the effects of repealing the estate tax, which accounts for about one-quarter of all tax reductions in the plan when the plan is fully in effect. The JCT figures also do not include the effects of any provisions in the plan that take effect after 2005. Part of the tax-rate reductions would not take effect until 2006. The figures that Citizens for Tax Justice has produced do not suffer from these omissions. Even so, the findings of the CTJ and JCT studies of the distributional effects of the income tax changes in the Bush plan are similar. The main issue this leaves is how to distribute the effects of estate tax repeal."

"There has been some debate in the past about the best methodology to use to determine what percentage of the estate tax is paid by people in different income categories and thus what percentage of the benefits from estate tax repeal would accrue to each income group. Under the ITEP model that CTJ uses, 91 percent of the estate tax is estimated to be paid by the top one percent of families. Virtually all of the tax is estimated to be paid by the top five percent. Such results should not be surprising. IRS data show that the estate tax is levied only in the case of two percent of all deaths and that in 1998 half of all estate taxes were paid by the 2,900 largest taxable estates — the estates of the wealthiest one of every 1,000 people who died."

"To help resolve issues related to how to measure the incidence of the estate tax, the Treasury study issued in September 1999 includes a major analysis of the distribution of the estate tax by income category.[2] Since publication of this study, Treasury has used its results in the distributional analyses it has undertaken."

[2] "U.S. Treasury Distributional Analysis Methodology," Department of the Treasury, OTA Paper 85, September 1999.

> "The Treasury study estimates that the top one percent of families pay 64 percent of the estate tax (and thus would get 64 percent of the tax-cut benefits that would result from estate tax repeal), rather than paying 91 percent of the tax as the ITEP model estimates. The Treasury and ITEP figures on the proportion of the estate tax paid by the top five percent of families, however, are quite similar; the Treasury study estimates the top five percent of families pay 91 percent of the estate tax, as compared to 100 percent of the tax under the ITEP model. Under both sets of estimates, the top 20 percent of families pay virtually all of the estate tax, and the tax does not affect the other 80 percent of the population."
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> "Accordingly, another way to estimate the effect of the Bush tax cut on different income groups is to take the CTJ estimate but to modify it by substituting the Treasury estimates on the incidence of the estate tax for the estimates in the ITEP model. Under this approach, the top one percent of the population is estimated to receive 36 percent of the tax cuts under the Bush plan, rather than the 43 percent the CTJ analysis estimates."
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> "Under either approach, the tax cut is found to be tilted heavily toward those with very high incomes and to provide only a modest percentage of its tax-cut benefits to the types of families the White House last week presented as major beneficiaries. Under both approaches, the share of the tax cuts that would go to the top one percent would be roughly double the share of the federal taxes this group pays, and the top one percent would receive more in tax cuts than the bottom 80 percent of the population combined. In addition, under both approaches the share of total federal taxes that the top one percent pays would decline."

Treasury Could Resolve This Matter

The debate over the share of the tax cut that would go to the top one percent could be clarified if Treasury would conduct and issue an analysis of this matter, using its established methodology. Center director Robert Greenstein noted: "Policymakers and the public would benefit if Treasury would issue an analysis of the benefits of the Bush plan that would go to different income groups, using its established methodology, which covers both the income tax and the estate tax. It's unfortunate no such Treasury analysis is available."

Greenstein added "I'm saddened to see the Secretary attacking our analysis, which relies heavily on his own department's studies, and using statements about the top income group paying a larger share of the tax burden than at present that depart from Treasury methodology."