IN BUSH BUDGET, TAX CUTS FOR TOP ONE PERCENT ARE LARGER THAN HEALTH, EDUCATION, AND ALL OTHER INITIATIVES COMBINED

In the Presidential campaign, Vice President Gore contended that then-Governor Bush would provide more in tax cuts to the top one percent of taxpayers than he would provide for all of the initiatives he proposed. Mr. Bush replied that this was untrue. Both campaigns provided numbers to support their cases. In so doing, both campaigns engaged in some distortion of the numbers (as explained in the box on page 2), with Gore overstating and Bush understating the tax reductions that would go to the top one percent.

A new analysis, based on the Bush budget document issued February 28 and free of the distortions of both campaigns, finds the top one percent would get at least $555 billion in tax cuts over the next decade under the Bush plan. All initiatives in the budget — including a prescription drug proposal for seniors, increases in education, health research, defense, and other areas — would total less than $500 billion. (As explained below, these figures are based on a methodology that favors the president.) Thus, the tax cuts that would go to the one percent of taxpayers with the highest incomes — a group whose incomes have soared in recent years and have risen much more rapidly than the incomes of the rest of the population — would exceed the new resources proposed for all other national priorities combined.

Methodology

According to the Bush budget, the President is proposing tax cuts that would lose $1.62 trillion in revenue over the next ten years. This total includes both those tax cuts President Bush unveiled in the campaign that are often thought of as “the Bush tax cut” and about 20 other, mostly small, tax reduction proposals. Virtually all analyses of the proportion of the proposed tax cut that would go to the top one percent of taxpayers have examined the proposals in “the Bush tax cut” and not the additional, smaller proposals. In analyzing the amount of tax reductions that the top one percent would receive in the next ten years, we include only the tax proposals in “the Bush tax cut” and exclude the other Bush tax reductions. This understates the amount of tax cuts that would go to the top one percent.

The Bush budget shows a total of $1.494 trillion in tax cuts over ten years from the tax provisions in the “Bush tax cut” (see Table S-9 of the budget). This figure appears to understate the size of the tax cuts; on March 1, the Joint Tax Committee informed Congress that the income tax rate reductions in the Bush plan would cost $59 billion — or 12 percent — more over ten years than the Administration’s budget estimates. Earlier Joint Tax Committee estimates suggest the Committee is likely to raise the price tag on other provisions of the tax cut as well. In this
In making the charge that Mr. Bush would provide more in tax cuts to the top one percent of taxpayers than he would provide for initiatives, Vice President Gore took an estimate of the percentage of the Bush tax cut that would go to the top one percent of taxpayers when the Bush tax cut was fully phased in and multiplied it by the cost of the Bush tax cut over the coming ten years. Since the part of the Bush plan that most heavily favors those with very high incomes — repeal of the estate tax — was proposed to be phased in more slowly than the other components of the Bush plan, this methodology overstated the amount the top one percent would get under the Bush plan over the ten years as a whole. The distortion by the Bush campaign was even more serious. In estimating the proportion of the Bush tax cut that would go to the top one percent, the campaign omitted altogether the proposed repeal of the estate tax.

We divide the administration’s estimate of the cost of the tax cut into three categories: what the administration estimates the individual income tax reductions will cost; what it estimates the estate tax changes will cost; and what it estimates its corporate tax reductions (which are relatively small) will cost.

For estate tax repeal, we multiply the administration’s estimate of the amount of tax reductions that this proposal would generate over the next ten years by the Treasury’s own estimate of the proportion of the estate tax that the top one percent of taxpayers pay. Treasury issued a major study of this issue in September 1999 and since then has used the study’s findings on this matter in analyzing how different income groups would be affected by tax proposals that include changes in the estate tax.

For the modest corporate tax changes in the Bush plan, we use the Treasury estimate (from the same September 1999 study) of the proportion of corporate taxes that are borne by the top one percent of taxpayers. The results on the corporate tax changes are essentially the same regardless of whether one uses the CTJ results from the ITEP model or the Treasury estimate.

The result is an estimate that $555 billion in tax cuts over the next ten years would go to the top one percent of taxpayers. This estimate understates the actual amount because, as noted,
it excludes some tax reductions contained in the administration’s budget and uses the administration’s estimates for the cost of tax cut provisions that the Joint Tax Committee says carry a higher price tag.

The Initiatives

The amounts the administration is proposing for initiatives in its budget are set forth in the tables at the back of the budget the administration issued on February 28.

- The budget proposes $153 billion over ten years for Medicare, principally for a drug benefit (Table S-1).

- The budget proposes $260 billion over ten years in discretionary spending increases in education, defense, health research, and seven other areas (Table S-5). The budget also proposes $230 billion offsetting savings from unspecified reductions in discretionary programs. In this analysis, we count the $260 billion in proposed increases without netting out the proposed decreases.

- The budget contains $2 billion in mandatory spending initiatives outside Medicare. The budget also contains $20 billion in savings in mandatory programs. We count the $2 billion without subtracting the reductions.

This produces a total of $415 billion in spending initiatives. This is well below the $555 billion in tax reductions the top one percent of taxpayers would receive.

The administration may argue that the proposal it has included in the budget for health insurance tax credits should be considered more like a program initiative than a tax cut. According to the Office of Management and Budget, the budget includes $70 billion to $80 billion for this purpose, consisting of $50 billion to $60 billion in tax reductions and $20 billion in refundable tax credits to taxpayers with no remaining income tax liability. Including the $70 billion to $80 billion cost of this proposal brings the initiatives to $485 billion to $495 billion, still well below the tax reductions the top one percent of taxpayers would secure.

Finally, the budget also includes $63 billion to $73 billion for approximately 20 other tax incentives. Some of these appear to be proposals that would primarily benefit higher-income taxpayers; other of these proposals would not have that effect. The administration has not yet provided information that breaks out the cost of each of these tax proposals. An appropriate accounting would count these as tax reductions, a portion of which would go to the top one percent of taxpayers. Even if we assume that the bulk of these tax preferences should be treated as initiatives, like the health tax credit, the total for initiatives in the budget still would not exceed what the top one percent would receive through tax cuts.