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CENTER ON BUDGET AND POLICY PRIORITIES

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BUSH TAX PLAN LEAVES OUT THIRD TO HALF OF CHILDREN IN MANY STATES

One-third to one-half of the children in many states live in families that would not receive any tax reduction from the President's tax proposal, according to a new analysis from the Center on Budget and Policy Priorities, a Washington, D.C. policy institute. In 12 states plus the District of Columbia, at least 40 percent of children live in such families.

The analysis uses Census Bureau data to estimate, on a state-by-state basis, the number of families and children under age 18 who would receive no tax relief from the Bush plan because these families' incomes are too low for them to owe federal income taxes. The large majority of these families, however, work and pay payroll taxes and other taxes unaffected by the Bush proposal. The Bush plan reduces only income taxes and taxes on large estates.

Nationwide, an estimated 12.2 million low- and moderate-income families with children — 31.5 percent of all families with children — would not receive any tax reduction from the Bush proposal. This finding is consistent with independent analyses conducted by researchers at the Brookings Institution, the Urban Institute, and the Institute on Taxation and Economic Policy. The vast majority of the excluded families include workers.

"Substantial numbers of children in every state would be left out of the President's tax plan," said Nick Johnson, who co-authored the report with Allen Dupree and Isaac Shapiro. "Furthermore, some states would have especially high numbers of unaffected children." These states include **California** (3.7 million children unaffected), **Texas** (2.3 million), **New York** (1.9 million), and **Florida** (1.2 million). In each of another eight states **— Arizona, Georgia, Illinois, Michigan, North Carolina, Ohio, Pennsylvania, and Tennessee** — families with at least half a million children would gain nothing from the Bush tax plan.

Among the states where the highest *percentages* of families and children would not benefit from the plan are **Arizona, Arkansas, California, Georgia, Louisiana, Mississippi, Montana, New Mexico, North Dakota, Texas, and West Virginia,** plus the **District of Columbia.** In each of those states, an estimated 40 percent to 52 percent of children live in the excluded families.

Even the part of the Bush tax plan that would double the child tax credit would leave out these families, while providing the largest tax reductions to families with incomes between $110,000 and $250,000. The Bush proposal extends the credit to many families with high incomes who currently receive no credit at all — for example, by raising the maximum income a married couple with two children can earn and still receive the credit

— more —

from $130,000 to $300,000. Yet the proposal does *not* extend the credit to any additional low- or moderate-income working families.

Why Benefit Families Who Don't Owe Federal Income Taxes?

Some argue that families who do not owe federal income taxes should not benefit from the tax plan. This argument has several flaws, according to the Center's report:

- A significant number of these families owe federal taxes other than federal income taxes, often in significant amounts. In fact, data from the Congressional Budget Office show that in 1999, three-fourths of all U.S. families paid more in federal payroll taxes than in federal income taxes.

- Low- and moderate-income families in every state pay state and local taxes, typically including sales taxes, excise taxes on such items as gasoline, and property taxes (which landlords pass on to tenants as higher rents). Though some states have taken steps to reduce the tax burden on low-income families, their ability to do so is limited: states that have levied such taxes for many years cannot simply eliminate them without dramatic effects on state budgets.

- A boost in after-tax income would further the objective of helping working families lift themselves out of poverty. This objective is a key theme of welfare reform.

- The Bush approach fails to reduce the high marginal tax rates that many low-income families face. For example, families with incomes between about $13,000 and $20,000 lose more than 50 cents in increased taxes and foregone benefits for every additional dollar they earn, but the Bush plan would not reduce these rates. Nor would the plan provide any marriage penalty tax relief to low-income working families, although they can face some of the highest marriage tax penalties of any families.

An alternative to the President's tax proposal — one that scaled back (but did not eliminate) the benefits to those at very high income levels and provided tax reductions to low- and moderate-income families with children as well — could be fashioned for a much smaller cost than the Bush plan. Such an approach would ensure that the rewards from the surplus are more broadly distributed throughout the population and also leave resources for other critical needs that would remain largely unaddressed under the Bush budget.

The full text of this analysis, *In Many States, One-Third to One-Half of Families Would Not Benefit from Bush Tax Plan*, is available at the Center's website, http://www.cbpp.org. Fact sheets also have been prepared for each state.

Attached is a list of state groups with expertise in the impact of tax policies on low- and moderate-income families. These groups are available for comment on the Center's report.

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Impact of Bush Tax Plan on Families and Children
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