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Under Conference Agreement, Dollar Gains for Top One Percent Essentially the Same as Under House and Bush Packages

Share of Tax Cuts to Top Fifth Basically Identical Under the Different Packages

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The top one percent of taxpayers would effectively receive as large a tax cut under the conference agreement as under the House and Bush plans, and the share of the tax cuts that would ultimately be received by the top fifth of taxpayers is essentially the same under the agreement as under the House and Bush plans.

- The one percent of taxpayers with the highest incomes would receive an average tax cut of \$46,000-\$53,000 when the tax cuts are fully in effect, depending on the method used for distributing the effects of estate tax repeal. (These figures are based on Citizens for Tax Justice's estimates of the effect of the income-tax provisions and on both CTJ and Treasury methodologies for estimating who pays the estate tax.)¹

Under the House package, the top one percent would have received essentially the same amount; under the Bush package, they would have received only slightly more. Under the Senate package they received about \$9,000 less. As one news account has reported: "Administration officials said when other provisions are taken into account, the effective top rate [under the conference agreement] will be 33 percent."² The tax cut for the top one percent from the income tax reductions alone, not accounting for the effect of estate tax changes, would average \$29,000.

Average Tax Cuts Received by Top One Percent under Conference Agreement (when fully phased-in)				
Estate Tax Distribution Method	Conference	Senate	House	Bush
Citizens for Tax Justice	\$53,123	\$44,293	\$53,154	\$54,480
Treasury	\$45,978	\$37,146	\$45,928	\$46,716

¹ See the Center on Budget and Policy Priorities report "Who would benefit from the tax proposal before the Senate?", May 21, 2001, for a fuller explanation of the distributional methodology that we use.

² Dan Morgan, "Core of Original Bush Tax Plan Remains Intact Despite Tinkering," *The Washington Post*, May 26, 2001.

- The share of the tax cuts going to the top one percent of taxpayers would not be as massive under the conference agreement as under the Bush and House packages, but would still be very large. While the top one percent pays one quarter of all federal taxes, they would receive about one-third to three-eighths of the tax cuts when the legislation is phased in fully, or substantially more than their share of the tax burden.³
- The conference agreement would provide *larger* tax cuts than the Bush and House packages to those in the rest of the top fifth of the income spectrum (other than those in the top one percent). As a result, the share of the tax cuts that would go to the top *fifth* of taxpayers under the agreement — 70.6 percent — is virtually identical to the share that would go to the top fifth under the Bush (71.2 percent) and House (70.4 percent) packages.

Share of Tax Cuts Received by Top Fifth under Conference Agreement (when fully phased-in)			
Estate Tax Distribution Method	Conference	House	Bush
Citizens for Tax Justice	70.8%	70.5%	71.7%
Treasury	70.6%	70.4%	71.2%

- Similarly, the share of the tax cuts that would go to the bottom 80 percent of the population — 29 percent — is essentially the same under the agreement as under the Bush and House packages. The bottom 60 percent of the population would receive 14.7 percent of the tax cuts, somewhat more than under the Bush (12.7 percent) and House (14.0 percent) packages.

The tilt of the conference agreement may be surprising since two provisions make it more moderate in important respects than the Bush and House packages. One is the noteworthy expansion in the child tax credit to low- and moderate income working families with children that have earnings above \$10,000, a significant provision for these families. The other such provision is the lowering of the top tax rate to 35 percent instead of to 33 percent, as President Bush proposed.

Several other key provisions in the conference agreement, however, are more tilted to high-income taxpayers than any comparable provisions in the Administration or House plans.

- The conference agreement includes two tax-cut provisions that primarily benefit

³ Using Citizens for Tax Justice estimates for the distribution of the estate tax, the top one percent of the distribution would receive 37.6 percent of the tax cuts when they are fully in effect. Using the Treasury Department's method of distributing the estate tax, the top one percent would receive 32.5 percent of the tax cuts.

the five percent of taxpayers with the highest incomes and that are in neither the House nor Bush plans — elimination of the phase-out of the personal exemption and elimination of the provision of current law that limits the itemized deductions that higher-income taxpayers may claim.

- The elimination of the itemized deduction limitation is of particular note. The Senate bill reduced the limitation but retained it for taxpayers with incomes exceeding \$245,500 in 2009. The complete elimination of the itemized deduction limitation in the final bill — a provision not found in the Bush, House, or Senate proposals — provides a large, additional tax cut to the top one percent of taxpayers, averaging thousands of dollars per year.

The tax cuts are still more skewed toward those with high incomes if one assumes, as is likely to be the case, that a fix to the Alternative Minimum Tax will be adopted in the next few years. Under the conference agreement, 35.5 million taxpayers would be subject to the AMT in 2010. This is *nearly 25 times* the 1.5 million taxpayers who are subject to the AMT this year and double the number of taxpayers who would be subject to the AMT in 2010 under current law. There is near-universal agreement that such a swollen AMT is unacceptable and that changes will be made to prevent the AMT from burgeoning in this manner in coming years. When these changes in the AMT are made, the magnitude of the tax cuts that higher-income taxpayers would receive from the provisions in the tax packages will grow to still higher levels, as will the share of the tax-cut benefits they secure. The average tax cut received by the top five percent of taxpayers will increase by several thousand dollars.

Even without considering any fix to the AMT, these tax cuts will increase after-tax income by a significantly larger percentage for the top one percent of taxpayers than for middle- and lower-income households. After-tax income will rise about three times as much among the top one percent of families as among those in the middle of the income scale, and more than seven times faster among the top one percent of families than among the bottom 20 percent of families. As a result, the proposal will cause income disparities, which are at record levels for recent decades, to widen further.