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## **ADMINISTRATION CONTINUES TO RELY ON MISLEADING USE OF “AVERAGES” TO DESCRIBE TAX-CUT BENEFITS**

By Andrew Lee and Joel Friedman

After Congress reached agreement on a package of tax cuts last week, the Treasury Department released a blizzard of fact sheets and press releases touting the benefits of these tax cuts. One of the fact sheets presented the “average” tax cut that various beneficiaries — ranging from the elderly to small business owners — would receive from the final package.<sup>1</sup> The President repeated a number of these figures in his speech when he signed the measure into law today.

This use of averages paints a misleading picture of the impact of these tax cuts, however, repeating a strategy employed by the White House when it was trying to sell its original tax-cut plan. Taken at face value, these average figures could imply that the tax cuts provide substantial benefits across a wide spectrum of the population; in reality, the final agreement’s tax cuts are heavily tilted toward the nation’s most affluent individuals and do little for the majority of U.S. households, according to an analysis by the Urban Institute-Brookings Institution Tax Policy Center.

The Treasury release states that “91 million taxpayers will receive, on average, a tax cut of \$1,126.” However, according to analysis by the Tax Policy Center:

- The average tax cut in 2003 for households in the middle of the income spectrum (i.e., the middle fifth of households) will be \$217, or less than one-fifth the total advertised by the Administration.
- 83 percent of households will get less than the average amount cited by the Administration.
- Some 53 percent of U.S. households — or 74 million households — will receive a tax cut of \$100 or less. This includes 50 million households that will receive no tax cut whatsoever.

The Administration’s use of averages is highly misleading. The averages are skewed upward by the very large cuts that would go to a small number of high-income taxpayers. For instance, the new law will provide an average tax cut in 2003 of \$93,500 to tax filers who make more than \$1 million per year. In contrast, most households will get a small tax cut or no tax cut

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<sup>1</sup> Treasury Department, “Effects of Major Individual Income Tax Relief Provisions in Jobs and Growth Tax Relief Reconciliation Act of 2003,” Press Release JS-410, May 22, 2003.

Category	“Average” benefit for all those receiving tax cut	Percentage of all households that receive	
		Less than “average” amount	\$100 or less
All households	\$1,126	82.9%	53.4%
Married couples	1,786	75.5	24.5
Families with children	1,549	77.8	31.1
Single women with children	558	88.6	58.3
Elderly households	1,401	89.4	63.0
Households with small business income	2,209	82.6	36.3

Source: First column of figures from the Treasury Department; other figures are from the Urban Institute-Brookings Institution Tax Policy Center.

at all. For an example of how such averages can be deceptive, consider a group of five individuals — four of whom each receive a tax cut of \$100 and one who receives a \$4,600 tax cut. The average tax cut for the group is \$1,000, but four of the five receive far less than this amount.

The Treasury Department’s use of averages to describe the benefits suffers from similar distortions (see table above). In today’s signing ceremony, the President specifically cited the following three examples:

- **Families with children** — The President stated that 34 million families with children will receive an average tax cut in 2003 of \$1,549. The Tax Policy Center data show, however, that nearly 78 percent of these families will receive less than this average tax cut, including 31 percent who will receive less than \$100. For single women with children, 58 percent will receive less than \$100 and a majority will receive no benefit whatsoever from the package.
- **Elderly** — The President said that 12 million elderly tax filers will receive an average tax cut in 2003 of \$1,401. The Tax Policy Center analysis finds that 89 percent of the elderly will receive less than this average amount and 63 percent will receive less than \$100. A majority of the elderly will receive no tax cut under the legislation.
- **Small businesses** — The President repeated Treasury Department figures that 23 million small business owners and households with small business income will receive an average tax cut in 2003 of \$2,209. The Tax Policy Center analysis finds that nearly 83 percent of those with small businesses income will receive less than this average amount. Some 36 percent will receive less than \$100.