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REDUCTION OF TOP RATE COSTS \$237 BILLION OVER TEN YEARS, EVEN THOUGH FEWER THAN 1% OF FILERS ARE IN THE TOP BRACKET

New estimates from the Joint Committee on Taxation show the reduction in the 39.6 percent marginal tax rate contained in H.R. 3 and the President's plan would cost \$237 billion over ten years, even though fewer than one percent of all tax filers are in this tax bracket. The reductions in income tax rates constitute the single largest component of the President's tax-cut package, costing \$560 billion over 10 years (not counting the cost of the 10 percent tax bracket).

- The Joint Tax Committee estimates that 42 percent of this \$560 billion total — or \$237 billion — would result from reducing the 39.6 percent marginal income tax rate to 33 percent. This is a larger tax cut than would result from the proposed reduction in any other tax rate, including the 28 percent rate.
- Yet the 28 percent bracket includes more than 30 times as many filers as the 39.6 percent bracket does. In 1997, the latest year for which IRS data are available, only 691,000 filers — or 0.6 percent of all filers — had income taxed at the 39.6 percent rate.¹

**Cost of Upper-Bracket Rate
Reductions in H.R. 3**

Marginal Rate	Ten-Year Cost (in billions)
28 percent	\$212.8
31 percent	\$71.4
36 percent	\$38.7
39.6 percent	\$236.9
Total	\$559.9

- In addition, the cost of reducing the 39.6 percent bracket is, by itself, larger than the cost of most of the other components of the President's plan. The House-passed proposal to increase the child tax credit, for instance, would cost \$176 billion over ten years, or 26 percent less than reducing the top bracket to 33 percent.

**Tax Filers Distributed by Their Highest
Marginal Rates, 1997**

Highest Marginal Rate	Percent of Tax Filers
28 percent	19.6%
31 percent	2.4%
36 percent	1.0%
39.6 percent	0.6%

The President's proposal and H.R. 3 would lower the 28 percent and 31 percent

marginal income tax rates to 25 percent and also drop the 36 percent and 39.6 percent rates to 33 percent. These rate reductions would be phased in, becoming fully effective in 2006. These reductions in tax rates would benefit the top quarter of tax filers; based on 1997 IRS data, a total of 24 percent of tax filers were in the 28 percent, 31 percent, 36 percent, or 39.6 percent brackets. (This percentage may be modestly higher today.) The vast majority of Americans are in the 15 percent bracket or do not earn enough to owe federal income tax and would not benefit from the upper-bracket rate reductions.

The Joint Tax Committee estimates show that reducing the 39.6 percent bracket to 33 percent would cost \$237 billion over ten years, while lowering the 28 percent, 31 percent, and 36 percent rates would cost \$323 billion over ten years. Some of this \$323 billion in tax cuts also would flow to individuals in the 39.6 percent bracket, since a portion of their income is taxed at the 28 percent, 31 percent and 36 percent rates. Tax filers in the top bracket, who account for fewer than one percent of all filers, thus would be far and away the largest beneficiaries of the rate reductions. They would benefit significantly from certain other components of the Administration's tax-cut package as well, including estate tax repeal and provisions often thought of as benefiting primarily the middle class, such as the creation of the 10 percent bracket and marriage penalty relief.

The most recent IRS data show that the after-tax income of the one percent of Americans with the highest incomes grew by 40 percent between 1989 and 1998, after adjusting for inflation, which was more than eight times the average rate of income growth for the bottom 90 percent of the population. Disparities in after-tax income consequently are wider today than at any other time on record. The rate reductions and other provisions of the tax package would further widen these disparities.

1. Given trends in income growth, the number of tax filers paying the 39.6 percent rate today is likely to be somewhat higher than in 1997 but still would constitute less than one percent of all tax filers.