

Revised June 1, 2003

TAX CUT LAW LEAVES OUT 8 MILLION FILERS WHO PAY INCOME TAXES

Widely Reported Claim that All Who Pay Income Tax Receive a Tax Cut Found Untrue

by Robert Greenstein

In response to the finding that the new tax-cut law leaves out millions of low-income working families with children, the White House and some other supporters of the legislation have argued that these families do not pay income taxes and have said or implied that everyone who does pay income taxes will receive a tax cut.¹ President Bush declared several weeks ago in promoting his proposal, “My jobs and growth plan would reduce tax rates for everyone who pays income tax.”² White House Press Secretary Ari Fleischer stated on May 29 of the new tax-cut law (which includes all of the provisions of the President’s plan in full or in part), “This certainly does deliver tax relief to people who pay income taxes.”

Over the past 10 days, many news accounts of the new tax law have reported as fact the claim that everyone who pays income taxes will receive a tax cut. Similarly, the Republican National Committee website asks who will benefit under the law and then answers its question: “Everyone who pays taxes.”

New analysis by the Urban Institute-Brookings Institution Tax Policy Center demonstrates, however, that such claims are not accurate. The Tax Policy Center analysis shows that 8.1 million lower and middle-income taxpayers, who pay billions of dollars a year in income taxes, will receive no tax reduction under the legislation. (“Taxpayer” is defined here as a tax filer who pays federal income tax.) These taxpayers also would have received no tax reductions under the Administration’s plan.

The 8.1 million figure includes 5.6 million taxpayers who pay more than \$250 in income tax. The Tax Policy Center data show, in fact, that nearly half of all Americans who pay between \$250 and \$750 in income tax — 45 percent of such taxpayers — will receive no tax cut under the new law. The 8.1 million taxpayers who will receive no tax cut also include 1.8 million taxpayers who pay more than \$1,000 in income tax.

The 8.1 million taxpayers left out of the legislation are 44 times the number of taxpayers who have incomes exceeding \$1 million. Taxpayers with incomes over \$1 million will receive an average tax cut under the new law of \$93,500 in 2003, according to Tax Policy Center data. (Some 184,000 taxpayers have incomes of more than \$1 million.) The taxpayers with income exceeding \$1 million will receive approximately \$17 billion in tax cuts in 2003 alone.

The 8.1 million taxpayers who will receive no tax cuts include the following groups of taxpayers.

¹ The contention that the low-income working families with children left out of the new tax law do not pay taxes focuses only on income taxes and does not address the payroll, excise, or other taxes these families may pay.

² “President’s Radio Address,” April 26, 2003, White House website.

Ari Fleischer on May 29 on Tax Cuts for Filers in the 10 Percent Bracket

“And, of course, for people in the 10 percent bracket, they benefit the most from it, and that’s the lowest income workers in America.” Fleisher went on to say “this certainly does deliver tax relief to the people who pay income taxes.”

“Press Briefing by Ari Fleischer,” May 29, 2003, White House website.

- The 5 million single taxpayers in the 10 percent tax bracket who have no children and receive no dividend or capital gains income.³ These taxpayers make up 89 percent of all single taxpayers in this tax bracket. The Tax Policy Center data also show that 62 percent of all single taxpayers in the nation who pay between \$250 and \$750 in income tax will receive no tax cut.
- Some 2.6 million taxpayers with “head-of-household” filing status. Thirty-seven percent of all taxpayers with head-of-household filing status — about three in every eight — will receive no tax cut. The head-of-household filing status is widely used by divorced and other single parents who are caring for children or other dependent relatives such as elderly or disabled parents.

Most of the “head-of-household” taxpayers who will receive no tax cut are taxpayers in the 10 percent or 15 percent tax brackets whose dependents are either children over age 16 or older individuals such as elderly or disabled parents.⁴ (Children over 16 do not qualify for the child tax credit.) The head-of-household taxpayers in the 10 percent or 15 percent brackets who will not receive a tax cut have incomes of up to \$50,000 or more and pay as much as \$5,200 in income tax.

In fact, the Tax Policy Center data show that 41 percent of all head-of-household taxpayers in the nation who pay between \$1,000 and \$5,000 in income tax will receive no tax cut under the new law.

Tax Filers Who Pay Income Tax But Receive No Tax Cut	
<u>Adjusted Gross Income</u>	<u>Numbers of Taxpayers with No Tax Cut</u>
Less than \$10,000	1,600,000
\$10,000-\$20,000	3,979,000
\$20,000-\$30,000	1,036,000
\$30,000-\$40,000	858,000
\$40,000-\$50,000	453,000
\$50,000-\$75,000	130,000
Above \$75,000	<u>21,000</u> *
Total	8,076,000

Source: Tax Policy Center
 * These are primarily or entirely taxpayers who receive no tax reduction because of the Alternative Minimum Tax.

³ This refers to filers in the 10 percent bracket as the bracket stood before the new law slightly expanded it.

⁴ The new legislation expands the 10 percent bracket for single and married taxpayers but not for head-of-household taxpayers. As a result, head-of-household taxpayers who do not have children under 17 and have no capital gains or dividend income will receive no tax cut if they are in either the 10 percent or the 15 percent tax bracket.

- The Tax Policy Center data also indicate that 500,000 other filers who pay income tax will receive no tax cut. This group includes taxpayers from several categories, such as nearly 400,000 married taxpayers, most of whom are in the 10 percent bracket, do not have children under 17, and itemize their deductions (and thus do not benefit from the legislation’s increase in the standard deduction for married taxpayers).

Most of the single taxpayers who pay income tax but are left out under the new law have incomes between \$9,300 and \$13,800.⁵ The head-of-household taxpayers who are left out have incomes that cover a broader range. Such taxpayers can have incomes up to \$51,150 if they have one dependent and up to \$54,200 if they have two dependents.

The omission of these 8 million low- and middle-income taxpayers from the legislation, along with the concentration among high-income taxpayers of a very large share of the tax benefits, will make the legislation less effective in boosting the economy in the months ahead. Economic research shows that low- and middle-income families and individuals are more likely to spend, rather than save, tax-cut dollars they receive than are high-income people. Only if tax-cut dollars are spent can they spur demand for the goods and services that firms can produce, which is crucial to boosting the economy in the near term.

The omission of these taxpayers also is one of the contributing factors to another Tax Policy Center finding — that under the new legislation, 53 percent of all households in the nation either will receive no tax cut or will get a tax cut of \$100 or less.

Taxpayers Left Out of the Tax Cut, By the Amount of Income Tax They Pay		
Income Tax Liability, 2003	Numbers of Taxpayers Who Receive No Tax Cut	Percentage of All Taxpayers Paying This Amount Who Receive No Tax Cut
\$1-250	2,495,000	60.1%
251-500	2,303,000	57.0%
501-700	1,210,000	32.1%
751-1,000	291,000	8.8%
1,001-5,000	1,699,000	4.4%
5001-10,000	59,000	0.7%
More than 10,000	19,000*	0.2%

Source: Tax Policy Center
 * These are primarily or entirely taxpayers who receive no tax cut because of the Alternative Minimum Tax

⁵ These income levels assume that these taxpayers use the standard deduction and are not subject to the Alternative Minimum Tax. If they itemize deductions, they may have somewhat higher levels of income and still receive no tax cut. It also should be noted that \$9,300 is the income level at which income tax liability starts for single filers who qualify for the small Earned Income Tax Credit for very low-income workers without children. Single filers who do not qualify for the EITC, generally because they are under age 25 or over age 64, begin to owe income tax when their income reaches \$7,800.