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MILLIONAIRES AND THE WAYS AND MEANS TAX PLAN

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Taxpayers with incomes of more than one million dollars —referred to here as "millionaires" — would reap huge and disproportionate gains from the tax plan that was adopted May 6 by the Ways and Means Committee of the House of Representatives. As a result of the bill's personal income tax cut provisions (and not counting the benefits these individuals might receive from the bill's substantial tax cuts for businesses):

- Millionaires would receive approximately $139 billion in tax cuts through 2013. This is essentially the same amount of tax cuts that would be received by the entire bottom 89 percent of households combined. In 2003, there will be 184,000 millionaires comprising 0.1 percent of households. (This analysis relies on distributional estimates of the plan by the Urban Institute-Brookings Institution Tax Policy Center and estimates of the revenue loss the plan would cause from the Joint Committee on Taxation.)

- Millionaires would receive average tax cuts of about $93,500 this year, far in excess of those received by other groups. The middle fifth of households would receive tax cuts averaging $217 in 2003.

- Millionaires would experience the largest after-tax incomes increases of any group. In 2003, the percentage increase in the after-tax incomes of the millionaire group (4.4 percent) would be five times the percentage increase in the after-tax income of the middle fifth of households (0.8 percent).

- The share of the individual income tax cuts received by millionaires (27 percent) also significantly exceeds the share of income taxes they pay (19 percent). It far exceeds the share of all federal taxes they pay.

Who Gets the Ways and Means Tax Cuts?

	Number of Households, 2003	**Proportion of U.S. Households, 2003**	**Tax Cut Amount, 2003-2013**
Households with Income Over $1 Million	184,000	Top 0.1%	$139 billion
Households with Income Below About $95,000*	124,000,000	Bottom 89%	$139 billion

* Income cut-off is slightly below $95,000

- Millionaires would benefit primarily from two parts of the bill. Between now and 2013, they would gain $107 billion from the provision to cut the capital gains tax rate and taxes on dividend income. The Tax Policy Center's analysis finds that 39 percent of the tax cuts from this provision would go to millionaires. The large majority of the remaining $32 billion in tax cuts they would receive would come from accelerating the rate reductions now scheduled for 2006 into 2003.

How these estimates were made and why the amount to millionaires may be somewhat understated

The Tax Policy Center has published a series of tables on the distribution of the Ways and Means bill. Tax filers are categorized by "adjusted gross income," an income measure derived from tax returns that includes deductions that have the effect of lowering income levels. The Tax Policy Center examines the bill's effects on "filing and non-filing tax units," which are referred to in this analysis by the shorthand of "households." The Tax Policy Center estimates there will be 184,000 households with incomes above one million dollars in 2003, or 0.13 percent of households.[1] The bottom 89 percent of households equate to 124 million households.

This analysis calculates the benefits of the Ways and Means bill to millionaires by applying the distribution of the tax cuts estimated by the Tax Policy Center and the cost of the tax cuts as estimated by Congress' Joint Committee on Taxation. Since the Tax Policy Center and the Joint Committee use somewhat different models to estimate the effects of tax proposals, mixing the two together yields some imprecision. But the fundamental story told by the estimates — that the total amount of tax cuts in the Ways and Means bill received by a relatively small number of millionaires will be as large as the total amount of the tax cuts received by the vast majority of other households — is certain to be on the mark. The Tax Policy Center distributional figures have been widely cited and are well-respected. The Joint Committee on Taxation's estimates are the official cost estimates of the proposal.

The following example illustrates how the estimates used in this analysis were calculated. The Tax Policy Center found that when fully in effect, 38.8 percent of the tax cuts from this proposal would go to millionaires. The Joint Committee on Taxation estimates the cost of this proposal as $277 billion through 2013. In essence, $277 billion was multiplied by 0.388 to yield the $107 billion referred to on the previous page.[2]

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[1] The actual number of households having more than one million dollars will not remain constant from 2003-2013. Also, some households will be millionaires one year but not the next. This analysis assumes the proportion of all households that are millionaires remains the same in the 2004-2013 period as the Tax Policy Center estimates for 2003, as does the proportion of income they receive. If income becomes more concentrated than this, the findings of this analysis will turn out to be understated; if income becomes less concentrated, the findings will be overstated.

[2] The phrase "in essence" is used because the actual calculation included one minor adjustment. In 2003, the distribution of the capital gains/dividend tax cut would be slightly less tilted to millionaires than when the proposal would be fully in effect because the capital gains tax cut would only be in place for two-thirds of the calendar year. The analysis accounted for this small difference for the first year of the proposal. With or without this adjustment, the total tax cuts going to millionaires rounds to $107 billion through 2013.

Tax cuts received by millionaires and the bottom 89% of households under the dividends/capital gains provision and under the other personal income tax provisions of the Ways and Means bill, 2003-2013

Provision	Total cost, 2003-2013	% of provisions' cuts to millionaires	Dollar cuts to millionaires	% of cuts to bottom 89%	Dollar cuts to bottom 89%
Dividend/capital gains	$277 billion	39%	$107 billion	17%	$47 billion
Other personal income tax provisions	$234 billion	14%	$32 billion	39%	$92 billion
TOTAL	$511 billion	27%	$139 billion	27%	$139 billion

The approach used here likely understates the tax cut benefits that millionaires would receive. Most notably, only the individual income tax cuts were distributed by the Tax Policy Center. The business tax cuts are not considered. They could also yield large benefits to millionaires. For instance, the bonus depreciation provision would be of substantial benefit to corporations.[3] This provision would provide $21 billion in tax cuts, according to the Joint Tax Committee, but the costs would rise to close to $400 billion if, as is likely and as its authors' may intend, it is subsequently extended through 2013.[4] Since the owners of corporations tend to have very high incomes, the bonus depreciation provision might be of particular benefit to millionaires.

[3] The approach used here also likely understates benefits to millionaires for a more technical reason. The Joint Committee on Taxation assumes a behavioral response to the reduction in capital gains taxes; that is, it assumes more individuals will sell their assets if capital gains tax rates are lower. The larger amount of sales reduces the impact of the proposal on revenues even though it increases the amount of tax cuts actually received. The approach used here is based on a proportion of the revenue loss number that the Joint Committee shows, and thus produces less tax cuts for millionaires than would an approach based on a proportion of all capital gains sales.

[4] See the Center on Budget and Priorities analysis "Tax Policy Center and CBPP Analyses Show That Thomas Tax Plan Would Be More Tilted Toward the Very Wealthy — And More Expensive — Than Bush Plan."