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TAX CUTS THAT THE HOUSE OR SENATE HAS APPROVED WOULD CONSUME ALL OF THE REALISTICALLY AVAILABLE SURPLUSES

Top Five Percent of Taxpayers Would Receive 50 Percent of the Tax Cuts; Other 95 Percent of Taxpayers Would Share Other Half of the Tax Cuts

by Robert Greenstein, James Horney, and Iris Lav

As Congress leaves for the August recess, it has moved a long way toward passing tax cuts that approach in cost the large tax cut that Congress passed and President Clinton vetoed last year. The tax cuts that Congress is approving also resemble last year's vetoed bill in how the tax-cut benefits are apportioned among different income groups.

Using the revenue estimates of the Joint Committee on Taxation, the tax cuts that the House, the Senate, or both chambers have approved so far this year would cost $752 billion over ten years. Since these tax cuts would absorb money that otherwise would be available for paying down debt, they would result in higher interest payments on the debt, with the increased interest payments amounting to $199 billion over ten years. The total cost of the tax cut measures that have won approval to date thus would be $951 billion over ten years.

Together, these tax cuts would absorb three-quarters of the projected surpluses available for program initiatives or tax cuts over the next decade. As a Center analysis issued earlier in July explains, the projected surpluses available for these purposes amount to $1.2 trillion over ten years.

In addition, a portion of this $1.2 trillion is likely to be needed as part of reform packages to restore long-term solvency to Social Security and Medicare. The tax cuts approved to date would consume more than 100 percent of the surpluses that are likely to remain when Social Security and Medicare solvency needs are taken into account.

Many of these tax cuts are highly backloaded. For example, the estate tax would not be fully repealed until 2010. As a result, the cost of the tax cuts would be much greater in the second decade than in the first. In the second ten years, these tax cuts would cost $1.8 trillion.

The $1.8 trillion figure does not include the additional costs for interest payments on the debt. If interest payments are taken into account, the total cost would substantially exceed $2 trillion in the second ten years. The second ten-year period is the time during which the baby boom generation begins to retire in large numbers, Social Security and Medicare costs start to burgeon, and annual Social Security and Medicare costs begin exceeding the annual tax revenues that the Social Security and Medicare trust funds receive.

Which Households Would Receive the Tax Cuts

These large tax-cut benefits would accrue overwhelmingly to high-income taxpayers. A new analysis of the tax cuts approved to date, prepared for the Center on Budget and Policy Priorities by Citizens for Tax Justice (using the Institute on Taxation and Economic Policy Tax Model, which is similar to the model the Treasury uses), finds the following:

- The five percent of taxpayers (i.e., taxpaying units) with the highest incomes would receive as much in tax cuts as the other 95 percent combined. In other words,

Effects of Major Tax Bills Passed by at Least One House of Congress
(annual effects at 1999 income levels)

Income Group	Income Range	Average Income	Average Tax Cuts	% of Total Tax Cut
Lowest 20%	Less than $13,600	$ 8,600	$ -37	1.2%
Second 20%	$13,600––24,400	18,800	-116	3.6%
Middle 20%	$24,400––39,300	31,100	-193	6.0%
Fourth 20%	$39,300––64,900	50,700	-323	10.1%
Next 15%	$64,900––130,000	86,800	-1,238	29.0%
Top 5%	$130,000 or more	329,000	-6,408	50.0%
ALL		$ 50,800	$ -635	100.0%
ADDENDUM				
Bottom 60%	Less than $39,300	$ 19,500	$ -115	10.8%
Top 10%	$92,500 or more	218,000	-3,954	61.8%

Figures includes the House and Senate-passed marriage penalty reduction bill, the House and Senate-passed estate tax repeal, the House-passed "Comprehensive Retirement Security and Pension Reform Act," the tax cuts in the House-passed minimum wage bill not included in the previously mentioned bills, the repeal of the 3% federal telephone tax, the reduction in income taxes on Social Security benefits for better-off retirees and the Senate-passed deductions for health and long-term care insurance. All provisions are shown fully effective at 1999 income levels.

Source: Institute on Taxation and Economic Policy Tax Model.
Citizens for Tax Justice, July 2000.

the six million taxpayers with the highest incomes would receive 50 percent of the tax cuts, while the other 121 million U.S. taxpayers would share the other 50 percent of the tax cuts.

- The top five percent of taxpayers would receive nearly 2½ times as much in tax cuts as the bottom four-fifths of taxpayers. The top five percent would receive nearly five times as much in tax cuts as the bottom 60 percent of taxpayers.[1]

- The average tax cut for taxpayers in the middle of the income spectrum (i.e., for the middle fifth of taxpaying units) would be $193. The average tax cut for the bottom 60 percent of taxpayers would be $115. The tax cuts for the next-to-the-top fifth of taxpayers also would be relatively modest, averaging $323. By contrast, the average tax cut for the top five percent of taxpayers would be $6,408.

- The tax cuts would not simply be provided in proportion to taxes paid; the share of the tax cuts going to high-income taxpayers would exceed the share of federal taxes this group pays. Moreover, the notion that tax cuts should simply mirror the distribution of tax burdens is a curious one. It implies that if income disparities widen and a disproportionate share of the income gains from economic growth goes to high-income individuals, causing the share of taxes that group pays to rise, high-income individuals should be made still better off by being given a large and increasing share of any tax cuts enacted.

Are These Tax Cuts the Top Priority Facing the Nation?

The actions Congress has taken on fiscal policy matters so far this year suggest it regards large tax cuts tilted to high-income households as the nation's top priority. Congress has passed few other initiatives with significant budgetary effects this year, the principal exception being passage by the House of a controversial prescription drug proposal for seniors that many health policy analysts regard as unworkable.

Furthermore, as noted above, the tax cuts approved to date would consume three-quarters of the projected surpluses available for program initiatives and tax cuts over the next 10 years, once the Social Security and Medicare Hospital Insurance surpluses are set to the side and realistic assumptions are made regarding actions Congress is virtually certain to take. As explained in Center analyses issued on July 7 and July 18, the nearly

Tax Cuts Covered in This Analysis

This analysis of the costs of the tax cuts includes all tax cuts the House, the Senate, or both chambers have approved so far this year. These tax cuts include:

- $292 billion in tax cuts over 10 years included in the "marriage-penalty" tax bill that Congress cleared on July 21[*];
- $105 billion in tax cuts from the phased-in repeal of the estate tax, which Congress cleared on July 14. (The cost of the estate tax bill in 2001 through 2010 greatly understates the true effects of the legislation because the estate tax repeal is phased in slowly. In 2011 through 2020, the legislation is likely to reduce revenues by more than $500 billion.)
- $122 billion in tax cuts in a bill the House passed March 9 that was portrayed as a measure to offset the cost of a higher minimum wage to small business, although the majority of the bill's tax cuts are estate tax reductions that have little to do with small business (note: the estate tax cuts in this legislation would be superceded by the estate tax legislation that Congress cleared on July 14);
- $117 billion in tax cuts contained in legislation the House passed on July 27 that would reduce the amount of Social Security benefits subject to income taxes for the wealthiest one-fifth of Social Security beneficiaries with the highest incomes;
- $103 billion in tax cuts (primarily health-insurance-related tax cuts) contained in bankruptcy legislation the Senate passed in early February, which Congressional leaders are seeking to reconcile with a bankruptcy bill the House passed last year (about half of these tax cuts also are in other bills);
- $55 billion in excise tax cuts from the repeal of the telephone tax, which the House passed on May 25 and the Senate Finance Committee approved on June 14 (the estimate here reflects the slightly higher cost of the Finance Committee bill);
- $52 billion in tax cuts in a bill the House passed on July 19 that changes the rules governing Individual Retirement Account (IRA) and pension plans, allowing taxpayers — primarily upper-income ones — to shelter more income from taxation;
- $21 billion in education-related tax cuts the Senate approved March 2;
- $20 billion in tax cuts in the "New Markets" legislation the House passed July 25;
- $7 billion in lower revenues from the so-called "Taxpayer Bill of Rights Legislation" passed by the House on April 11, which would reduce penalty and interest payments owed by certain taxpayers; and,
- $4 billion in reduced revenues resulting from the extension of duty-free and quota free treatment of specified products imported into the U.S. from certain sub-Saharan African and Carribean Basin nations.

[*] The $292 billion cost of the marriage penalty bill does not take into account the effect of a provision included in the legislation that would sunset the bill's changes in tax law at the end of 2004. This provision was included in the bill solely to avoid procedural hurdles in the Senate. History shows that legislation of this type is rarely allowed to expire, and House Speaker Dennis Hastert and Senate Majority Leader Trent Lott have said it would be unthinkable for Congress to allow this tax cut to expire after 2004. "I don't thank it ever will be reversed," Lott has said. The full 10-year cost of this bill is used here.

$2.2 trillion in non-Social Security surpluses the Congressional Budget Office has projected over the next ten years falls to $1.8 trillion when the surpluses in the Medicare Hospital Insurance trust fund are set to the side, as both parties agree they should be. (Legislation to this effect has passed both chambers.) This $1.8 trillion figure then drops further, to $1.2 trillion, when the costs of four sets of anticipated Congressional actions are factored in: maintaining payments to farmers; extending the 20 tax credits that expire every couple of years and are always renewed; preventing the Alternative Minimum Tax from extending into the middle class and increasing taxes (and tax complexity) for millions of middle-income families; and maintaining the overall level of discretionary (i.e. non-entitlement) spending at its current per person level, adjusted for inflation. Most budget experts agree that these four actions — which simply maintain current policies — will almost certainly be taken. Some analysts, such as Urban Institute president and former CBO director Robert Reischauer, believe the $1.2 trillion figure itself overstates the dimensions of the available surpluses because it underestimates the likely course of discretionary spending.

With their $951 billion price tag, the tax cuts approved to date would consume three-fourths of the $1.2 trillion in surpluses available for program expansions or tax cuts.[2] Furthermore, as the Center's July 7 and July 18 analyses explain, the $1.2 trillion figure is the amount available *before* any adjustment is made to reflect the portion of the surpluses likely to be needed as part of packages to restore long-term Social Security and Medicare solvency. Virtually all Congressional proposals to restore long-term solvency to Social Security rely on substantial transfers lasting at least several decades from the non-Social Security budget to the retirement system. Neither party is willing to consider the Social Security benefit cuts or payroll tax increases that otherwise would be required to restore long-term solvency. In addition, no plan to restore long-term Medicare solvency fully has yet been advanced. Even those Medicare plans that would partially address that program's long-term financing shortfall (and that make controversial changes in the Medicare benefit structure) would close only a fraction of that program's long-term financing gap. If just 30 percent of the long-term financing gaps in Social Security and Medicare are closed by contributions from the rest of the budget — with the remainder of the gaps being closed by cutting benefits and/or raising payroll taxes, a feat that would be very difficult politically to achieve — contributions would be needed from the rest of the budget at the rate of $500 billion over ten years.

If one assumes conservatively that $500 billion will be needed as part of Social Security and Medicare solvency legislation, then $700 billion in projected surpluses is left for tax cuts and program initiatives over the next ten years. The tax cuts Congress is passing would consume more than 128 percent of this amount.

These budget figures indicate that the current Congressional path of passing one tax cut after another, with the big tax-cut dollars geared to affluent individuals, leaves no room for any other significant policy initiative if a policy course is followed that is consistent with fiscal prudence. This raises the question: with 44 million Americans lacking health insurance, a child poverty rate far above that of Canada and western Europe, lack of Medicare coverage for prescription drug and catastrophic health care costs, serious deficiencies in our education system (especially in the big cities), and major environmental challenges, are large tax cuts for those who have gained the most from the current boom really the nation's greatest unmet need?

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1. The top five percent of taxpayers would receive 50 percent of the tax-cut benefits. The bottom 80 percent of taxpayers would receive 21 percent of the tax cuts. The bottom 60 percent of taxpayers would get 11 percent of the tax cuts.

2. The $951 billion in tax cuts includes a provision providing a partial remedy to the Alternative Minimum Tax problem. Since we took into account the costs of fully addressing the AMT problem when computing the amount of surpluses available for tax cuts and program initiatives, we excluded the cost of the partial AMT fix that Congress has passed (as part of the marriage penalty relief bill) when computing the portion of the available surpluses that the tax cuts consume. Not counting the AMT provision, the cost of the tax cuts that the House or Senate has passed (including interest costs) is $899 billion. This is 75 percent of the $1.2 billion in surpluses available before Social Security and Medicare solvency needs are taken into account and 128 percent of the surpluses available after solvency needs are factored in.