Center on Budget and Policy Priorities

820 First Street NE, Suite 510
Washington, DC 20002

Tel: 202-408-1080
Fax: 202-408-1056

center@cbpp.org
www.cbpp.org

Revised May 11, 2006

# TAX RECONCILIATION AGREEMENT DISTORTED BY OBSESSION WITH CAPITAL GAINS AND DIVIDEND TAX CUTS

## Middle-Income Households to Receive Tax Cuts Averaging Only $20

By Joel Friedman and Aviva Aron-Dine

### Summary

House and Senate negotiators announced an agreement yesterday on a tax-cut reconciliation bill that would reduce revenues by $70 billion between 2006 and 2010, according to Joint Committee on Taxation estimates. Although nearly half of this cost reflects a one-year extension of relief from the Alternative Minimum Tax, it is the two-year extension of the capital gains and dividend tax cuts that fundamentally shaped the final agreement. Even though the capital gains and dividend tax cuts are not slated to expire until the end of 2008, the Administration and Congressional leaders went to great lengths to ensure that a two-year extension through 2010 is part of the final package.

The end result is a conference agreement that:

- circumvents the reconciliation cost limits by leaving out popular tax-cut provisions with the full intention of enacting them in a subsequent bill, thereby increasing the total budgetary cost and the amount by which the deficit will be increased;
- relies in large part on budget gimmicks and timing shifts to create the appearance that it is complying with a key Senate budget rule that bars the reconciliation bill from increasing the deficit in any year after 2010; and
- provides an overwhelming share of its tax-cut benefits to those at very high income levels.

**Tax Cuts Left Out.** The conference agreement omits more than a dozen other tax-cut provisions that were in *both* the House- and Senate-passed reconciliation bills, such as the extension of the research and experimentation tax credit and the higher-education tuition deduction. (See Table 2 on page 5 for a complete list of these omitted provisions.) A one-year extension of these provisions costs about $20 billion.

Unlike the capital gains and dividend tax cuts, these provisions all have already expired or will expire at the end of 2006, meaning that failure to extend them this year would have immediate consequences. Congressional leaders could not include these expiring "extenders," however, and also pack a two-year extension of the capital gains and dividend tax cuts within the $70 billion cost limit for the tax reconciliation bill. They concluded that they needed the protections against a filibuster that a reconciliation bill provides in order to pass the capital gains and dividend tax cut extension, but do not need these protections to pass the continuation of the other expiring tax provisions. Accordingly, their plan is to move these other tax cuts in coming weeks or months in one or more other tax bills outside of the reconciliation process, thereby adding still more to budget deficits.

**Gimmicks To Evade Senate Rules**. The reconciliation bill employs budget gimmicks and timing shifts to help offset the $30 billion cost that the Joint Committee on Taxation says will result in years *after* 2010 from extending the capital gains and dividend tax cuts through 2010. Senate rules bar a reconciliation bill that increases deficits in any year after the end of the budget period that the reconciliation bill covers; for this bill, that period is 2006-2010. It takes 60 votes to waive this rule.

The agreement relies heavily on timing shifts. For instance, the measure includes multiple provisions to shift corporate tax payments between years, particularly to mask revenue losses that occur after 2010 (see Table 1). Another timing shift involves a temporary extension of a tax break for small businesses; the provision loses revenue while it is in effect, but raises revenue after it has expired. The bill slates this provision to expire at the end of 2009. There is every reason to believe, however, that this popular tax break will not be allowed to expire and will become one of the group of business tax cuts, known as "extenders," that always are extended when they are scheduled to expire. As a consequence, the revenues that the official cost estimate assumes will be raised in 2011-2015 as a result of the expiration of the provision likely will never materialize. (See the box on page 4 for a longer discussion.)

| Table 1: Corporate Tax Timing Gimmicks |
|---|
| **The Agreement Relies on Provisions that Shift Corporate Tax Payments:** |
| From FY 2007 to FY 2006 |
| From FY 2010 to FY 2011 |
| From FY 2011 to FY 2012 |
| From FY 2013 to FY 2012 |
| From FY 2014 to FY 2013 |

Most troubling, the bill includes a substantial tax cut for affluent households disguised as an offset — that is, it attempts to use one tax cut to pay for another tax cut. This provision, which will allow high-income individuals to convert regular IRAs to Roth IRAs, will raise revenue initially but lose significantly larger amounts of revenue in later years, according to analyses by the Joint Tax Committee, the Congressional Research Service, and the Urban Institute-Brookings Institution Tax Policy Center. The conferees have used this temporary increase in revenue to help "offset" the cost of the capital gains and dividend tax cut in 2011-2013, but the eventual revenue losses, which will start in 2014, will continue to grow in the years after 2015, when the official cost estimate ends. After a few years, these revenue losses will begin to outstrip the revenue gains from the other offsets contained in the conference agreement (which are modest). As a result, the agreement will increase long-term deficits, violating the Senate rule designed to prevent such an outcome.

In pursuing this gimmick, the conferees are exploiting the fact that the official Joint Tax Committee cost estimate on the conference agreement does not cover years after 2015, and thus does not show years in which the bill will increase the deficit. This enables Congressional leaders — including Senate Budget Committee Chairman Judd Gregg — to claim there is no evidence that the agreement violates the Senate rule. Since the Parliamentarian traditionally defers to the Senate

Budget Committee Chairman on matters involving cost estimates, the gimmick is expected to succeed.

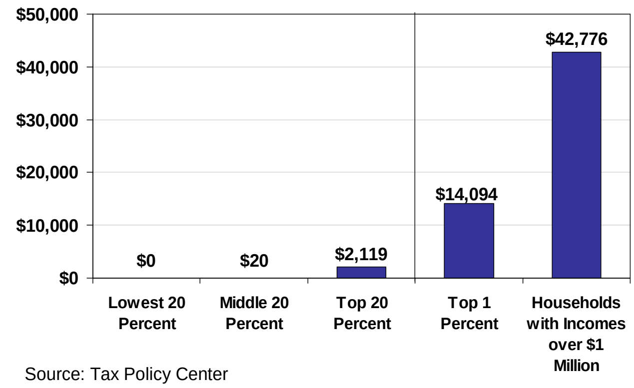
**Benefits Skewed to the Well-Off.** The final package offers virtually no benefits to low- and moderate-income households while showering high-income households with munificent tax cuts. Preliminary estimates by the Tax Policy Center of the major provisions in the conference agreement show that middle-income households will receive an average tax cut of just $20 (about enough to purchase six gallons of gasoline), while households with incomes over $1 million will see tax cuts averaging $43,000.[1] For the top 0.1 percent of households, whose incomes exceed $1.6 million, the tax cuts will average $84,000.

Overall, 55 percent of the tax-cut benefits will flow to the 3 percent of households with incomes above $200,000, and 22 percent of the benefits will go to the 0.2 percent of households with income over $1 million. In contrast, the 20 percent of households with incomes in the middle of the income spectrum will receive less than one percent of the benefits.

FIGURE 1

**Average Dollar Value of Tax Cuts in Conference Agreement**

Assuming tax cuts were fully in effect in 2006




Source: Tax Policy Center

That the benefits are so skewed to those at the top of the income spectrum reflects, in large part, the impact of the capital gains and dividend tax cuts that Congressional leaders went to such lengths to protect. Nearly half (45 percent) of the benefits of extending these two tax cuts will go to households with incomes over $1 million.

### Congressional Priorities Lead to Higher Deficits, Widening Disparities

Overall, this reconciliation bill is the latest indication that the Administration and Congress have an insatiable appetite for tax cuts and are taking rather reckless steps to satisfy it. While the conferees have produced an agreement that *appears* to comply with congressional rules designed to restrain the fiscal impact of the measure, they have done so by manipulating the process and violating the spirit of the rules. They met the $70 billion constraint on the cost of the bill over the first five years only by agreeing to pass a subsequent tax-cut bill, one certain to cost at least $20 billion. And they evaded the rules against increasing long-term deficits by using the Roth IRA gimmick and other timing shifts.

[1] The various provisions in the final reconciliation bill will be in effect during different years. To estimate the distributional effects of the bill as a whole, the Tax Policy Center employed the simplifying assumption that all of the provisions would be in effect in 2006. Our distributional estimates have been updated to reflect the Tax Policy Center's most recent distributional figures.

**Another Gimmick To Hide Costs**

In addition to the Roth IRA proposal and the shifts in corporate tax payments, the reconciliation conference agreement includes another gimmick that involves a tax break for small businesses. This provision, which extends for two years a tax break slated to expire in 2007, permits small businesses to write-off (or "expense") up to $100,000 each year in equipment purchase costs. This provision represents a timing shift, since businesses would be permitted to deduct more upfront, and to deduct less later on, than under normal tax rules. As such, the Joint Tax Committee estimate shows the provision costing $7.3 billion through 2010, but then saving $7.0 billion between 2011 and 2015.

These savings will likely never materialize, however, because they depend upon the provision actually expiring on schedule at the end of 2009. Like many other "temporary" business tax cuts that routinely are extended when they are slated to expire (including the many expiring business provisions that the conferees have promised to extend later this year), this provision likely will never die. If the provision is extended, as it very likely will be, the $7 billion in savings ostensibly being used to help offset the cost of the capital gains and dividend tax cuts in the 2011-2015 period will disappear.

Finally, it is worth remembering that the tax reconciliation bill is the *second* of two reconciliation bills authorized under last year's budget resolution. The first reconciliation bill, enacted in February 2006, cut entitlement programs by $39 billion over five years, including reductions in programs such as Medicaid that directly affect low-income families and children and low-income people who are elderly or have serious disabilities. The first reconciliation bill was promoted as reducing the deficit, but it is clear now that it will not do so. Instead, it will simply offset a little more than half of the cost of the tax cuts in the tax reconciliation bill.

The combined effect of the policies in the two reconciliation bills — benefit reductions for lower-income families to help pay for tax cuts primarily for high-income individuals — will be to increase deficits and further distort the nation's budget priorities, while also further widening disparities between the most well-off households and Americans of modest means.

## Rationale for Extending Capital Gains and Dividend Tax Cuts is Flawed

To justify displacing more than a dozen already-expired or about-to-expire tax provisions from the tax reconciliation bill in order to make room for the capital gains and dividend tax cuts, supporters of those tax cuts claim their economic importance is so great that extending them now is essential. This argument hinges on two unwarranted assertions: first, that the capital gains and dividend tax cuts have greatly benefited the economy, and second, that failing to extend them now would have significant negative consequences.

### Capital Gains and Dividend Tax Cuts Did Not Significantly Boost the Economy

Overall, despite at least one major tax cut every year for four years, the current economic recovery has been weak in comparison to other post-World War II recoveries. Notably, investment growth in this recovery has been weaker than in the average previous post-World War II recovery, even though several recent tax cuts — including the capital gains and dividend tax cuts — were promoted with the promise that they would lead to stronger investment growth. In fact, investment growth has also been weaker than during the 1990s recovery, when taxes were increased.

**More Tax Cuts to Come**

To accommodate the extension of the capital gains and dividend tax cuts in a $70 billion package that also provides Alternative Minimum Tax relief, the conferees had to forgo other tax cuts that were included in *both* the House- and Senate-passed reconciliation bills and that would extend various tax cuts that have expired already or are slated to expire at the end of this year. The tax-cut extensions that were included in both the House and Senate bills but were omitted from the conference agreement are listed below.

A one-year extension of the omitted provisions would cost about $20 billion. The ten-year cost of making these provisions permanent — or extending them one year at a time for ten years — would be more than $160 billion. In the House and Senate reconciliation bills, these various provisions would have been extended for one or two years.

Congressional leaders have made clear that the provisions to extend these expiring tax cuts are *not* being dropped; they will be packaged in another tax-cut bill in coming weeks or months. The result will be a higher total price tag for tax cuts this year — and more deficits and debt.

**Table 2: Tax Cuts Included in House and Senate Reconciliation Bills and Left Out of Conference Agreement**

| Provision | Expires |
|---|---|
| Accelerated depreciation for business property on Indian reservations | 2005 |
| Brownfields expensing | 2005 |
| Deduction for teachers' classroom expenses | 2005 |
| Deduction for higher-education tuition expenses | 2005 |
| Enhanced deduction for computer contributions to schools | 2005 |
| 15-year recovery of certain leasehold and restaurant improvements | 2005 |
| Indian employment tax credit | 2005 |
| Qualified zone academy bonds | 2005 |
| Research and experimentation tax credit | 2005 |
| Saver's credit for moderate-income households | 2006 |
| State and local sales tax deduction | 2005 |
| Tax incentives for the District of Columbia | 2005 |
| Welfare-to-work tax credit | 2005 |
| Work opportunity tax credit | 2005 |

Proponents of the capital gains and dividend tax cuts stress that the economy, though weak in the first two years of the current recovery, has improved since these tax cuts were enacted. Even if one focuses only on the few years since the tax cuts took effect, however, the economy's performance has failed to vindicate the claims made by tax-cut enthusiasts. For example, employment at the end of 2005 was more than six million jobs short of the level the Administration predicted would result if the 2003 tax legislation that included these tax cuts was enacted.

Moreover, proponents of the capital gains and dividend tax cuts have never built a serious case for their assertion that these tax cuts *caused* the improvements in the economy; they have merely shown that the tax cuts coincided with those improvements. Economic theory indicates that far from dramatically boosting growth, the capital gains and dividend tax cuts should have had *little or no effect* on the economy in the short run. The Congressional Budget Office, for instance, found that "little fiscal stimulus would be provided by cutting capital gains rates."[2] Conservative economist and Nobel Laureate Gary Becker, a supporter of the dividend tax cut, wrote that it "will not yield immediate benefits… Any short-run stimulus from eliminating the dividend tax would be too weak to have a significant benefit to the economy."[3]

Despite the assertions made by the capital gains and dividend tax cuts' supporters, there are other, more likely, explanations for recent improvements in the economy. A new Congressional Research Service report, for instance, identifies a number of other potentially crucial factors, including aggressive monetary policy by the Federal Reserve.[4] Various observers, including then Federal Reserve Board Governor and current Federal Reserve Chairman Ben Bernanke, were already predicting improvements in the economy *before* the 2003 tax cuts were enacted.[5]

In contrast, it was *not* expected that, in the absence of the capital gains and dividend tax cuts, the recovery would remain as weak as it was through the start of 2003. Such an outcome would have represented a sharp departure from historical norms. Had average growth rates remained as low through the end of 2005 as they were from the start of the recovery through mid-2003, growth in the Gross Domestic Product as well as in consumption, non-residential investment, net worth, wages and salaries, employment, and revenue growth would all have been weaker in the current recovery than in any previous recovery since World War II.

### No Urgency to Extending These Tax Cuts Now

Supporters have based their argument that extending the capital gains and dividend tax cuts is urgent on the claim that extension is needed to reassure investors and the stock market. For example, House Ways and Means Chairman Bill Thomas recently stated, "It is imperative that Congress acts now to provide American investors certainty that we aren't going to change the rules in the middle of the game."[6]

However, a 2005 study by three Federal Reserve economists concluded that the capital gains and dividend tax cut was, as summarized in a *Wall Street Journal* story, "a dud when it comes to boosting the stock market."[7] The study compared the performance of taxable stocks in the United States to the performance of European stocks and Real Estate Investment Trusts, which were not affected by the U.S. dividend and capital gains tax cuts. While the U.S. market did indeed rise following these tax cuts, the other, unaffected markets rose as well. The authors thus concluded that, although the tax cuts did *coincide* with a rise in the U.S. stock market, they were not the *cause* of the rise. If the market did not react positively to the enactment of the tax cuts, it is hard to believe that it would respond adversely to a failure to extend these tax cuts immediately.

---

[2] Congressional Budget Office, "Economic Stimulus: Evaluating Proposed Changes in Tax Policy," January 2002.

[3] Gary Becker, "The Dividend Tax Cut Will Get Better with Time," *Business Week*, February 10, 2003, p. 24.

[4] Mark Labonte, "What Effects Have the Recent Tax Cuts Had on the Economy?" Congressional Research Service, April 14, 2006.

[5] Remarks by Governor Ben S. Bernanke at the 41st Annual Winter Institute, St. Cloud, Minnesota, February 21, 2003..

[6] "Thomas Credits Capital Gains Cuts with Stock Market High," *Tax Notes*, April 20, 2006.

[7] Karen Richardson, "Did the Dividend Tax Cut Work? Policy Change Didn't Boost Market's 'Aggregate' Value, Federal Reserve Report Says," Wall Street Journal, December 6, 2005, p. C3. Gene Amromin, Paul Harrison, and Steve Sharpe, "How Did the Dividend Tax Cut Affect Stock Prices?" Federal Reserve Board Discussion Paper, December 2005.

Furthermore, extending these tax cuts for two more years, as the conference agreement would do, would not provide American investors with "certainty," since it would not provide them with a permanent set of tax rules. These tax cuts would be slated to expire at the end of 2010 instead of at the end of 2008. The proposed temporary, two-year extension represents one more case of Congress and the Administration choosing to add sunsets and complexity to the tax code rather than face up to the true long-term costs of their policies.

### Gimmicks Used to Hide Outyear Costs

The Joint Tax Committee estimate of the conference agreement shows it will lose a total of $70 billion in revenue between 2006 and 2010, and then gain a little less than $0.9 billion (i.e., $900 million) over the next five years, 2011 to 2015. Within the second five-year period, the conferees needed to offset the $30 billion cost of the capital gains and dividend tax cuts in that period in order to comply with a key Senate budget rule that bars the reconciliation bill from increasing the deficit in any year after 2010.

**Table 3: Cost of Reconciliation Agreement, 2011-2015**

| Provision | Cost/Savings ($ billion) |
|---|---|
| Capital gains and dividends | -30.0 |
| Small business tax break | +7.0 |
| Corporate timing shifts | +5.6 |
| Roth IRA conversions | +6.9 |
| Revenue-raising offsets [net] | +11.6 |
| Total | +0.9 |

Source: Joint Committee on Taxation

The Joint Committee on Taxation estimates show that the conferees relied largely on budget gimmicks and timing shifts to create the appearance of complying with the Senate rule. As shown in Table 3, nearly two-thirds of the revenue raised during this period results from three provisions — a small business tax break, adjustments in the payment date of corporate taxes, and lifting income limits on Roth IRA conversions — that can fairly be described as budget gimmicks (see early discussion on pages 2-4). Moreover, the annual costs of the Roth IRA provision would exceed the revenue raised by the other offsets over the long run. The measure thus would increase long-term deficits and violate the Senate rule.

### The Roth IRA Proposal

The most egregious gimmick in the conference agreement is the proposal that would remove permanently the income limits from converting traditional IRAs to Roth IRAs. The Joint Committee on Taxation shows this proposal will raise $6.9 billion in revenue between 2011 and 2105. Under current law, individuals and couples cannot roll over — or convert — retirement savings they hold in a traditional IRA to a Roth IRA if their income exceeds $100,000. By lifting the income limits on Roth IRAs, the conference agreement raises revenue initially, because it will spur a large number of high-income households to convert their traditional IRAs to Roth IRAs to take advantage of the Roth IRA tax breaks.

With a traditional IRA, contributions are deductible and tax payments are deferred until funds are withdrawn; with a Roth IRA, in contrast, contributions are not deductible but the withdrawals are tax free. By converting a traditional IRA to a Roth IRA, a person pays tax now on the amounts currently in his or her retirement account in exchange for being relieved from paying tax later when funds in the account are withdrawn in retirement. The conversion process is a timing shift, with

**Roth IRA Provision Effectively Eliminates Income Limits on Roth IRAs and Establishes Major New Tax Shelter for High-Income Households[s]**

The conference agreement gives the appearance of lifting the income limits on *rollovers* to Roth IRAs but leaving in place the income limits on who can make *contributions* to Roth IRAs, which are currently set at $160,000 for married couples and $110,000 for single individuals. In reality, however, the legislation changes the IRA rules in a way that effectively eliminates the income limits on contributions to Roth IRAs. As a result, all income limits on the use of Roth IRAs would effectively be dismantled by the legislation.

The conference report effectively eliminates the income limits on contributions to Roth IRAs by making possible a two-step process for contributions. High-income households first could contribute several thousand dollars each year to a *non-deductible* traditional IRA, for which there is no income limit. Then, starting in 2010, they could convert their non-deductible IRAs into Roth IRAs.

This process could continue every year. Indeed, each year from 2010 on, the couple could place $10,000 in a non-deductible IRA one day and convert that non-deductible IRA to a Roth IRA the very next day. The couple could repeat this process every year, building its tax-protected Roth IRA to a very substantial level over time.

Consider a married couple with income well above the $160,000 Roth IRA contribution limit. Each year, beginning in 2006, the couple could contribute $8,000 to a non-deductible traditional IRA. The amount the couple could contribute would rise to $10,000 a year in 2008 and increase with inflation thereafter (assuming the pension provisions of the 2001 tax cut are made permanent). Then, beginning in 2010, the couple would roll over the amount that had accumulated in its non-deductible IRA into a Roth IRA, and all earnings on the Roth IRA would be forever tax free. Moreover, in every year from 2010 on, the couple could place $10,000 into a non-deductible IRA one day, roll over these funds into its Roth IRA the next day, pay no tax on the amount converted (since the conversion would be from a non-deductible IRA), and amass a growing account that would be permanently sheltered from tax. It is in large part because of this striking aspect of the IRA provision that it ultimately would carry a substantial cost.

[s] For a detailed discussion of these issues, see Leonard Burman, "The IRA Conversion Provision in the 2006 Tax Reconciliation Bill: Smoke and Mirrors," Tax Policy Center, May 11, 2006, http://www.taxpolicycenter.org/publications/template.cfm?PubID=9736.

taxes being paid now instead of later. Moreover, by lifting the income limits on *conversions* to Roth IRAs, the conference agreement provision would effectively lift the *contribution* limits on Roth IRAs as well (see box above).

The conference agreement would permit taxpayers who convert funds from a traditional IRA to a Roth IRA in 2010 to spread the amounts being converted over two years (2011 and 2012) for tax purposes. This not only makes the conversions more attractive for some people; it also enabled the conferees to ensure that the taxes on the conversions would be paid in those years when they could be used to "offset" the costs of the extension of the capital gains and dividend tax cuts.

While the provision raises revenue in 2011 through 2013, it begins to lose revenue in 2014, according to the Joint Tax Committee cost estimate. This revenue loss continues in 2015 and, based on other Joint Tax Committee estimates, as well as analyses by the Congressional Research Service and the Tax Policy Center, these revenue losses will continue to grow after 2015. Indeed, the analyses by these non-partisan organizations all find that after an initial period of raising revenue, *proposal begins losing revenue, with the revenue losses growing in each successive year and substantially outweighing the initial revenue gains*.[8]

As such, the Roth IRA provision is more than simply a timing shift. Over the long run, the proposal would result in a *net reduction* in tax revenues. This would occur because people would only elect to convert their traditional IRAs to Roth IRAs if they concluded that doing so would lower their tax bills; that is, they would elect to pay some taxes now if they expected that would reduce their tax bills by a larger amount in the future. The *Wall Street Journal* quoted a financial advisor as saying the proposal "would be a huge deal" because of the benefits it would offer to those higher-income households who would be able to take advantage of the tax benefits associated with converting regular IRAs to Roth IRAs.[9]

Although the permanent revenue-raising provisions in the reconciliation bill offset the cost of the Roth IRA provision in 2014 and 2015, this trend does not hold over the long run. Estimates of the Roth IRA provision by the Joint Tax Committee and the Tax Policy Center indicate that its costs will grow more rapidly after 2015 than the revenue raised by the other offset provisions. The reconciliation bill consequently will add to deficits over the long term, worsening an already bleak long-term budget outlook.

## Benefits of Tax Package Would Flow Overwhelming to High-Income Households

The very large tax breaks that the reconciliation agreement provides to households with the highest incomes largely reflect the impact of the capital gains and dividend tax cuts. Nearly half (45 percent) of the benefit of extending these tax cuts would flow to households with incomes of more than $1 million, according to Tax Policy Center estimates. Although supporters of these tax cuts like to claim the benefits of these tax cuts are widespread, they usually fail to acknowledge that for less well-off households, the tax cut amounts to only a few dollars, reflecting the modest amount of taxable assets those taxpayers hold.[10]

The benefits from lifting the income limits that apply to converting retirement accounts to Roth IRAs also are skewed sharply to high-income households. Given that households with incomes below $100,000 (which represent 86 percent of all households) can make such conversions under current law, lifting the limit on conversions would benefit only households with incomes above $100,000. Moreover, about three-quarters of the benefits of the Roth IRA conversion proposal would flow to households with incomes above $200,000, and nearly 35 percent of the benefits would go to the 0.2 percent of households with incomes over $1 million, according to Tax Policy Center estimates.

---

[8] Joint Committee on Taxation, "Estimated Revenue Effects of Various Proposals Relating to Roth IRAs," March 1, 2006. This estimate, and the Congressional Research Service analysis, are discussed in Joel Friedman and Robert Greenstein, "Joint Tax Committee Estimate Shows That Tax Gimmick Being Designed To Evade Senate Budget Rules Would Increase Long-Term Deficits," Center on Budget and Policy Priorities, April 26, 2006. Also see, Tax Policy Center, "Possible Elements of 2006 Tax Reconciliation Bill, Illustrative Change in Income Taxes from Roth Conversion Provision in Reported Tax Reconciliation Agreement, 2011 to 2049," T06-0084, May 9, 2006.

[9] Rob Wells, "Wealthier Taxpayers May Gain If Bill Allows Move to Roth IRAs," The Wall Street Journal, May 3, 2006.

[10] For more detail, see Joel Friedman and Katharine Richards, "Capital Gains And Dividend Tax Cuts: Data Make Clear That High-Income Households Benefit The Most," Center on Budget and Policy Priorities, January 30, 2006.

| Table 4: Distribution of Major Reconciliation Tax Cuts, Assuming They Were Fully in Effect in 2006 | | |
|---|---|---|
| | Share of Benefits | Average Tax Cut |
| Bottom Quintile | 0% | $0 |
| Second Quintile | 0.3% | $7 |
| Middle Quintile | 0.9% | $20 |
| Fourth Quintile | 5.2% | $117 |
| Top Quintile | 93.6% | $2,199 |
| Top 1 percent | 31.1% | $14,094 |
| Top 0.1 percent | 18.5% | $83,966 |
| Addendum | | |
| Incomes above $100,000 | 87.2% | $2,861 |
| Incomes above $200,000 | 55.2% | $7,316 |
| Incomes above $1 million | 22.3% | $42,766 |

Source: Urban-Brookings Tax Policy Center

The conference agreement's relief from the Alternative Minimum Tax also would flow primarily to households with incomes above $100,000. Unlike the investment tax cuts and the Roth IRA proposal — which direct large shares of their benefits to people with incomes over $500,000 — the benefits of AMT relief are concentrated on households with incomes between $100,000 and $500,000. Those households would receive about 80 percent of the AMT relief, according to the Tax Policy Center. (Households at higher income levels are less affected by the AMT, so they receive fewer benefits from AMT relief.)

Given the distribution of the major components of the reconciliation package, it is not surprising that preliminary estimates by the Tax Policy Center show the distribution of the overall package to be extremely skewed to those at the top of the income spectrum:[11]

- About 87 percent of the benefits of the tax cuts in the final package would flow to households with incomes above $100,000, and 55 percent would flow to those with incomes above $200,000. Households earning more than $1 million a year would receive 22 percent of the benefits of these tax cuts.

- In contrast, the three-quarters of households with incomes below $75,000 would receive 5 percent of the benefits. The 60 percent of households with incomes below $50,000 would receive less than 2 percent of the benefits.

- The differential treatment of various income groups is even more striking when one looks at the dollar amounts involved. The average tax cut for the 20 percent of households in the middle of the income spectrum would be just $20. The average tax cut for those in the top one percent of the income spectrum would be $14,100. And for those with incomes above $1 million, the average tax cut would be $43,000.

[11] See footnote 1.