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NEW ESTIMATES SHOW EXPECTED TAX RECONCILIATION DEAL WOULD PROVIDE AVERAGE TAX CUTS OF \$20 FOR MIDDLE-INCOME HOUSEHOLDS, \$43,000 FOR MILLIONAIRE HOUSEHOLDS

New estimates from the Urban Institute-Brookings Institution Tax Policy Center (IPC) show that the \$70 billion tax-cut reconciliation package reportedly agreed to by House and Senate negotiators will offer virtually no benefits to low- and moderate-income households, but shower high-income households with very large tax cuts. The Center has issued a brief report summarizing the TPC findings.

The 20 percent of households in the middle of the income spectrum would receive an average of just \$20 in tax benefits from the package if it were fully in effect in 2006, TPC found. In contrast, the top one percent of households would receive an average of \$14,100 apiece, and households with annual incomes of more than \$1 million would receive an average tax cut of \$43,000 apiece.

“The disparities in this bill are enormous. While middle-class households will receive a tax break that’s barely big enough to buy a few gallons of gas, millionaires will receive a tax break that’s big enough to buy a new Mercedes or Lexus,” noted Joel Friedman, senior fellow at the Center and author of the Center’s report.

The tax reconciliation agreement, whose formal announcement is expected next week, reportedly includes a two-year extension of capital gains and dividend tax cuts, a one-year extension of relief from the Alternative Minimum Tax (AMT), and a proposal to lift the income limits that apply to converting retirement funds to Roth IRAs.

More than half (55 percent) of the package’s benefits would flow to the 4 percent of households that have incomes above \$200,000. In contrast, just 5 percent of the benefits would flow to the 77 percent of households that have incomes below \$75,000.

The reconciliation agreement provides such large tax breaks to the highest income households largely because of the capital gains and dividend tax cuts, which the Administration and Congressional leaders pushed hard to include in the bill. Nearly half (45 percent) of the benefit of extending these tax cuts would go to households with incomes of more than \$1 million, according to Tax Policy Center estimates. The benefits of the AMT and Roth IRA provisions are also sharply skewed to higher-income households, providing nearly all their benefits to households with incomes above \$100,000.

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