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BUSH TAX CUTS HAVE PROVIDED EXTREMELY LARGE BENEFITS TO WEALTHIEST AMERICANS OVER LAST NINE YEARS

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The tax cuts first enacted under President Bush in 2001 and 2003 have made the tax code less progressive and delivered a large windfall to the highest-income taxpayers.¹ Tax Policy Center estimates for the years 2004 to 2012 (the years for which TPC provides data that are comparable from year to year) give us a sense of the cumulative effect of these tax cuts:

- **The average tax cut that people making over \$1 million received exceeded \$110,000 in each of the last nine years — for a total of more than \$1 million over this period.**
- **The tax cuts made the tax system less progressive.** In each of the nine years from 2004 through 2012, the tax cuts increased the after-tax income of the highest-income taxpayers by a far larger percentage than they did for middle- and low-income taxpayers. For example, in 2010, the year in which all of the Bush income and estate tax cuts were fully phased in, they increased the after-tax income of people making over \$1 million by more than 7.3 percent, but increased the after-tax income of the middle 20 percent of households by just 2.8 percent.²

At a time of pressing fiscal problems and growing income inequality, continuing such large windfalls for the highest-income taxpayers is unaffordable.

The Highest-Income Taxpayers Have Received Immense Tax Cuts

The Bush tax cuts directed stunning tax benefits to high-income households over the last nine years:

- If one adds up the average tax cuts that households with incomes between \$200,000 and \$500,000 received in each of the last nine years, the total exceeds \$74,000.

¹ See Aviva Aron-Dine, *Have the 2001 and 2003 Tax Cuts Made the Tax Code More Progressive?*, Center on Budget and Policy Priorities, March 11, 2008, <http://www.cbpp.org/cms/index.cfm?fa=view&id=1193>.

² Appendix 1 provides tables of average dollar tax cuts and percentage changes in after-tax income provided by the Bush tax cuts in each year from 2004 to 2012, by income level and income quintile. Appendix 2 provides detail about which tax cuts are included in these figures.

- The sum of the average annual tax cuts delivered to households with incomes between \$500,000 and \$1 million exceeds \$189,000 over the last nine years.
- The sum of the average annual tax cuts delivered to households with incomes over \$1 million in each of the last nine years exceeds \$1.1 million. The average tax cut these individuals received was more than \$110,000 in each of these years.³

Because individual taxpayers' incomes vary from year to year (and some taxpayers die), not all taxpayers with income over \$1 million in one year will be in that income bracket in another year.⁴ And within any given year, no actual household may have the precise income and tax liability of the "average" household in a particular income category. But these figures illuminate the priorities reflected in the Bush tax cuts at a time when income inequality has already grown markedly and the nation faces unsustainable budget deficits after the economy recovers.

The Bush Tax Cuts Made the Tax Code Less Progressive

The Tax Policy Center estimates show that in each of the years from 2004 to 2012, the Bush tax cuts boosted the after-tax incomes of high-income households by a much greater percentage than they did for low-income households. For example, in 2010, the year in which all of the Bush estate and income tax cuts were fully phased in, the tax cuts:

- Raised the average after-tax income of the top 1 percent of households by 6.7 percent (or \$66,618);
- Raised the average after-tax income of the top 20 percent of households by 4.6 percent (or \$7,860); but
- Raised the average after-tax income of the middle 20 percent of households by 2.8 percent (or \$1,039), and
- Raised the average after-tax income of the bottom 20 percent of households by just 1.0 percent (or \$99).

The tax cuts also had similarly regressive patterns in the years before they were fully phased in (see Appendix 1).

Conclusion

In 2000, effective tax rates for both wealthy and middle-class Americans already were relatively modest compared to the tax rates in most prior decades.⁵ However, budget surpluses were projected for decades to come, and the Federal Reserve Chairman warned that those surpluses could

³ As Appendix 1 explains, this figure does not include the value of the estate tax cuts in 2011 and 2012.

⁴ See Appendix in: Aviva Aron-Dine, *The Skewed Benefits of The Tax Cuts*, Center on Budget and Policy Priorities, November 21, 2008, <http://www.cbpp.org/files/2-4-08tax.pdf>.

⁵ Congressional Budget Office, *Data on the Distribution of Federal Taxes and Household Income*, April 2009, <http://www.cbo.gov/publication/42878>.

be so large as to cause economic problems. Policymakers cut taxes aggressively in 2001 (and again in 2003), particularly for the highest-income people. Those taxpayers have since enjoyed tax-cut windfalls. The average tax cuts for people making over \$1 million a year surpassed \$110,000 in each of the last nine years.

The budget surpluses are long gone, and the current fiscal trajectory is toward unsustainable budget deficits. Addressing those deficits is going to require wrenching choices. Americans across the country may be forced to sacrifice in various ways, from paying more for college to facing higher-out-of-pocket health costs, with potential consequences for some Americans with modest incomes in terms of access to higher education and to health care services. Needed investments to infrastructure are likely to be shorted, as well. Basic health and scientific research may be squeezed.

Policymakers need to consider the extension of the Bush tax cuts in this context. If the tax cuts on incomes above \$250,000 (\$200,000 for single filers) expire, the wealthiest taxpayers will still have enjoyed a decade-long windfall, and the top two tax rates will return to those of the 1990s, when the economy grew robustly, tax rates on high-income taxpayers still were lower than in most prior decades, and both corporations and small businesses thrived.

Appendix 1: Summary Tables

Below are summary tables showing the average dollar tax cut and average percentage change in after-tax income from the Bush tax cuts, by cash income class and percentiles for each of the years 2004 to 2012. Appendix 2 describes which tax cuts are included in these estimates.

| Table 1 | | | | | | | | | | |
|--|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------------------|
| Distribution of the Tax Cuts* by Income Percentile | | | | | | | | | | |
| Average Value of Tax Cuts Per Household (2012 dollars) | | | | | | | | | | |
| Cash Income (in thousands of 2009 dollars) | 2004 | 2005 | 2006 | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 | 2004-2012 Total |
| Lowest Quintile | 75 | 93 | 129 | 131 | 581 | 99 | 99 | 92 | 127 | 1,426 |
| Second Quintile | 568 | 612 | 660 | 656 | 1,346 | 654 | 641 | 606 | 670 | 6,414 |
| Middle Quintile | 936 | 957 | 956 | 1,016 | 1,975 | 1,070 | 1,039 | 935 | 1,025 | 9,908 |
| Fourth Quintile | 1,394 | 1,486 | 1,590 | 1,823 | 2,831 | 1,854 | 1,825 | 1,620 | 1,813 | 16,236 |
| Top Quintile | 5,451 | 6,151 | 7,020 | 7,672 | 7,819 | 6,933 | 7,860 | 6,644 | 7,132 | 62,682 |
| Top 1 Percent | 44,711 | 54,181 | 63,307 | 65,679 | 57,506 | 50,107 | 66,818 | 56,174 | 63,580 | 522,062 |

| Percentage Change in After-Tax Income | | | | | | | | | | |
|--|------|------|------|------|------|------|------|------|------|--|
| Cash Income (in thousands of 2009 dollars) | 2004 | 2005 | 2006 | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 | |
| Lowest Quintile | 0.9% | 1.0% | 1.3% | 1.2% | 5.6% | 1.0% | 1.0% | 0.9% | 1.1% | |
| Second Quintile | 2.9% | 3.0% | 3.0% | 2.9% | 6.0% | 2.9% | 2.8% | 2.7% | 2.7% | |
| Middle Quintile | 2.8% | 2.8% | 2.6% | 2.7% | 5.2% | 2.9% | 2.8% | 2.4% | 2.5% | |
| Fourth Quintile | 2.7% | 2.7% | 2.8% | 3.0% | 4.7% | 3.1% | 3.0% | 2.6% | 2.8% | |
| Top Quintile | 3.9% | 4.1% | 4.3% | 4.4% | 4.7% | 4.3% | 4.6% | 3.8% | 3.9% | |
| Top 1 Percent | 5.3% | 5.5% | 5.8% | 5.7% | 5.6% | 5.4% | 6.7% | 5.4% | 5.6% | |

*Includes full cost of AMT adjustments. Does not include estate tax cuts for 2011 and 2012. Includes 2008 stimulus tax refunds, but does not include tax provisions in the 2009 stimulus. See Appendix Two for details.

Source: Tax Policy Center tables (T10-0220, T10-0222, T10-0224, T10-0226, T10-0228, T10-0230, T10-0232, T10-0133, T10-0216) for individual year estimates; CBPP calculation of Tax Policy Center data for conversion into 2012 dollars and nine-year sums.

Table 2

Distribution of the Tax Cuts* by Income**Average Value of Tax Cuts Per Household (2012 dollars)**

| Cash Income (in thousands of 2009 dollars) | 2004 | 2005 | 2006 | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 | 2004-2012 Total |
|--|---------|---------|---------|---------|---------|---------|---------|---------|---------|--------------------|
| Less than 10 | 4 | 4 | 4 | 4 | 312 | 5 | 5 | 5 | 4 | 349 |
| 10-20 | 129 | 138 | 148 | 140 | 683 | 149 | 158 | 146 | 128 | 1,819 |
| 20-30 | 529 | 552 | 542 | 535 | 1,265 | 589 | 579 | 537 | 541 | 5,669 |
| 30-40 | 751 | 792 | 782 | 781 | 1,629 | 887 | 877 | 767 | 786 | 8,052 |
| 40-50 | 898 | 897 | 888 | 957 | 1,833 | 1,007 | 993 | 892 | 903 | 9,268 |
| 50-75 | 1,214 | 1,244 | 1,269 | 1,340 | 2,458 | 1,503 | 1,460 | 1,259 | 1,266 | 13,013 |
| 75-100 | 1,843 | 1,902 | 1,965 | 2,135 | 3,437 | 2,332 | 2,324 | 2,066 | 2,138 | 20,141 |
| 100-200 | 3,600 | 3,758 | 3,985 | 4,253 | 5,666 | 4,777 | 4,756 | 4,065 | 4,060 | 38,919 |
| 200-500 | 6,559 | 6,856 | 7,888 | 8,369 | 9,073 | 9,360 | 9,904 | 7,985 | 8,220 | 74,214 |
| 500-1,000 | 17,268 | 18,288 | 20,151 | 20,586 | 22,166 | 22,558 | 26,852 | 20,800 | 20,419 | 189,087 |
| More than 1,000 | 112,129 | 119,777 | 131,211 | 130,631 | 135,136 | 123,709 | 162,774 | 137,453 | 138,045 | 1,190,865 |

Percentage Change in After-Tax Income

| Cash Income (in thousands of 2009 dollars) | 2004 | 2005 | 2006 | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 |
|--|------|------|------|------|------|------|------|------|------|
| Less than 10 | 0.1% | 0.1% | 0.1% | 0.1% | 5.1% | 0.1% | 0.1% | 0.1% | 0.1% |
| 10-20 | 1.0% | 1.0% | 1.1% | 1.0% | 4.5% | 1.0% | 1.0% | 1.0% | 0.8% |
| 20-30 | 2.6% | 2.6% | 2.5% | 2.4% | 5.4% | 2.5% | 2.4% | 2.4% | 2.2% |
| 30-40 | 2.7% | 2.8% | 2.7% | 2.6% | 5.2% | 2.8% | 2.7% | 2.7% | 2.4% |
| 40-50 | 2.6% | 2.5% | 2.4% | 2.5% | 4.7% | 2.6% | 2.5% | 2.5% | 2.2% |
| 50-75 | 2.6% | 2.6% | 2.6% | 2.6% | 4.6% | 2.8% | 2.7% | 2.7% | 2.3% |
| 75-100 | 2.9% | 2.9% | 2.9% | 3.1% | 4.8% | 3.2% | 3.2% | 3.2% | 2.8% |
| 100-200 | 3.8% | 3.8% | 3.9% | 4.0% | 5.1% | 4.3% | 4.2% | 4.2% | 3.6% |
| 200-500 | 3.4% | 3.4% | 3.8% | 3.9% | 4.0% | 4.1% | 4.3% | 4.3% | 3.6% |
| 500-1,000 | 3.9% | 4.0% | 4.2% | 4.2% | 4.3% | 4.3% | 5.0% | 5.0% | 3.8% |
| More than 1,000 | 6.0% | 6.0% | 6.3% | 6.1% | 6.2% | 6.0% | 7.3% | 7.3% | 6.3% |

*Includes full cost of AMT adjustments. Does not include estate tax cuts for 2011 and 2012. Includes 2008 stimulus tax refunds, but does not include tax provisions in the 2009 stimulus. See Appendix Two for details.

Source: Tax Policy Center tables (T10-0219, T10-0221, T10-0223, T10-0225, T10-0227, T10-0229, T10-0231, T10-0132, T10-0215) for individual year estimates; CBPP calculation of Tax Policy Center data for conversion into 2012 dollars and nine-year sums.

Appendix 2: Description of Data

The following are details of the Tax Policy Center estimates this paper uses. The series of TPC tables that provide the data reflected here are “Distributional Impact of the Bush Tax Cuts, 2004-2010,” “Distributional Estimates of Extending 2001-2003 Tax Cuts,” and “Distribution of Extending 2001 and 2003 tax cuts (in 2012).”

Year. This paper uses a series of Tax Policy Center estimates for the years 2004 to 2012 that are comparable from year to year. The exclusion of estimates for the other years of the Bush tax cuts is simply because of the lack of comparable TPC data.

The average tax cut and percentage change in after-tax income for each cash income group and income quintile differs from year to year for a number of reasons, including:

- Many of the Bush tax cuts were phased in over a number of years; while some Bush tax cut provisions took full effect upon enactment, others were phased in gradually. For example, the estate tax was gradually weakened from 2001 onward, until it was completely repealed in 2010.
- Some temporary tax cuts are counted or not counted in these estimates; for example, the 2008 stimulus payment is counted, but the estate tax cuts in effect in 2011 and 2012 are not, as discussed below.
- Economic conditions change the value of the tax cuts. The Tax Policy Center estimates take into account the total amounts and types of income earned (or projected to be earned) by households. This, in turn, affects the value of their tax cuts in various years.

Average tax cuts are expressed in 2012 dollars. The Tax Policy Center series presents the average dollar tax cuts for different income groups in 2009 dollars; they are presented here in 2012 dollars.

Income tax cuts. The estimates include the value of tax cuts enacted in 2001 and 2003 and extended in 2010 that lower marginal income tax rates and capital gains and dividend tax rates, provide marriage penalty relief, phase out and then repeal the personal exemption and itemized deduction phase-outs, and expand the Child Tax Credit and the Earned Income Tax Credit, as well as some other smaller provisions.

Stimulus. The estimates of the cost and tax benefits of the “Bush tax cuts” include the tax rebates in the 2008 stimulus, which were passed under President Bush. (TPC has not produced tables with comparable year-to-year data that allow us to exclude the rebates.) The 2008 stimulus tax rebates delivered a maximum refundable credit of \$600 for a filer (\$1,200 for a married couple filing jointly). These rebates were progressive, increasing the after-tax incomes of the bottom 20 percent of taxpayers by 4.3 percent and the top 20 percent of taxpayers by 0.4 percent.⁶ These payments were for one year only. This is why in the tables presented in Appendix One, the total impact of all the “Bush tax cuts” in 2008 is less regressive than for other years. For example, in 2008, the tax cuts

⁶ Table T08-0061, Tax Policy Center, February 8, 2008.

increased the after-tax income of the bottom 20 percent of households by 5.6 percent and the top 20 percent by 4.7 percent, while in 2012 these figures were 1.1 percent and 3.9 percent, respectively. (The 2008 rebates, of course, have long since expired.)

Estate tax. The estimates include the value of the Bush estate tax cuts. The estate tax cuts were phased in over 2001 to 2010, resulting in the full repeal of the estate tax in 2010. As with the remainder of the Bush tax cuts, the repeal of the estate tax was set to expire after 2010, returning the estate tax to its 2001 parameters. However the Tax Relief, Unemployment Insurance Reauthorization, and Job Creation Act of 2010, along with extending the other Bush tax cuts, established estate-tax provisions for 2011 and 2012 that cut estate taxes substantially, by shrinking the tax relative not only to the estate tax parameters in place before 2001 but also relative to the estate-tax rules for every year from 2001 through 2009. The Tax Policy Center estimates in the series that this paper uses do *not* include the benefits of any estate-tax relief for 2011 or 2012, so we are not able to reflect those tax cuts here. The benefits of the estate tax cuts in 2011 and 2012 are highly concentrated on the heirs of the wealthiest estates (who themselves tend to be high income). The lack of inclusion of the benefit of the large estate tax cuts in 2011 and 2012 makes the tax cuts overall appear less regressive than they otherwise would be in 2011 and 2012 and understates the benefit of the tax cuts to high-income taxpayers in these years.

Alternative Minimum Tax. The estimates include the full cost of, and full tax benefits to households from, patching the AMT in each of the years from 2004 to 2012. The AMT was “patched” each year under President Bush, as well as for 2009, 2010, and 2011, to prevent more taxpayers from becoming subject to the AMT. The patches increased the AMT exemption level and adjusted the AMT rate brackets. TPC assumes that a similar patch will also be enacted for 2012.

The cost and the tax benefits of the AMT patch include two components.⁷ First, the AMT exemption levels and AMT tax brackets are not indexed for inflation on an ongoing basis. Part of the cost of each AMT patch is attributable to the role of the patch in preventing inflation from eroding the real value of the AMT exemption and thereby keeping inflation both from subjecting more taxpayers to the AMT and from moving numerous taxpayers already subject to the AMT into higher AMT tax-rate brackets.

Second, the Bush tax cuts themselves substantially increased the cost of the AMT patches, because the patches prevent the AMT from “taking back” a substantial share of the value of the Bush tax cuts from filers who are, or otherwise would be, subject to the AMT. In the *absence* of the AMT patches, the Bush reductions in tax rates and other Bush tax-cut provisions would push many more taxpayers onto the AMT and increase AMT tax liabilities for many already subject to the AMT.

The TPC estimates upon which the figures in this paper are based include both components of the cost and the tax benefits of patching the AMT.

⁷ Aviva Aron-Dine and Robert Greenstein, *Why the Cost of AMT Relief Should Be Included in Estimates of the Cost of Extending the President's Tax Cuts*, Center on Budget and Policy Priorities, February 20, 2007, <http://www.cbpp.org/cms/index.cfm?fa=view&id=1160>.