Bush Tax Cut Proposal Leaves Out Many Working Families

One in Five Minnesota Families Would Receive No Tax Relief

Under the Bush tax cut plan, 134,000 Minnesota families including 297,000 children would receive no tax relief. This represents 20% of all Minnesota families and 22% of all Minnesota children. 75% of these families are working families.

In the U.S. as a whole, 31.5% of all families and 33.5% of all children receive no tax benefits. Black and Hispanic families are disproportionately left out, as they are more likely to have lower incomes. Under the Bush proposal, 52.8% of black non-Hispanic families with children in the U.S. and 52.9% of Hispanic families with children will receive no tax cut. Of these, 72% of black families and 79% of Hispanic families include a worker.

Who are these left-out families? A married couple with two children would need to have earnings of $25,867 before receiving any tax relief under the Bush tax cut plan, and a single parent with two children would need to earn $22,017. If families have child care costs and are taking advantage of the federal dependent care credit, their incomes would have to be even higher to receive any relief. A married couple with two children with $400 a month in child care expenses would have to earn $32,267 to receive any tax relief, and a single-parent with the same child care costs must earn $28,417. These families *are* federal taxpayers, even if they do not have income tax liability. For example, a married couple with two children earning $25,000 pays net payroll taxes of $2,325.

The Proposal

The main elements of the Bush tax plan as proposed are:

- A reduction in income tax rates in existing tax brackets and the creation of a new lowest bracket that would be taxed at a 14% rate in 2002, gradually declining to 10% in 2006. The current 15% rate would remain unchanged. The current 28% and 31% rates gradually decline to 25%, and the 36% and 39.6% rates decline to 33%.
- A gradual increase in the child tax credit from $500 to $1,000 per child by 2006. The credit is expanded for taxpayers with incomes from $110,000 to $200,000.
- The creation of a deduction for two-earner families equal to 10% of the lower-earner's earnings, with a maximum deduction of $600 in 2002, increasing to $3,000 by 2006.
- The creation of an income tax credit for charitable contributions by non-itemizers with a maximum of 20% of the standard deduction in 2002, reaching a maximum of 100% of the standard deduction in 2006.
- Repeal of the estate tax. In 2002, the tax plan reduces federal estate taxes by 12%; the estate tax is completely repealed by 2008.

Because many items in the tax relief package "phase in" over several years, the cost of the cut grows over time. The total ten-year cost of the cut is currently estimated at $2.2 trillion.

Impact of Tax Cuts

Proponents of the Bush tax cut plan claim that the "typical" American family of four will receive a tax cut of $1,600. In fact, 85% of all families would receive less than $1,600 in tax cuts, as shown in the following table.

Revised April 2001

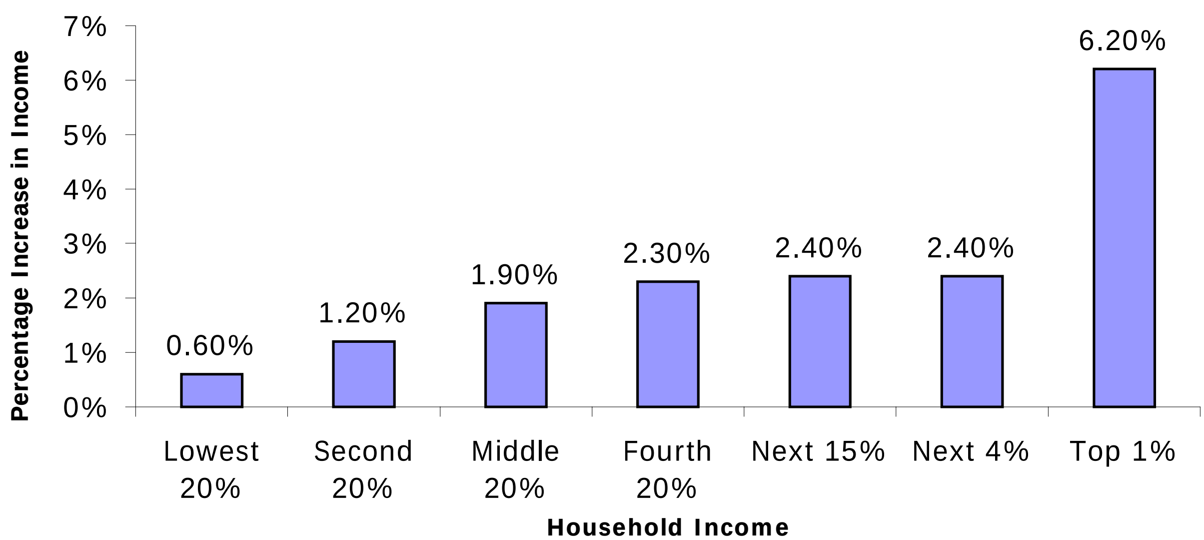
Table 1: Average Tax Cuts by Income Group			
Income Group	**Income Range**	**Average Income**	**Average Tax Cut**
Lowest 20%	Less than $15,000	$9,300	$47
Second 20%	$15,000 - $27,000	$20,600	$212
Middle 20%	$27,000 - $44,000	$34,400	$509
Fourth 20%	$44,000 - $72,000	$56,400	$951
Next 15%	$72,000 - $147,000	$97,400	$1,523
Next 4%	$147,000 - $373,000	$210,000	$2,356
Top 1%	$373,000 or more	$1,117,000	$54,480
All		**$57,800**	**$1,203**

Source: Institute on Taxation and Economic Policy (ITEP) Tax Model.[1]

Tax cuts under the Bush plan are not in proportion to the percentage of federal taxes paid. The richest 1% of taxpayers pay 20% of all federal taxes, but receive 36% of all tax cuts under this plan; similarly, the richest 5% pay 36.5% of federal taxes, but receive 49% of the tax cuts.

Tax cuts are sometimes described in terms of letting families "keep more of their own money." However, under this proposal, those with more money get to keep a larger percentage, as shown when the tax cuts are measured as a percentage increase in income.

Graph 1: Tax Cuts as a Percentage Increase in After-Tax Income



Source: Center for Budget and Policy Priorities.

The distribution of tax cuts raises the question about why tax relief under the Bush plan falls so heavily on the upper end of the income range. There are several reasons why this is so.

- The plan does not provide tax relief to families without federal income tax or estate tax liability, although these families have significant federal tax burdens. The payroll tax, which is the largest tax for 3 out of 4 American families, is unchanged by this proposal.
- The increase in the child credit actually provides the biggest benefit for taxpayers with incomes over $130,000, who currently do not receive the credit. Many families with

[1] These calculations represent the amount of tax cuts measured in 2001 dollars when the Bush tax plan is fully in place (Citizens for Tax Justice).

children will see little additional benefit from the increase because the child credit is not refundable — it can only offset existing tax liability. The proposal does not extend the child credit to low-income families who currently do not benefit from it.
- The new 10% tax bracket and the child tax credit increase only make up one-third of the cost of total tax package. The remaining provisions (elimination of the estate tax and reduction of higher tax rates, which exclusively help upper-income taxpayers), account for the majority of tax cuts when the plan is fully phased in.
- Although low-income working individuals face the most serious marriage penalties, the Bush plan does not provide any marriage penalty relief for lower-income individuals. In this respect, the Bush plan is different from every major tax bill introduced by both parties in last one and a half years.

Bush's Tax Plan Spends More Than is Fiscally Responsible

Although the ten-year price tag for Bush's tax cut is often described as $1.6 trillion, new estimates by the Joint Tax Committee describe it as $2.2 trillion. This is due not only from updated cost estimates of the rate reductions, but also from changes made to the proposal in the House of Representatives, and additional interest costs.

A tax cut of this size is not fiscally responsible. The Congressional Budget Office (CBO) projects a surplus of $2.7 trillion over 10 years (excluding Social Security and Medicare). However, CBO data suggests that there is a 35% chance that the surplus will be only one-half as large as projected, and a 20% chance that there will be no surplus at all. Given the uncertainty about whether the surplus will materialize, it seems unwise to spend such a large portion of it on tax cuts.

This document draws from the following sources: *The President's Agenda for Tax Relief* (www.whitehouse.gov), Center on Budget and Policy Priorities (www.cbpp.org), and Citizens for Tax Justice (www.ctj.org).