CTJ Citizens for Tax Justice

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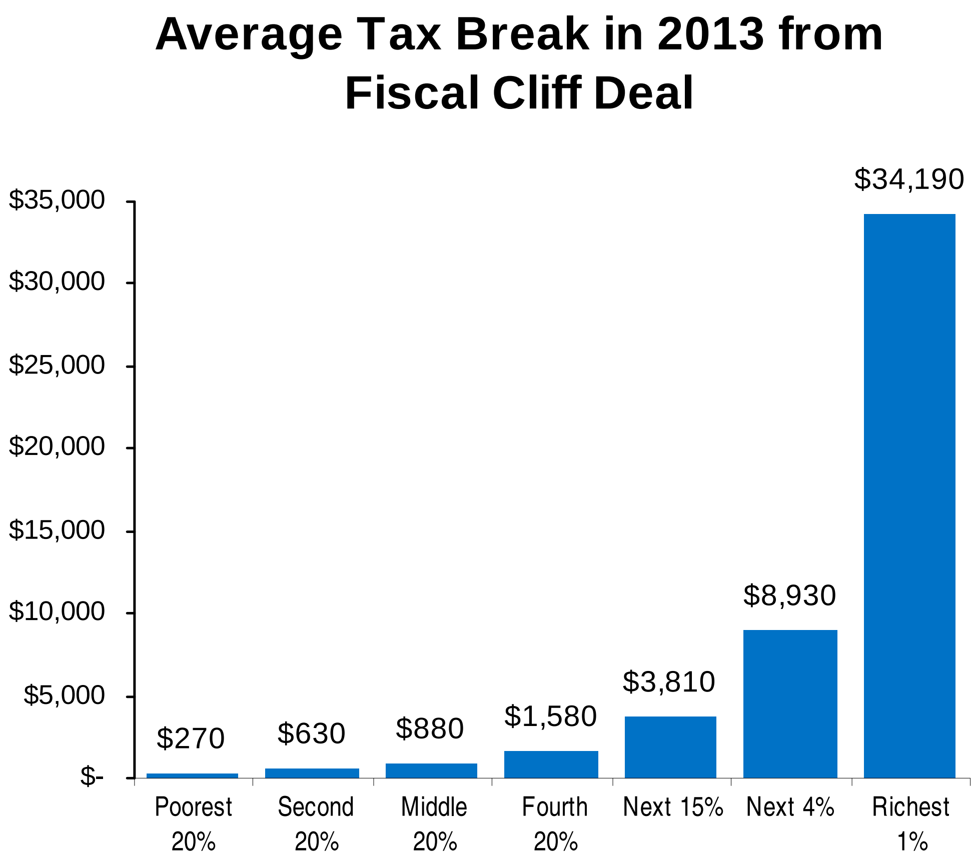
Poorest Three-Fifths of Americans Get Just 18% of the Tax Cuts in the Fiscal Cliff Deal

The fiscal cliff deal approved by the Senate and House on New Year's Day cuts taxes substantially compared to the tax policies that would be in effect if Congress had allowed all temporary tax cuts to expire. The deal cuts taxes even for the richest Americans but directs only a fraction of the overall tax cuts to low- and middle-income Americans.[1] The graph below and the table on the following page illustrate the following:

The fiscal cliff deal gives the richest one percent of Americans an average $34,190 in estate and income tax cuts in 2013 alone, which is equal to 2.3 percent of their income, on average.[2]

The middle fifth of Americans would receive an average $880 in tax cuts in 2013, which is equal to 2.0 percent of their income, on average.

In 2013, the richest one percent of Americans will receive 18 percent of the tax cuts while the middle fifth of Americans will receive just 9 percent of the tax cuts.



Source: Institute on Taxation and Economic Policy (ITEP) tax microsimulation model, January 2013

In 2013, the bottom three-fifths of Americans will receive 18 percent of the tax cuts. In other words, the richest one percent of Americans will receive the same share of the tax cuts as the poorest 60 percent of Americans.

Impact of Fiscal Cliff Deal Tax Provisions (Income Tax & Estate Tax) in 2013 Compared to Allowing Tax Cuts to Expire				
U.S. Taxpayers		Fiscal Cliff Deal Income Tax and Estate Tax Provisions		
Income Group	Average Income	Average Tax Change in Dollars	Average Tax Change As % of Income	Share of Tax Cuts
Poorest 20%	$13,900	$ –270	–1.9%	3%
Second 20%	28,100	–630	–2.3%	7%
Middle 20%	45,200	–880	–2.0%	9%
Fourth 20%	74,400	–1,580	–2.1%	16%
Next 15%	129,100	–3,810	–3.0%	29%
Next 4%	278,500	–8,930	–3.2%	18%
Richest 1%	1,514,800	–34,190	–2.3%	18%
ALL	$76,800	$ –1,920	-2.5%	100%
Bottom 60%	$29,000	$ –590	–2.0%	18%

These estimates include personal income tax proposals and estate tax proposals.
These estimates do include the impact of the President's proposals to extend the 2009 provisions expanding the Child Tax Credit and EITC, but not the provision extending the American Opportunity Act.
Average income figures rounded to the nearest hundred dollars, tax figures rounded to the nearest ten dollars.
Source: Institute on Taxation and Economic Policy (ITEP) tax microsimulation model, January 2013.

The bottom 60 percent of Americans would receive an additional $380 on average in 2013 if Congress and the President had chosen to extend the payroll tax cut in effect in 2012, as illustrated in the table on the following page. While the debate over the fiscal cliff largely focused on the expiration of the Bush-era tax cuts, lawmakers generally said very little about the expiration of the payroll tax cut, which was more targeted to low- and middle-income Americans.[3]

Middle-Income Tax Cuts Would Be Larger in 2013 if Payroll Tax Cut Was Extended Figures Compared to Allowing Tax Cuts to Expire					
U.S. Taxpayers		Fiscal Cliff Deal		Fiscal Cliff Deal + Extension of Payroll Tax Cut in Effect in 2012	
Income Group	Average Income	Average Tax Change in Dollars	Average Tax Change As % of Income	Average Tax Change in Dollars	Average Tax Change As % of Income
Poorest 20%	$13,900	$ –270	–1.9%	$ –420	–3.0%
Second 20%	28,100	–630	–2.3%	–980	–3.5%
Middle 20%	45,200	–880	–2.0%	–1,510	–3.3%
Fourth 20%	74,400	–1,580	–2.1%	–2,690	–3.6%
Next 15%	129,100	–3,810	–3.0%	–5,610	–4.3%
Next 4%	278,500	–8,930	–3.2%	–11,240	–4.0%
Richest 1%	1,514,800	–34,190	–2.3%	–36,680	–2.4%
ALL	$76,800	$ –1,920	-2.5%	$ –2,740	-3.6%
Bottom 60%	$29,000	$ –590	–2.0%	$ –970	–3.3%

These estimates include personal income tax proposals and estate tax proposals.

These estimates do include the impact of the President's proposals to extend the 2009 provisions expanding the Child Tax Credit and EITC, but not the provision extending the American Opportunity Act.

Average income figures rounded to the nearest hundred dollars, tax figures rounded to the nearest ten dollars.

Source: Institute on Taxation and Economic Policy (ITEP) tax microsimulation model, January 2013.

[1] The fiscal cliff deal would essentially extend the Bush-era rate reductions on ordinary income and investment income for income up to $450,000 for married couples and up to $400,000 for singles. It would extend some other Bush-era tax cuts (repeal of the personal exemption phase-out and limit on itemized deductions, otherwise known as PEP and Pease) for married couples with income up to $300,000 and singles with income up to $250,000. The deal would also largely extend the part of the Bush-era estate tax cut that was still in effect in 2012, which had increased the amount of assets exempt from the estate tax to $5 million and had reduced the estate tax rate to 35 percent (although the fiscal cliff deal sets the estate tax rate a bit higher, at 40 percent).

[2] Despite all the talk of the recent debate over ending tax cuts for the rich, there are several ways in which the fiscal cliff deal would cut taxes for the highest income Americans (compared to what would happen if Congress did nothing). First, even the highest income taxpayers benefit from the extension of rate reductions for all the tax brackets except the very top bracket. For very high-income people, a portion of taxable income is taxed in each tax bracket and they therefore benefit from rate reductions in any bracket. Second, stock dividends will be taxed at a top rate of 20 percent, which is a tax cut compared to the ordinary income tax rate (39.6 percent) that would apply if Congress did nothing. Third, the estate tax provision in the fiscal cliff deal is also a tax cut compared to the estate tax rules that would come into effect if Congress did nothing and allowed the pre-Bush estate tax rules to come back into effect.

[3] A provision that reduced the employee share of the Social Security payroll tax from 6.2 percent of wages to 4.2 percent of wages was in effect for 2011 and 2012. A previous report from CTJ finds that the payroll tax cut was far more targeted to low- and middle-income Americans than the Bush-era tax cuts, but not as targeted as the Making Work Pay Credit that was in effect under the 2009 economic recovery act. See Citizens for Tax Justice, "Making Work Pay Credit More Effective and Affordable than Other Types of Tax Cuts," November 2, 2012. http://www.ctj.org/pdf/mwpcvspayroll.pdf