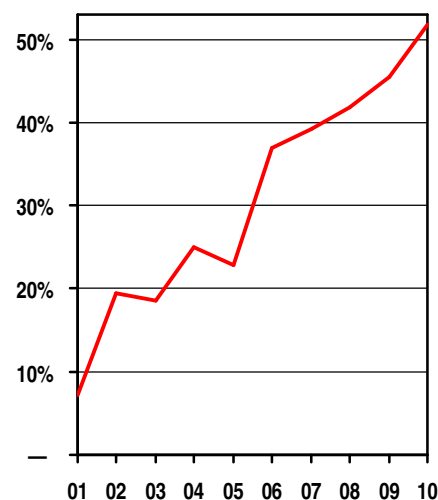


Year-by-Year Analysis of the Bush Tax Cuts Shows Growing Tilt to the Very Rich

A new study released today by Citizens for Tax Justice and the Children's Defense Fund reveals for the first time who stands to benefit from the 2001-enacted Bush tax cuts in each year from 2001 through 2010. Among the key findings:

- Over the ten-year period, the richest Americans—the best-off one percent—are slated to receive tax cuts totaling almost half a trillion dollars. The \$477 billion in tax breaks the Bush administration has targeted to this elite group will average \$342,000 each over the decade.
- By 2010, when (and if) the Bush tax reductions are fully in place, an astonishing 52 percent of the total tax cuts will go to the richest one percent—whose average 2010 income will be \$1.5 million. Their tax-cut windfall in that year alone will average \$85,000 each. Put another way, of the estimated \$234 billion in tax cuts scheduled for the year 2010, \$121 billion will go just 1.4 million taxpayers.
- Although the rich have already received a hefty down payment on their Bush tax cuts—averaging just under \$12,000 each this year—80 percent of their windfall is scheduled to come from tax changes that won't take effect until *after* this year, mostly from items that phase in after 2005.
- In contrast, the vast majority of taxpayers have already received most of their tax cuts from the 2001 legislation.
 - For the four out of five families and individuals making less than \$73,000 this year, three-quarters of the tax cuts—averaging about \$350 this year—are already in place.
 - Tax cuts for the 19 percent of taxpayers making between \$73,000 and \$356,000 this year will grow a little over the next four years as the cuts in the upper tax rates continue to kick in, but then will dwindle thereafter. By 2010, the tax cuts for this group will be no bigger as a share of income than they are now.
- As a result, freezing the Bush tax cuts at their 2002 levels would have little or no effect on 99 percent of the taxpayers, whose tax cuts are already mostly or completely “frozen.” Only the best-off one percent of the taxpayers will receive significant additional tax cuts if the rest of the Bush tax program continues to be implemented.

Top 1%'s Share of Bush Tax Cuts by Year



MORE . . .

Effects of the 2001-Enacted Bush Tax Cuts, Calendar 2001 to 2010

	Billions of Dollars										Total	Total	Total
	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2001-05	2006-10	2001-10
Lowest 20%	\$-1	\$-2	\$-2	\$-2	\$-2	\$-2	\$-2	\$-2	\$-3	\$-3	\$-8	\$-12	\$-20
Second 20%	-7	-7	-8	-8	-10	-10	-10	-12	-13	-15	-40	-59	-99
Middle 20%	-11	-11	-11	-12	-14	-15	-15	-17	-20	-23	-59	-90	-149
Fourth 20%	-15	-16	-17	-19	-22	-24	-25	-26	-28	-31	-89	-133	-222
Next 15%	-15	-18	-19	-24	-27	-31	-30	-28	-27	-26	-103	-141	-245
Next 4%	-5	-9	-9	-13	-10	-12	-12	-12	-13	-16	-47	-64	-110
Top 1%	-4	-15	-15	-26	-25	-55	-60	-70	-85	-121	-86	-392	-477
ALL	\$-58	\$-80	\$-81	\$-103	\$-109	\$-149	\$-154	\$-167	\$-188	\$-234	\$-431	\$-891	\$-1,323
	Average Tax Cuts										Total	Total	Total
	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2001-05	2006-10	2001-10
Lowest 20%	\$-57	\$-58	\$-61	\$-64	\$-74	\$-77	\$-79	\$-86	\$-92	\$-98	\$-313	\$-431	\$-744
Second 20%	-266	-282	-290	-296	-356	-367	-373	-416	-455	-508	-1,489	-2,119	-3,608
Middle 20%	-403	-419	-431	-442	-514	-543	-555	-614	-690	-791	-2,208	-3,194	-5,402
Fourth 20%	-572	-624	-635	-693	-800	-884	-886	-927	-982	-1,081	-3,324	-4,760	-8,084
Next 15%	-742	-926	-952	-1,211	-1,330	-1,496	-1,419	-1,333	-1,250	-1,225	-5,161	-6,723	-11,884
Next 4%	-1,015	-1,779	-1,746	-2,400	-1,794	-2,105	-2,096	-2,102	-2,266	-2,780	-8,733	-11,348	-20,082
Top 1%	-3,221	-11,734	-11,302	-19,130	-18,411	-39,972	-43,469	-49,795	-60,436	-85,002	-63,798	-278,675	-342,472
ALL	\$-441	\$-600	\$-604	\$-762	\$-798	\$-1,075	\$-1,102	\$-1,182	\$-1,316	\$-1,629	\$-3,205	\$-6,303	\$-9,508
	% of Total Tax Cuts										Total	Total	Total
	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2001-05	2006-10	2001-10
Lowest 20%	2.6%	1.9%	2.0%	1.7%	1.8%	1.4%	1.4%	1.4%	1.4%	1.2%	1.9%	1.4%	1.5%
Second 20%	12.0%	9.3%	9.5%	7.7%	8.9%	6.8%	6.7%	7.0%	6.9%	6.2%	9.2%	6.7%	7.5%
Middle 20%	18.2%	13.9%	14.2%	11.5%	12.8%	10.0%	10.0%	10.3%	10.4%	9.6%	13.7%	10.1%	11.2%
Fourth 20%	25.8%	20.7%	20.8%	18.1%	19.9%	16.3%	16.0%	15.6%	14.8%	13.2%	20.6%	15.0%	16.8%
Next 15%	25.1%	23.0%	23.4%	23.6%	24.8%	20.7%	19.2%	16.8%	14.1%	11.2%	24.0%	15.8%	18.5%
Next 4%	9.1%	11.8%	11.5%	12.5%	8.9%	7.8%	7.6%	7.1%	6.8%	6.8%	10.8%	7.1%	8.3%
Top 1%	7.3%	19.4%	18.6%	24.9%	22.9%	36.9%	39.1%	41.8%	45.6%	51.8%	19.8%	44.0%	36.1%
ALL	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%

Notes:

Figures include all income and estate tax changes except expanded education tax breaks, and reflect sunset of alternative minimum tax (AMT) relief after 2004. Extension and enhancement of AMT relief after 2004 (to keep the AMT from rising compared to prior law) would raise the cost of the tax cuts from 2005 to 2010 by more than \$300 billion. Estate tax cuts show federal estate tax changes only, and thus assume that states keep their estate and inheritance taxes, despite repeal of the current full credit for most state estate taxes.

Source: Institute on Taxation and Economic Policy Tax Model, June 2002.

Effects of the 2001-Enacted Bush Tax Cuts in 2010

(Annual effects in 2010 at 2010 income levels)

Income Group	Income Range	Average Income	Income tax cuts (\$-bill.)	Estate tax repeal (\$-bill.)	Total Tax Cuts (\$-bill.)	Average income tax cuts	Average Total Tax Cut	% of income tax cut	% of Total Tax Cut
Lowest 20%	Less than \$20,000	\$ 12,200	\$ -2.8	\$ —	\$ -2.8	\$ -98	\$ -98	1.6%	1.2%
Second 20%	\$20,000–36,000	27,500	-14.5	—	-14.5	-508	-508	8.1%	6.2%
Middle 20%	\$36,000–59,000	46,100	-22.6	—	-22.6	-791	-791	12.6%	9.6%
Fourth 20%	\$59,000–97,000	75,800	-30.9	—	-30.9	-1,081	-1,081	17.2%	13.2%
Next 15%	\$97,000–205,000	133,200	-26.2	—	-26.2	-1,225	-1,225	14.6%	11.2%
Next 4%	\$205,000–518,000	296,000	-11.0	-4.9	-15.9	-1,923	-2,780	6.1%	6.8%
Top 1%	\$518,000 or more	1,491,000	-71.6	-49.8	-121.4	-50,149	-85,002	39.9%	51.8%
ALL		\$ 78,400	\$ -179.7	\$ -54.7	\$ -234.4	\$ -1,249	\$ -1,629	100.0%	100.0%
ADDENDUM									
Bottom 60%	Less than \$59,000	\$ 28,600	\$ -39.9	\$ —	\$ -39.9	\$ -466	\$ -466	22.2%	17.0%
Top 10%	\$141,000 or more	351,000	-91.1	-54.7	-145.8	-6,375	-10,203	50.7%	62.2%

Notes: 1. The table shows the annual effects of the final version of the Bush tax plan, as enacted, in 2010 in 2010 dollars. Income tax cuts include: Reductions in the current 28%, 31%, 36%, and 39.6% rates to 25%, 28%, 33% and 35% (effectively to less than 34% for the top rate, including the repeal of the itemized deduction disallowance) by 2006. Addition of a new 10% bracket on the first \$14,000 in taxable income for couples, \$10,000 for single parents, and \$7,000 for childless singles and married persons filing separately, phased in by 2008 (indexed thereafter). Increasing the starting point for the (new) 25% tax bracket for couples to double the starting point for childless single taxpayers (phased in by 2008). Increasing the standard deduction for couples to double the childless single amount (phased in by 2009). Increasing the starting and ending points for the phase-out of the earned-income tax credit for couples by \$3,000, phased in by 2008 (indexed thereafter). Doubling of the per-child credit to \$1,000 (phased in by 2010, unindexed), with phased-in expanded rules for refundability of the credit. Repeal of the personal exemption phase out and the partial disallowance of itemized deductions at high income levels (phased in by 2010). An increase in the maximum percentage for the dependent care credit to 35% below \$15,001 in AGI, with phase-down rules (to 20%) like current law, along with an increase in the child-care expenses to which the percentage applies, from \$2,400 to \$3,000 (double that for two or more eligible children). Various retirement savings tax changes.

2. A separate column shows the effects of repeal of the federal estate tax on large estates. The distributional effects of estate tax repeal are based on the approach outlined in Joint Committee on Taxation, *Methodology and Issues in Measuring Changes in the Distribution of Tax Burdens* (1993).

3. The figures do not include temporary individual alternative minimum tax relief, which ends after 2004, or education tax breaks.

Source: Institute on Taxation and Economic Policy Tax Model

Citizens for Tax Justice, June 2002

Average incomes by calendar year

	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
Lowest 20%	\$ 9,400	\$ 9,600	\$ 9,900	\$ 10,200	\$ 10,500	\$ 10,900	\$ 11,200	\$ 11,500	\$ 11,900	\$ 12,200
Second 20%	20,700	21,100	22,000	22,700	23,400	24,200	25,000	25,800	26,600	27,500
Middle 20%	34,300	35,000	36,600	37,800	39,100	40,400	41,800	43,200	44,600	46,100
Fourth 20%	56,100	57,100	59,800	61,800	63,900	66,100	68,400	70,800	73,200	75,800
Next 15%	96,200	98,000	102,800	106,400	110,300	114,400	118,700	123,200	128,000	133,200
Next 4%	204,000	207,000	217,000	225,000	234,000	244,000	255,000	268,000	281,000	296,000
Top 1%	1,028,000	1,037,000	1,082,000	1,124,000	1,169,000	1,221,000	1,279,000	1,342,000	1,413,000	1,491,000
ALL	\$ 56,500	\$ 57,400	\$ 60,100	\$ 62,200	\$ 64,400	\$ 66,900	\$ 69,500	\$ 72,200	\$ 75,200	\$ 78,400

Discussion

As the President's tax program moved through Congress in 2001, President Bush and his congressional allies struggled mightily to squeeze Bush's \$2.5 trillion ten-year tax cut into a \$1.3 trillion budget target. They succeeded in doing so primarily by manipulating the dates on which the most expensive provisions will take effect. Since the most costly parts of the bill are the tax benefits for the very rich, the distribution of the tax cuts changes remarkably over time.

- From 2001 through 2005, the best-off one percent will receive “only” 19.8 percent of the Bush tax cuts.
- From 2006 through 2009, the share of the tax cuts going to the very rich jumps to 41 percent of the total.
- By 2010, when all of the provisions of the bill—including complete repeal of the estate tax on extremely large estates—are scheduled to be fully in place, 51.8 percent of the tax cuts are targeted to the top one percent.

In addition to delayed phase-ins, Congress and the President offered only a short-term, partial adjustment to the individual alternative minimum tax. Originally intended to stop very high-income taxpayers from using loopholes to pay little or nothing in income taxes, the essentially flat-rate alternative tax must be paid if it exceeds regular income taxes due. Because the Bush tax program sharply reduced regular tax rates, the alternative tax, whose exemptions are not indexed for inflation or income growth, will affect more and more taxpayers over time.

The 2001 tax act temporarily mitigated this problem by increasing the alternative tax exemption (from \$45,000 to \$49,000 for couples). But that partial relief expires after 2004. As a result, the number of families paying the alternative tax will explode after 2004.

As recently as 1999, only a million taxpayers, almost all of them very well off, actually paid the alternative tax, which added just \$6.5 billion to federal revenues. But absent legislative change, by the time the Bush tax cuts are fully in place in 2010, 36 million families will have to fill out the complicated alternative tax forms, and cough up an extra \$140 billion on top of their regular taxes. Even without change, however, the alternative tax has only relatively minor effects on the very wealthy, since their regular top marginal tax rate, even after falling to 33 percent, will still be well above the 26-28 percent alternative rate.

Comparison to earlier analyses

Some may recall that when CTJ previously analyzed the Bush tax cuts, we found that “only” 38 percent of the tax breaks were targeted to the top one percent—a statistic widely cited in the press. The reason why the rich's share jumps to more than half by 2010 in CTJ's new study reflects the exploding impact of the individual “alternative minimum tax.”

MORE . . .

CTJ's earlier analyses measured the distribution of the Bush tax program as if each element were "fully effective" (and we presented our results in 2001 dollars). That meant we counted the bill's limited alternative-tax relief, even though that is oddly scheduled to expire after 2004. But in our latest effort, we analyzed the bill's specific effects in each year from 2001 to 2010, taking account of the fact that after 2004, the alternative-tax relief disappears.

Our new 2010 snapshot find that two-thirds of the ostensible Bush income tax cuts for the 27 million taxpayers making between \$100,000 and \$500,000 in 2010 will be wiped out by the alternative tax. That in turn makes the *share* of the total tax cuts going to the millionaires in the top one percent (who will forfeit only 7 percent of their tax cuts due to the alternative tax) much larger.

Income group	Effects of Increases in the Alternative Tax on the Bush Tax Cuts in 2010	
	Reduction in	
	Income tax cut	Total tax cut
Lowest 20%	—	—
Second 20%	—	—
Middle 20%	-2%	-2%
Fourth 20%	-22%	-22%
Next 15%	-59%	-59%
Next 4%	-77%	-70%
Top 1%	-12%	-7%
ALL	-34%	-29%

Evenhanded?

CTJ's new study conclusively exposes the chicanery of the Bush administration and its supporters in arguing that the tax cuts were even-handed. "After all," they claimed, "the rich pay most of the taxes, so it's only fair that they get the lion's share of the tax cuts." But in fact, in 2010 before the Bush tax cuts, the top one percent was expected to pay just over a quarter of all federal taxes (don't feel too bad for these people; they'll take in 19 percent of all the income). So a tax cut that gives the richest Americans more than half of its benefits is obviously anything but even-handed.

Compared to the federal taxes that would have been paid in 2010 before the tax cuts, Bush's program reduces taxes on the wealthiest by 15 percent. For the remaining 99 percent of us, the tax cuts average only 5 percent. More tellingly, by 2010, the very rich will see their taxes fall by 5.7 percent of their income. For the remaining 99 percent, the average tax cut is only 1.2 percent of income.