

## **Final Version of Bush Tax Plan Keeps High-End Tax Cuts, Adds to Long-Term Cost**

The tax plan approved by Congress on May 26, 2001 preserves the high-income tax cuts proposed by George W. Bush, but adds enough new tax breaks to make the final bill 20 percent more costly than the original Bush plan.

A distributional analysis released by Citizens for Tax Justice shows that when the tax plan is fully phased in:

- The typical tax cut for the median income taxpayer will be \$600 a year.
- For the 78 million taxpayers in the lowest 60 percent of the income scale, the tax cut will average \$347 a year.
- In contrast, at the top of the income scale the average tax cut will be \$53,000 annually—virtually identical to the \$54,000 annual tax cut proposed by the President.

“Congress has given the President what he truly cared about—gigantic tax cuts for the rich,” said Robert S. McIntyre, director of Citizens for Tax Justice. “But Congress reneged on its promise to honor fiscal responsibility. Instead of a tax cut one-quarter less in size than the President’s plan, Congress actually increased the fully-phased-in cost of the tax cuts by a fifth.”

“As a result, over the upcoming years, average taxpayers will pay dearly for this tax cut plan in reduced public services, a return to budget deficits or, most likely, both.”

To hide the true cost of the tax plan, Congress relied on slow phase-ins, artificial phase-outs and a redefinition of the ten-year budget period to include only nine years. “This is reminiscent of Bush’s campaign strategy of insisting that there are only nine years in a decade,” noted McIntyre. “Only if Bush’s education plan is a total failure are he and Congress likely to get away with this snake-oil approach to budget policy.”

Two tables and a graph showing the distributional effects of the tax plan and its predecessors follow. The analysis was performed using the Institute on Taxation and Economic Policy Tax Model.

*Citizens for Tax Justice is a non-partisan tax policy research group in Washington, DC.*

MORE . . .

**Effects of the House-Senate Conference version of the Bush tax plan**  
(Annual effects when fully in place, at 2001 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 \$15,000	\$ 9,300	\$ -1.7	\$ -0.0	\$ -1.7	\$ -66	\$ -66	1.2%	0.9%
Second 20%	\$15,000–27,000	20,600	-9.8	-0.0	-9.8	-375	-375	6.6%	5.3%
Middle 20%	\$27,000–44,000	34,400	-15.6	-0.0	-15.6	-600	-600	10.5%	8.5%
Fourth 20%	\$44,000–72,000	56,400	-26.7	-0.0	-26.7	-1,026	-1,026	17.9%	14.5%
Next 15%	\$72,000–147,000	97,400	-43.6	-0.0	-43.6	-2,234	-2,234	29.2%	23.7%
Next 4%	\$147,000–373,000	210,000	-14.3	-3.1	-17.4	-2,744	-3,345	9.6%	9.5%
Top 1%	\$373,000 or more	1,117,000	-37.4	-31.8	-69.1	-28,722	-53,123	25.1%	37.6%
<b>ALL</b>		<b>\$ 57,800</b>	<b>\$ -149.1</b>	<b>\$ -34.9</b>	<b>\$ -184.0</b>	<b>\$ -1,137</b>	<b>\$ -1,404</b>	<b>100.0%</b>	<b>100.0%</b>
<b>ADDENDUM</b>									
Bottom 60%	Less than \$44,000	\$ 21,400	\$ -27.1	\$ -0.0	\$ -27.1	\$ -347	\$ -347	18.2%	14.7%
Top 10%	\$104,000 or more	256,000	-69.0	-34.9	-103.9	-5,301	-7,981	46.3%	56.5%

Notes: 1. The table shows the annual effects of the House-Senate conference version of the Bush tax plan, fully-effective at 2001 income levels in 2001 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 (unindexed until 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 (unindexed until 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. An increase in the individual Alternative Minimum Tax exemption of \$4,000 for couples and \$2,000 for singles, from 2001 to 2004. 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). Retirement savings tax changes. A separate column shows the effects of repeal of the federal estate tax on large estates.

2. 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). The figures do not take account of recent Joint Committee estimates that repeal could cost 80 percent more than previously estimated due to income tax avoidance that repeal could engender (bringing the total cost of repeal to more than \$100 billion a year when fully phased in, in 2011). The Senate bill may avoid some of this added cost by retention of the federal gift tax, although it is unclear whether retaining only the gift tax is politically, practically or intellectually sustainable.

3. Education tax breaks are not included in the table.

4. Fully phased in, the conference bill is considerably more expensive than either the House or the Senate bill. The average tax cut for the best-off one percent is very close to that in the House bill.

Source: Institute on Taxation and Economic Policy Tax Model

Citizens for Tax Justice, May 26, 2001

MORE . . .

## How the Bush tax cuts grew in Congress

(Annual effects when fully in place, at 2001 income levels)

Income Group	Income Range	Average Income	Original plan		House bill		Senate bill		Final Bill	
			Average tax cut	% of Total Tax Cut	Average tax cut	% of Total Tax Cut	Average tax cut	% of Total Tax Cut	Average tax cut	% of Total Tax Cut
Lowest 20%	Less than \$15,000	\$ 9,300	\$ -47	0.8%	\$ -51	0.8%	\$ -65	1.0%	\$ -66	0.9%
Second 20%	\$15,000-27,000	20,600	-212	3.5%	-244	3.9%	-364	5.6%	-375	5.3%
Middle 20%	\$27,000-44,000	34,400	-509	8.4%	-559	9.0%	-569	8.7%	-600	8.5%
Fourth 20%	\$44,000-72,000	56,400	-951	15.7%	-962	15.4%	-967	14.8%	-1,026	14.5%
Next 15%	\$72,000-147,000	97,400	-1,523	18.9%	-1,623	19.5%	-2,176	25.1%	-2,234	23.7%
Next 4%	\$147,000-373,000	210,000	-2,356	7.8%	-2,233	7.2%	-3,316	10.2%	-3,345	9.5%
Top 1%	\$373,000 or more	1,117,000	-54,480	45.0%	-55,128	44.2%	-45,021	34.6%	-53,123	37.6%
<b>ALL</b>		<b>\$ 57,800</b>	<b>\$ -1,203</b>	<b>100.0%</b>	<b>\$ -1,238</b>	<b>100.0%</b>	<b>\$ -1,329</b>	<b>100.0%</b>	<b>\$ -1,439</b>	<b>100.0%</b>
<b>ADDENDUM</b>										
Bottom 60%	Less than \$44,000	\$ 21,400	\$ -256	12.7%	\$ -285	13.7%	\$ -333	15.3%	\$ -347	14.7%
Top 10%	\$104,000 or more	256,000	-7,300	60.3%	-7,266	58.2%	-7,136	54.8%	-7,981	56.5%
<b>Fully phased-in annual cost as % of original</b>			<b>100%</b>		<b>103%</b>		<b>111%</b>		<b>120%</b>	

Distributional details for the Senate and final tax bills do not include new education tax breaks; the overall average tax cuts and cost comparisons for these two bills do include the education tax breaks. The distributional figures for the Senate bill include the final bill's savings tax breaks. Source: Institute on Taxation and Economic Policy Tax Model.

Citizens for Tax Justice, May 26, 2001

**Average Annual Tax Cuts by Version of the Bush Tax Cut Plan**  
(fully phased in at 2001 levels)

