

Post-2001 Tax Cuts Offer Little to Most Americans

The vast majority of American taxpayers will see the bulk of their Bush tax cuts take effect this year, leaving only a minority of taxpayers with a significant stake in the continued phase-in of the tax cuts after 2001. An analysis of the tax bill's phase-ins released by Citizens for Tax Justice finds that:

- For taxpayers in the lowest fifth of income earners, 85 percent of the Bush tax cuts will show up on their 2001 tax returns or before.
- For the second fifth, 72 percent of the Bush tax cuts take effect in 2001.
- For the middle income group, 68 percent of the Bush tax cuts take effect in 2001.
- For the fourth quintile, 56 percent of the Bush tax cuts take effect in 2001.

Only the best-off fifth of the population will get most of its tax cut after 2001.

- Excluding the top one percent, about two-thirds of the tax cuts for the best-off fifth take effect after 2001.
- For the top one percent, 94 percent of the tax cuts take effect after 2001.

In 2001, seven percent of the total tax cuts go to the top one percent. But after 2001, more than half the remaining tax cuts will go to the top one percent.

“For most Americans, the post-2001 Bush tax cuts offer little gain, but lots of pain,” said Robert S. McIntyre, director of Citizens for Tax Justice. “That’s because most people will get little more in tax reductions after the first year, while losing large amounts in public services as the remaining upper-income tax cuts are phased in.”

(President Bush’s March budget submission envisions cutting domestic appropriations by as much as a third as a share of the economy by fiscal 2011.)

**Effects of the final Bush tax plan
in 2001 & thereafter**

Income Group	Average tax cut in 2001	Average tax cut still to come	2001 cut as % of fully-phased-in tax cut
Lowest 20%	\$ -56	\$ -10	85%
Second 20%	-269	-107	72%
Middle 20%	-405	-194	68%
Fourth 20%	-575	-449	56%
Next 15%	-739	-1,416	34%
Next 4%	-1,008	-2,316	30%
Top 1%	-3,120	-50,003	6%
ALL	\$ -440	\$ -950	32%
ADDENDUM			
Bottom 60%	\$ -243	\$ -104	70%
Top 10%	-1,121	-6,771	14%

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Effects of the final version of the Bush tax plan in 2001 only

Income Group	Income Range	Average Income	Income tax cuts (\$-bill.)	Average income tax cuts	% of total 2001 tax cut	ADDENDUM		
						2001 cut as % of fully-phased-in tax cuts*	Tax cuts still to come** (averages)	% of total post-2001 tax cuts
Lowest 20%	Less than \$15,000	\$ 9,300	\$ -1.5	\$ -56	2.5%	85%	\$ -10	0.2%
Second 20%	\$15,000–27,000	20,600	-7.0	-269	12.1%	72%	-107	2.2%
Middle 20%	\$27,000–44,000	34,400	-10.5	-405	18.3%	68%	-194	4.1%
Fourth 20%	\$44,000–72,000	56,400	-15.0	-575	25.9%	56%	-449	9.4%
Next 15%	\$72,000–147,000	97,400	-14.4	-739	25.0%	34%	-1,416	22.2%
Next 4%	\$147,000–373,000	210,000	-5.2	-1,008	9.1%	30%	-2,316	9.7%
Top 1%	\$373,000 or more	1,117,000	-4.1	-3,120	7.0%	6%	-50,003	52.2%
ALL		\$ 57,800	\$ -57.7	\$ -440	100.0%	32%	\$ -950	100.0%
ADDENDUM								
Bottom 60%	Less than \$44,000	\$ 21,400	\$ -19.0	\$ -243	32.9%	70%	\$ -104	6.5%
Top 10%	\$104,000 or more	256,000	-14.6	-1,121	25.3%	14%	-6,771	70.7%

The table shows the effects of the final version of the Bush tax plan on taxes due on 2001 incomes. Income tax cuts that take effect in 2001 include: reductions in the current 28%, 31%, 36%, and 39.6% rates to 27%, 30%, 35% and 38.6% for income earned after July 1, 2001; a new 10% bracket on the first \$12,000 in taxable income for couples, \$10,000 for single parents, and \$6,000 for childless singles and married persons filing separately; an increase in the per-child credit to \$600 (from \$500), with expanded rules for refundability of the credit (based on 10% of earned income above \$10,000); and an increase in the individual Alternative Minimum Tax exemption, equal to \$4,000 for couples and \$2,000 for singles.

*Compared to the annual effects of the entire Bush tax plan, fully phased in, at 2001 income levels in 2001 dollars.

**Average annual effects of future tax cuts when fully effective, at 2001 income levels in 2001 dollars.

Source: Institute on Taxation and Economic Policy Tax Model

Citizens for Tax Justice, June 18, 2001

Phase-in dates for the 2001 tax act (calendar years)

This year (2001):

- New 10% income tax bracket on the first \$12,000 in taxable income for couples, \$10,000 for single parents and \$6,000 for others (no indexing for inflation).
- Income tax rates of 39.6%, 36%, 31% and 28% each reduced by one percentage point, effective July 1, 2001—in essence, a half point reduction for calendar 2001.
- Alternative minimum tax exemptions increased by \$4,000 for couples and \$2,000 for singles.
- Child credit increased from \$500 to \$600, with expanded refundability based on 10% of earnings above \$10,000 (the \$10,000 figure is adjusted in future years for inflation).

2002:

- Earned-income tax credit phase-out range increased by \$1,000 for married couples (\$1,000 is not indexed).
- IRA annual contribution limit increased to \$3,000 (from \$2,000). Limit on elective deferrals raised from \$10,000 to \$11,000. Other retirement savings changes take effect. IRA tax credits for lower-income workers established.
- Top estate tax rate cut from 55% to 50%; recapture of lower rates repealed; estate tax credit converted to an exemption (worth more for larger estates) and exemption increased from \$700,000 to \$1 million (double those amounts for couples).

2003:

- Limit on elective retirement savings deferrals raised from \$11,000 to \$12,000.
- Maximum expenses for child-care and maid-service credit raised from \$2,400 to \$3,000 for one child under 13 and from \$4,800 to \$6,000 for two or more children under 13; maximum credit rate increased from 30% to 35%; credit rate phased down to 20% between \$15,001 and \$43,001 in income rather than from \$10,001 to \$28,001.
- Top estate tax rate cut to 49%

2004:

- Top four income tax rates cut by an additional percentage point (to 37.6%, 34%, 29% and 27%).
- Limit on elective retirement savings deferrals raised from \$12,000 to \$13,000.
- Top estate tax rate cut to 48%. Exemption increased to \$1.5 million (double that for couples).

2005:

- Child credit increased to \$700, with further expansion in refundability, based on 15% of earnings above about \$12,000 (the \$12,000 figure will be adjusted for inflation in later years).
- Earned-income tax credit phase-out range increased by an additional \$1,000 for married couples (\$2,000 total increase is not indexed for inflation).
- Married standard deduction increased to 174% of the single amount (up from 167%).
- Starting point for the 26% tax bracket for couples increased to 180% of the single bracket starting point (up from 167% under prior law).
- IRA annual contribution limit increased to \$4,000. Limit on

elective deferrals raised to \$14,000.

- Alternative minimum tax exemptions reduced by \$4,000 for couples and \$2,000 for singles.
- Top estate tax rate cut to 47%

2006:

- Top four income tax rates cut to 35%, 33%, 28% and 25%.
- Starting point for the 25% tax bracket for couples increased to 187% of the single bracket starting point.
- Married standard deduction increased to 184% of the single amount.
- Limit on elective retirement savings deferrals raised to \$15,000 (indexed thereafter).
- Current law's phase-out of the personal exemption and disallowance of a portion of itemized deductions at high income levels are reduced by one-third.
- Top estate tax rate cut to 46%. Exemption increased to \$2 million (double that for couples).

2007:

- Starting point for the 25% tax bracket increased for couples, to 193% of the single bracket starting point.
- Married standard deduction increased to 187% of the single amount.
- IRA tax credits for lower-income workers eliminated.
- Top estate tax rate cut to 45%.

2008:

- Earned-income tax credit phase-out range increased by an additional \$1,000 for married couples (\$3,000 total increase is indexed for inflation after 2008).
- Income amounts for the ten-percent tax bracket increased to \$14,000 for couples and \$7,000 for childless singles (\$10,000 for single parents remains unchanged). Indexed for inflation starting the following year.
- Married standard deduction increased to 193% of the single amount.
- Starting point for the 25% tax bracket for couples increased to double the single bracket starting point.
- IRA annual contribution limit increased to \$5,000 (indexed thereafter).
- Current law's phase-out of the personal exemption and disallowance of a portion of itemized deductions at high income levels are reduced by two-thirds.

2009:

- Child credit increased to \$800.
- Married standard deduction increased to double of the single amount.
- Estate tax exemption increased to \$3.5 million (double that for couples).

2010:

- Child credit increased to \$1,000 (no indexing for inflation).
- Current law's phase out of the personal exemption and disallowance of a portion of itemized deductions at high income

levels are fully repealed.

- Estate tax fully repealed (gift tax retained; limited carryover basis starts).

	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
Brackets	10% on \$6,000/10,000/12,000, unindexed							\$7,000/10,000/14,000, indexed thereafter			
na in 2000	10%	10%	10%	10%	10%	10%	10%	10%	10%	10%	10%
15%	15%	15%	15%	15%	15%	15%	15%	15%	15%	15%	15%
28%	27%	27%	27%	26%	26%	25%	25%	25%	25%	25%	25%
31%	30%	30%	30%	29%	29%	28%	28%	28%	28%	28%	28%
36%	35%	35%	35%	34%	34%	33%	33%	33%	33%	33%	33%
39.6%	38.6%	38.6%	38.6%	37.6%	37.6%	35%	35%	35%	35%	35%	35%
Per child credit was \$500 in 2000	\$ 600 (unindexed)				\$ 700 (unindexed)				\$ 800	\$1,000, unindexed	
Refundability	10% of earnings > \$10,000 (indexed)				15% > about \$11,300 (indexed)						
Married SD, 01\$	7,600	7,600	7,600	7,600	7,917	8,372	8,509	8,645	9,100	9,100	9,100
Married 15%, 01\$	45,200	45,200	45,200	45,200	48,690	50,584	52,207	54,100	54,100	54,100	54,100
Married EITC, 01\$	32,120	33,095	33,070	33,046	33,878	33,833	33,833	34,624	34,624	34,624	34,624
Nominal \$		+1,000 (not indexed)			+2,000 (not indexed)			+3,000 indexed thereafter			
note: affects both starting & ending points for phase-out											
Depend. care credit	to \$3000/6000, 35% phase out starts at \$15K (up from \$2400/4800, 30% and \$10K)										
AMT exemption					!!!						
Couples (+4000)	49,000	49,000	49,000	49,000	45,000	45,000	49,000	49,000	49,000	49,000	49,000
Singles (+2000)	35,750	35,750	35,750	35,750	33,750	33,750	35,750	35,750	35,750	35,750	35,750
Personal exemption phase-out							minus 1/3		minus 2/3		repealed
Itemized deduction disallowance							minus 1/3		minus 2/3		repealed
Estate tax											
Top rate	55%	50%	49%	48%	47%	46%	45%	45%	45%	repealed	
Credit (becomes exemption)	1 mill		1 mill	1.5 mill	1.5 mill	2 mill	2 mill	2 mill	3.5 mill	repealed	