

## House GOP's version of second part of Bush income tax cuts is on-track with President's proposals

The House of Representatives is set to vote next week on its version of the second part of the Bush income tax cuts. In combination with the Bush income tax rate reductions previously approved, the House tax measures put forward so far would provide 31.3 percent of their income tax cuts to the best-off one percent of all taxpayers. In contrast, only 6.3 percent of the tax cuts would go to the bottom 40 percent.

- # For the typical taxpayer, the House measures put forward so far would provide a tax cut of \$544 a year (in today's dollars), once the measures are fully in place in 2009.
- # For the poorest fifth of all taxpayers, the House bills offer an average annual tax cut of \$50.
- # In contrast, for the wealthiest one percent of taxpayers, with average incomes of \$1.1 million, the average annual tax cut under the House measures so far would be \$28,608.

Earlier this month, the House approved HR 3, which would implement the President's proposed reductions in income tax rates, including a cut in the top income tax rate from 39.6 percent to 33 percent and smaller reductions in other income tax rates. The House is now moving forward with HR 6, which would eventually double the \$500 per child tax credit and partially address the "marriage penalty." The House measures in HR 6 differ in detail from the President's proposals in a number of ways, but the overall size and distribution of the House income tax cuts is almost identical to the income tax cuts proposed by the President.

According to the Joint Committee on Taxation, these first two stages of the Bush tax program would reduce revenues by \$1.4 trillion over the next ten fiscal years. Still to come is the Bush proposal to repeal the estate tax on the wealthiest two percent, which has been previously estimated to reduce revenues by more than \$300 billion over ten years. Counting some \$400 billion in added interest on the national debt, that would bring the total cost of the Bush tax cut plan to about \$2.1 trillion so far.

Both the Bush plan and the House bills would more than double the number of taxpayers subject to the Alternative Minimum Tax. The "AMT" effects would be somewhat more severe under the House bills, where one taxpayer in six would be subject to the AMT, compared to one out of seven under the Bush program.

Some 24 percent of taxpayers (31.2 million) would get no income tax cut from the House bills, compared to 26 percent (34.5 million) under the Bush program

A full distributional analysis of the House tax measures follows.

# Effects of the House GOP version of the Bush tax plan so far

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

Income Group	Income Range	Average Income	Income tax rate cuts (HR 3) (\$-bill.)	Other income tax cuts (HR 6) (\$-bill.)	Total So Far (\$-bill.)	Average from HR 3	Average from HR 6	Average Total So Far	% of HR 3	% of HR 6	% of Total So Far
Lowest 20%	Less than \$15,000	\$ 9,300	\$ -1.1	\$ -0.2	\$ -1.3	\$ -41	\$ -9	\$ -50	1.3%	0.6%	1.1%
Second 20%	\$15,000–27,000	20,600	-4.4	-1.8	-6.2	-168	-71	-239	5.3%	5.1%	5.2%
Middle 20%	\$27,000–44,000	34,400	-8.2	-5.9	-14.2	-316	-227	-544	9.9%	16.5%	11.9%
Fourth 20%	\$44,000–72,000	56,400	-13.3	-10.4	-23.7	-511	-402	-913	16.0%	29.1%	20.0%
Next 15%	\$72,000–147,000	97,400	-14.9	-14.6	-29.4	-761	-747	-1,509	17.9%	40.6%	24.8%
Next 4%	\$147,000–373,000	210,000	-4.4	-2.4	-6.8	-838	-464	-1,302	5.3%	6.7%	5.7%
Top 1%	\$373,000 or more	1,117,000	-36.8	-0.5	-37.2	-28,256	-352	-28,608	44.3%	1.3%	31.3%
<b>ALL</b>		<b>\$ 57,800</b>	<b>\$ -83.0</b>	<b>\$ -35.9</b>	<b>\$ -118.9</b>	<b>\$ -633</b>	<b>\$ -274</b>	<b>\$ -907</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>
<b>ADDENDUM</b>											
<b>Bottom 60%</b>	<b>Less than \$44,000</b>	<b>\$ 21,400</b>	<b>\$ -13.7</b>	<b>\$ -8.0</b>	<b>\$ -21.7</b>	<b>\$ -175</b>	<b>\$ -102</b>	<b>\$ -278</b>	<b>16.5%</b>	<b>22.2%</b>	<b>18.2%</b>
<b>Top 10%</b>	<b>\$104,000 or more</b>	<b>256,000</b>	<b>-46.9</b>	<b>-7.2</b>	<b>-54.1</b>	<b>-3,603</b>	<b>-556</b>	<b>-4,159</b>	<b>56.5%</b>	<b>20.1%</b>	<b>45.5%</b>

Notes: 1. The table shows how the fully-effective tax cuts in HR 3 and HR 6 (as amended) would affect taxpayers at 2001 income levels in 2001 dollars.

2. The effects of HR 6 as amended are shown net of interactions with the income tax rate reductions in HR 3.

3. The income tax rate reductions in HR 3 are the same as those proposed by President Bush, when fully effective.

4. The other income tax changes in the House bill (HR 6) differ from the Bush plan in a number of ways. (a) Instead of Bush's two-earner adjustment, HR 6 increases the standard deduction for couples, raises the starting point for the 25% tax bracket for couples, and expands the earned income tax credit for couples. (b) HR 6 does not include Bush's proposed above-the-line charitable deduction for non-itemizers. (c) Like the Bush plan, HR 6 increases the \$500 per child credit to \$1,000 in 2006, but HR 6 does not raise the income phase-out levels for the credit and HR 6 extends current law's very limited refundability of the credit to families with fewer than three children. (d) The Bush plan makes no changes to the Alternative Minimum Tax, while, starting in 2005, HR 6 would gradually increase the AMT exemption for couples, so that by 2048 it would be double the exemption for singles.

5. Despite these differences, when fully phased in, the combined effects of HR 3 and HR 6 are almost identical to the Bush income tax cuts in both size and distribution.

Source: Institute on Taxation and Economic Policy Tax Model

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