

House Passes Third Part of Bush Tax Plan: Estate Tax Repeal

On April 4, the House of Representatives passed its version of the third part of the Bush tax cuts. The bill, HR 8, would repeal the estate and gift tax by 2011. In combination with the Bush plan's income tax rate reductions and other income tax cuts previously approved, the three House tax measures put forward so far would provide 45.0 percent of their income tax cuts to the best-off one percent of all taxpayers. In contrast, only 4.8 percent of the tax cuts would go to the poorest 40 percent of taxpayers.

- # For the typical taxpayer, the three House measures put forward so far would provide a tax cut of \$552 a year if the measures were fully enacted in 2001.
- # For the poorest twenty percent of all taxpayers, the three House bills offer an average annual tax cut of \$51—less than 1 percent of the total tax cut.
- # 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 \$54,400.

In March, 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 subsequently passed HR 6, which would eventually double the \$500 per child tax credit and partially address the "marriage penalty."

According to the Joint Committee on Taxation (JCT), the first two stages of the Bush tax program would reduce revenues by \$1.4 trillion over the next ten fiscal years. The estate tax legislation in HR 8 has been estimated to cost \$186 billion over ten years. Counting some \$400 billion in added interest on the national debt, that brings the total ten-year cost of the Bush tax cut plan to almost \$2 trillion.

Under HR 8's provisions, the estate tax is not fully repealed until 2011—the last year of the ten-year cost estimate. This means that the real cost of full estate tax repeal is not included in any single year of the ten-year window included in the \$186 billion cost estimate. While the JCT's \$186 billion estimate shows an impact of \$49 billion in fiscal year 2011, the annual cost of full repeal in the first year after full repeal would be approximately \$107 billion—double the fiscal 2011 cost.

Both the Bush plan and the House bills would more than double the number of taxpayers subject to the Alternative Minimum Tax.

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.)	Estate tax (HR 8) & corporate (\$-bill.)	Total So Far (\$-bill.)	Average income tax cut (HR 3 & 6)	Average Total So Far	% of income tax cut	% of Total So Far
Lowest 20%	Less than \$15,000	\$ 9,300	\$ -1.1	\$ -0.2	\$ -0.0	\$ -1.3	\$ -50	\$ -51	1.1%	0.8%
Second 20%	\$15,000–27,000	20,600	-4.4	-1.8	-0.1	-6.3	-239	-243	5.2%	4.0%
Middle 20%	\$27,000–44,000	34,400	-8.2	-5.9	-0.2	-14.4	-544	-552	11.9%	9.1%
Fourth 20%	\$44,000–72,000	56,400	-13.3	-10.4	-0.4	-24.1	-913	-926	20.0%	15.3%
Next 15%	\$72,000–147,000	97,400	-14.9	-14.6	-0.5	-30.0	-1,509	-1,536	24.8%	19.0%
Next 4%	\$147,000–373,000	210,000	-4.4	-2.4	-3.7	-10.5	-1,302	-2,017	5.7%	6.7%
Top 1%	\$373,000 or more	1,117,000	-36.8	-0.5	-33.6	-70.8	-28,608	-54,400	31.3%	45.0%
ALL		\$ 57,800	\$ -83.0	\$ -35.9	\$ -38.5	\$ -157.4	\$ -907	\$ -1,201	100.0%	100.0%
ADDENDUM										
Bottom 60%	Less than \$44,000	\$ 21,400	\$ -13.7	\$ -8.0	\$ -0.4	\$ -22.0	\$ -278	\$ -282	18.2%	14.0%
Top 10%	\$104,000 or more	256,000	-46.9	-7.2	-37.5	-91.6	-4,159	-7,042	45.5%	58.2%

Notes: 1. The table shows how the fully-effective tax cuts in HR 3, HR 6 and HR 8, plus the Bush corporate tax cuts 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.

6. The figures for estate tax repeal (HR 8) do not yet take account of recent Joint Committee on Taxation estimates that repeal could cost 80 percent more than previously estimated due to income tax avoidance that repeal could engender (more than \$100 billion a year when fully phased in, in 2011).

7. The corporate tax breaks include only those relatively small ones proposed by Bush. Congress has indicated it may expand these.

Source: Institute on Taxation and Economic Policy Tax Model

Citizens for Tax Justice, April 9, 2001