

When Would the Bush Tax Plan Take Effect?

Advocates of President Bush's proposed \$1.6 trillion tax cut argue that the plan's tax reductions are needed in order to stimulate the economy. Yet all of the costliest provisions of George W. Bush' tax proposal are phased in over a number of years. This means that the actual tax cuts experienced by taxpayers during the first several years after passage would be substantially less than the "fully phased in" tax cuts described in previous CTJ analyses. The following analysis estimates the average tax cuts accruing to taxpayers at each income level during the first three years after enactment, and describes the schedule according to which the Bush plan's various provisions would be enacted.

Average Tax Cuts under the Bush Tax Plan in Its First Three Years

| Income group | Income Range | Average Income | Average Bush tax cuts in: | | |
|--------------|--------------------|----------------|---------------------------|---------|---------|
| | | | 2002 | 2003 | 2004 |
| Lowest 20% | Less than \$16,000 | \$ 10,020 | \$ -15 | \$ -25 | \$ -37 |
| Second 20% | \$16,000-29,000 | 22,400 | -71 | -121 | -174 |
| Middle 20% | \$29,000-48,000 | 37,500 | -170 | -286 | -409 |
| Fourth 20% | \$48,000-79,000 | 61,400 | -316 | -513 | -761 |
| Next 15% | \$79,000-159,000 | 106,000 | -588 | -884 | -1,352 |
| Next 4% | \$159,000-397,000 | 226,000 | -1,043 | -1,390 | -2,102 |
| Top 1% | \$397,000 or more | 1,164,000 | -13,469 | -18,859 | -31,201 |

Average tax cuts are shown by calendar years in each year's dollars. Average incomes and income ranges are estimates for calendar 2003.

Source: *Institute on Taxation and Economic Policy Tax Model.*

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- # The poorest twenty percent of taxpayers would, on average, receive a \$15 tax cut in tax year 2002, the first year for which the Bush plan would affect federal revenues. By tax year 2004, the average tax cut for this group would increase to \$37.
- # The twenty percent of taxpayers in the middle of the income distribution would receive an average of \$170 in tax cuts under the Bush plan in 2002, and an average of \$409 in 2004.
- # The average tax cut accruing to the top 1 percent of taxpayers—those earning more than \$397,000 in 2003—would be \$13,469 in 2002, and would increase to \$31,201 in tax year 2004.

All of the income tax rate reductions proposed under the Bush plan would be phased in gradually between tax years 2002 and 2006. The proposed new "ten percent" rate would actually be a 14 percent rate in 2002, and would decline by a single percentage

point each year until 2006, when the 10 percent rate would take effect. The other reduced tax rates would also be fully effective only in 2006. The doubling of the child credit—and the increase in the phase-out of the credit—would take effect over the same time period.

Bush Phase-In Rules for Major Items of His Tax Cut Plan (calendar years)

| | Current Law | Bush Plan Phase-in Schedule | | | | | | |
|---|-------------|-----------------------------|----------|----------|----------|----------|------|-------|
| | | 2002 | 2003 | 2004 | 2005 | 2006 | 2007 | 2008 |
| New bottom bracket (up to \$12,000 for couples, \$10,000 for single parents, \$6,000 for singles) | na | 14% | 13% | 12% | 11% | 10% | ==> | ==> |
| Other marginal tax rates— | 15% | ==> | ==> | ==> | ==> | ==> | ==> | ==> |
| | 28% | 27% | 27% | 26% | 26% | 25% | ==> | ==> |
| | 31% | 30% | 29% | 28% | 27% | 25% | ==> | ==> |
| | 36% | 35% | 35% | 34% | 34% | 33% | ==> | ==> |
| | 39.6% | 38% | 37% | 36% | 35% | 33% | ==> | ==> |
| Child credit to \$1,000 | \$ 500 | \$ 600 | \$ 700 | \$ 800 | \$ 900 | \$ 1,000 | ==> | ==> |
| Phase-out for single parents starts | 75,000 | 100,000 | 125,000 | 150,000 | 175,000 | 200,000 | ==> | ==> |
| Phase-out for couples starts | 110,000 | 128,000 | 146,000 | 164,000 | 182,000 | 200,000 | ==> | ==> |
| Two-earner deduction, 10% of lower-earner's earnings, with maximum deduction of | — | \$ 600 | \$ 1,200 | \$ 1,800 | \$ 2,400 | \$ 3,000 | ==> | ==> |
| Charitable deduction for non-itemizers, maximum amounts as % of standard deduction | — | 20% | 40% | 60% | 80% | 100% | ==> | ==> |
| Estate tax repeal, as % of federal estate tax (excluding state portion) | — | -12% | -12% | -26% | -40% | -53% | -79% | -100% |

The analysis cited above was performed using the Institute on Taxation and Economic Policy Tax Model, a widely respected tool for analyzing the revenue and distributional effects of tax proposals. More information about the model can be found at www.ctj.org or is available on request.