

Making Work Pay Credit More Effective and Affordable than Other Types of Tax Cuts

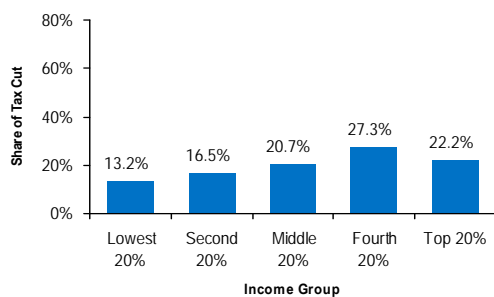
The Making Work Pay Credit, a tax credit of \$400 (or \$800 for married couples) that was in effect in 2009 and 2010, is better targeted towards low- and middle-income families than the payroll tax cut in effect today, at half the cost. It is *dramatically* more targeted to these families than the Bush tax cuts, at just over a sixth of the cost. Prominent Washington figures and media outlets have suggested in recent days that either the payroll tax cut might be extended or the Making Work Pay Credit might be revived in order to help the economy, in addition to a full or partial extension of the Bush tax cuts.

Tax cuts are not likely to be as effective in boosting economic growth and job creation as direct spending by the federal government. But if politicians nevertheless feel compelled to use tax cuts to help the economy, they should at least choose the tax cut most targeted towards the low- and middle-income families who need help — the Making Work Pay Credit.

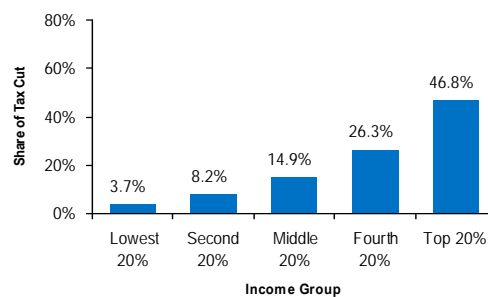
- If the Making Work Pay Credit¹ is revived for 2013, 50.3 percent of the benefits would go to the bottom three-fifths of Americans while 22.2 percent of the benefits would go to the richest fifth of Americans.
- If the payroll tax cut² in effect this year is extended through 2013, just 26.8 percent of the benefits would go to the bottom three-fifths of Americans while 46.8 percent of the benefits would go to the richest fifth of Americans.
- If the Bush income and estate tax cuts³ are extended through 2013, just 13 percent of the benefits would go to the bottom three-fifths of Americans while 73.2 percent would go to the richest fifth of Americans.

Distribution of Possible Tax Breaks in 2013

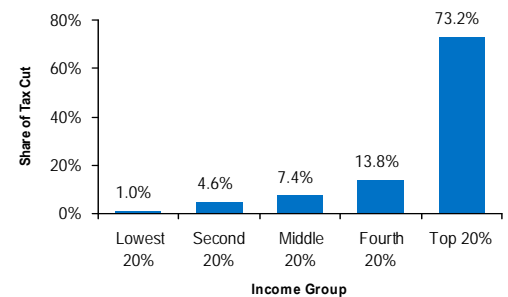
Revive Making Work Pay Credit



Extend 2% Payroll Tax Reduction



Extend All Bush Income & Estate Tax Cuts

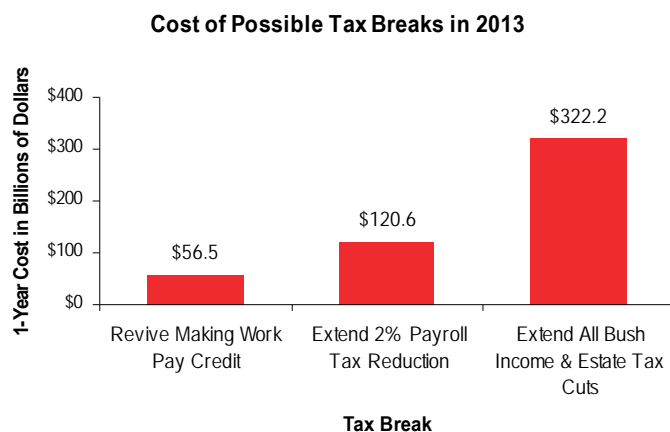


Benefits for Low- and Middle-Income People Provide More “Bang for the Buck” in Helping the Economy

Most economists agree that a policy putting money in the hands of low- and middle-income people is likely to have a greater stimulative impact for each dollar spent than a policy putting money in the hands of high-income people. Low- and middle-income families are likely to immediately spend any money they receive on goods and services they need, which allows those producing, shipping and selling those products to hire and retain employees. High-income people, on the other hand, are likely to save most of any new money they receive, which will not have any immediate positive impact on the economy.

Making Work Pay Credit the Least Costly Option

The Making Work Pay Credit is also far less expensive than the other tax breaks that are being debated. The Making Work Pay Credit would cost \$56.5 billion in 2013, compared to \$120.6 billion for an extension of the payroll tax cut and \$322.2 billion for an extension of the Bush tax cuts.



Recent Talk of Providing More Tax Cuts

On October 11, Larry Summers, the former Treasury Secretary and former chairman of the President’s National Economic Council, said that Congress should extend the payroll tax cut in effect this year through 2013 in order to help the fragile economy.⁴ Ten days later, Rep. Chris Van Hollen, the ranking Democrat on the House Budget Committee, told C-SPAN that an extension of the payroll tax cuts should not be “taken off the table.”⁵

Source: Institute on Taxation and Economic Policy tax model, November 2012

On October 26, the Washington Post reported that the Obama administration was considering a middle-class tax cut that would be more like the Making Work Pay Credit than the payroll tax cut in effect this year.⁶ The White House later denied having a specific plan the “way that it’s described in the Post.”⁷

Comparison of Tax Policy Options, Impacts in 2013							
U.S. Taxpayers		Revive Making Work Pay Credit		Extend 2% Payroll Tax Reduction		Extend All Bush Income & Estate Tax Cuts	
Income Group	Average Income	Average Tax Cut	Share of Tax Cut	Average Tax Cut	Share of Tax Cut	Average Tax Cut	Share of Tax Cut
Lowest 20%	\$ 13,800	\$ -257	13.2%	\$ -154	3.7%	\$ -120	1.0%
Second 20%	27,900	-322	16.5%	-342	8.2%	-510	4.6%
Middle 20%	44,900	-404	20.7%	-620	14.9%	-820	7.4%
Fourth 20%	73,700	-533	27.3%	-1,097	26.3%	-1,540	13.8%
Next 15%	127,600	-561	21.6%	-1,811	32.6%	-3,730	25.2%
Next 4%	274,700	-66	0.7%	-2,337	11.2%	-9,000	16.2%
Top 1%	1,503,100	-9	0.0%	-2,514	3.0%	-70,790	31.8%
ALL	\$ 76,000	\$ -385	100.0%	\$ -822	100.0%	\$ -2,190	100.0%
Addendum							
Lowest 60%	\$ 28,900	\$ -328	50.3%	\$ -372	26.8%	\$ -480	13.0%
Top 5%	\$ 520,300	\$ -54	0.7%	\$ -2,372	14.2%	\$ -21,360	48.0%

Source: Institute on Taxation and Economic Policy tax model, November 2012

¹ Specifically, the Making Work Pay Credit was the lesser of \$400 (\$800 for a married couple) or 6.2 percent of wages. This made it the equivalent of a payroll tax holiday limited to \$400/\$800. The credit was reduced for unmarried taxpayers with adjusted gross income (AGI) in excess of \$75,000 and completely phased out for those with AGI in excess of \$95,000. The credit was reduced for married couples with AGI in excess of \$150,000 and completely phased out for those with AGI in excess of \$190,000.

² The payroll tax cut reduces the Social Security payroll tax by two percentage points. For most people this simply means that the part of the Social Security payroll tax that is paid directly by employees is reduced from 6.2 percent to 4.2 percent.

³ For more information about the Bush income and estate tax cuts and competing proposals to extend most or all of them, see Citizens for Tax Justice, "U.S. Taxpayers and the Bush Tax Cuts: Obama's Approach vs. Congressional GOP's Approach," June 20, 2012. <http://www.ctj.org/bushtaxcuts2012/us.pdf>

⁴ Damian Paletta, "Summers Calls for Extending Payroll Tax Cut," *Wall Street Journal Washington Wire*, October 11, 2012. <http://blogs.wsj.com/washwire/2012/10/11/summers-calls-for-extending-payroll-tax-cut/>

⁵ Interview with Rep. Chris Van Hollen on *Newsmakers*, C-SPAN. October 21, 2012. <http://www.c-span.org/Events/Newsmakers-with-Rep-Chris-Van-Hollen-D-MD/10737435160/>

⁶ Zachary A. Goldfarb, "White House Considering New Tax Cut," *Washington Post*, October 26, 2012. http://www.washingtonpost.com/business/economy/white-house-considering-new-tax-cut/2012/10/26/8187d726-1fa5-11e2-9cd5-b55c38388962_story.html

⁷ Bernie Becker, "White House: No 'Specific Proposal' to Replace Expiring Payroll Tax Cut," *The Hill*, October 27, 2012. <http://thehill.com/blogs/on-the-money/domestic-taxes/264441-wh-no-specific-proposal-to-replace-payroll-tax-cut->