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Congress Passes Another Tax Cut for the Rich

Yesterday, Congress completed action on a tax bill that offers large new tax breaks to the wealthy, but virtually nothing to average taxpayers.

The two key elements of the bill, which President Bush will sign, are:

- ***Tax cuts on dividends and capital gains.*** The bill extends the 2003-enacted 15-percent top tax rate on dividends and capital gains into 2009 and 2010. Under prior law, this tax break was slated to end after 2008. The two-year cost of the extension is officially estimated to be $51 billion—although the actual cost may be considerably larger.
- ***AMT relief.*** The bill extends and slightly enhances the temporary increase in the Alternative Minimum Tax exemption, which had expired at the end of 2005. This provision applies to 2006 only. The one-year cost of this change is $34 billion.

The bill also includes a number of special-interest tax breaks, such as a corporate tax loophole, worth almost $5 billion over the next five years, that allows companies such as General Electric and Citigroup to avoid taxes on U.S. profits that they have artificially shifted off-shore.

Who Benefits from the Tax Cuts?

An analysis of the bill's two major tax cuts by the Institute on Taxation and Economic Policy shows that they are extremely tilted toward the wealthy.

- Almost half of the combined 2009-10 tax cut for dividends and capital gains and the 2006 AMT relief will go to the top one percent — those with average 2006 income of $1.3 million. The average tax cut for this group over the three years will be $34,266.

Distribution of the Two Major Tax Cuts in the May 2006 GOP Tax Reconciliation Bill

		Shares of Tax Cuts			Average Tax Cuts			
Income group	Average 2006 Income	AMT (2006)	Capital gains & Dividends (2009 & 2010)	Total Tax Cuts (3 years)	2006 (AMT)	2009 (CG & Div)	2010 (CG & Div)	3-Year Total
Lowest 20%	**$ 11,300**	—	0.1%	**0.1%**	$ —	$ –2	$ –2	**$ –3**
Second 20%	**23,200**	—	0.6%	**0.4%**	—	–7	–8	**–16**
Middle 20%	**38,100**	—	2.1%	**1.4%**	—	–27	–28	**–55**
Fourth 20%	**62,600**	5.5%	5.6%	**5.6%**	–71	–71	–76	**–215**
Next 10%	**95,400**	21.6%	5.9%	**10.8%**	–558	–149	–157	**–833**
Next 5%	**134,000**	25.5%	6.0%	**12.2%**	–1,295	–295	–329	**–1,869**
Next 4%	**230,000**	44.3%	16.0%	**24.9%**	–2,829	–976	–1,107	**–4,798**
Top 1%	**1,254,000**	3.1%	63.8%	**44.5%**	–769	–15,364	–17,953	**–34,266**
ALL	**$ 64,000**	**100.0%**	**100.0%**	**100.0%**	**$ –249**	**$ –240**	**$ –275**	**$ –758**

Source: ITEP Tax Model, May 12, 2006

- In contrast, the average three-year tax cut for the middle fifth of all taxpayers will be only $55, or less than $20 a year.
- The tax reduction on dividends and capital gains is especially tilted towards the top of the income scale. Almost two-thirds of that tax cut will go to the best-off one percent.
- The one-year AMT relief does not affect the top one percent significantly, but 95 percent of the AMT relief benefits will go to the top fifth of all taxpayers.

"Our political leaders seem to place tax cuts for the wealthy as their highest priority," said Robert S. McIntyre, director of Citizens for Tax Justice. "Meanwhile, they disdain everything else, whether it be paying for the war in Iraq, reducing the budget deficit or saving Social Security."

The Alternative Minimum Tax Problem Remains Unsolved

The Alternative Minimum Tax remains a major concern for Congressional tax writers even after the passage of this latest tax cut. As the table at the right shows, the agreed-upon higher exemption will expire at the end of 2006. If the exemption is allowed to fall back to its currently-scheduled levels in 2007, more than 15 million Americans will be forced to deal with the complicated AMT.

"Fixing" The AMT Problem? How Recent Legislation Has Changed the AMT Exemption

	Pre-Bush	2003-2005	2006	2007 and on
Single	33,750	40,250	42,500	**33,750**
Married	45,000	58,000	62,550	**45,000**

Note: Earlier legislation increased the exemptions for 2003-05 only; the latest tax cut extends the higher exemptions through 2006.

The main reason for Congress' reluctance to provide more than a one-year patch for what has become a permanent problem is the high cost of AMT relief. House and Senate negotiators could agree on "only" a $70 billion tax cut over five years—and even a two-year extension of Alternative Minimum Tax relief would eat up most, if not all, of that amount.

"Every member of Congress knows that further AMT relief will be enacted in the future, at an annual cost of at least $40 billion," said McIntyre. "By excluding this needed AMT reform from this tax bill, Congress is trying to fit many pounds of sugar in a one-pound bag."

"It's time that Congress faced up to the AMT issue by scaling back that tax and replacing the lost revenues in a fair and fiscally responsible way," McIntyre said. "For example, this result could be achieved by permanently increasing the AMT exemption coupled with closing loopholes for the wealthy in the AMT for capital gains and dividends and modestly adjusting the AMT tax rate."

More Tax Cuts To Come

Besides the bill it just passed, Congress is also considering a second tax cut bill that will focus on a variety of "extenders"—temporary tax cuts, mostly for corporations, that have expired or are about to expire. These generally foolish tax cuts are widely supported by Congressional tax writers because they are closely linked to campaign contributions. The additional tax cuts are expected to cost another $20 billion over five years.

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