

Senate Democratic Alternative Tax Plan Analyzed

On March 27, Democratic leaders in the Senate introduced a tax cut plan designed as an alternative to the \$2.4 trillion tax cut plan proposed by President Bush. The bill, S. 629, would provide a retroactive cut in the bottom income tax rate beginning in tax year 2001, lowering the current 15 percent tax rate to 12.5 percent in 2001 and 10 percent in 2002. The bill would also provide a rebate of 2000 income and payroll taxes up to \$600 for couples, \$450 for single parents, and \$300 for single taxpayers without children. CTJ's analysis of the tax cuts in S.629 finds that the bottom 60 percent of the income distribution would receive 41.2 percent of the tax cuts from this proposal in tax year 2001. The wealthiest 10 percent of taxpayers, by contrast, would receive 15.2 percent of the tax cuts under the Democratic alternative plan.

- # For the typical taxpayer—the twenty percent of taxpayers in the middle of the income distribution—S. 629 would provide a tax cut of \$561 a year in 2001.
- # For the poorest twenty percent of all taxpayers, the bill would provide an average tax cut of \$146.
- # The wealthiest 1 percent of taxpayers, with average incomes of \$1.1 million, would see an average tax cut of \$766 in 2001 under the Senate alternative plan. In contrast, the same group of taxpayers would see an average tax cut of \$54,400 under the three components of the Bush tax plan passed by the House of Representatives so far.

A full distributional analysis of the Senate Democratic plan follows.

Senate Democrats' Income Tax Rate Cuts & Tax Rebate Effects in 2001 & 2002

Income Group	Income Range	Average Income	Tax cuts in 2001 (\$-billions)			10% rate in 2002 and thereafter (\$-billions)	Average tax cuts in 2001			Average rate cut in 2002	% of 2001 total	% of 2002 rate cut
			Rebate for 2000 taxes	Rate cut for 2001	Combined Total		Rebate for 2000	Rate cut for 2001	Combined 2001 cuts			
Lowest 20%	Less than \$15,000	\$ 9,300	\$ -3.2	\$ -0.6	\$ -3.8	\$ -1.2	\$ -125	\$ -22	\$ -146	\$ -46	5.6%	3.0%
Second 20%	\$15,000-27,000	20,600	-7.0	-2.4	-9.4	-5.1	-269	-92	-361	-193	13.9%	12.3%
Middle 20%	\$27,000-44,000	34,400	-10.1	-4.4	-14.6	-9.3	-390	-171	-561	-354	21.6%	22.6%
Fourth 20%	\$44,000-72,000	56,400	-12.7	-6.2	-18.9	-12.9	-488	-240	-728	-489	28.1%	31.2%
Next 15%	\$72,000-147,000	97,400	-10.7	-5.1	-15.7	-10.1	-546	-259	-806	-514	23.3%	24.6%
Next 4%	\$147,000-373,000	210,000	-2.9	-1.1	-4.0	-2.1	-555	-214	-770	-393	5.9%	5.0%
Top 1%	\$373,000 or more	1,117,000	-0.7	-0.3	-1.0	-0.6	-551	-215	-766	-433	1.5%	1.4%
ALL		\$ 57,800	\$ -47.4	\$ -20.1	\$ -67.5	\$ -41.2	\$ -362	\$ -153	\$ -515	\$ -311	100.0%	100.0%
ADDENDUM						—						
Bottom 60%	Less than \$44,000	\$ 21,400	\$ -20.4	\$ -7.4	\$ -27.8	\$ -15.6	\$ -261	\$ -95	\$ -356	\$ -198	41.2%	37.8%
Top 10%	\$104,000 or more	256,000	-7.2	-3.1	-10.3	-5.9	-555	-235	-790	-448	15.2%	14.3%

Table shows the effects in 2001 and 2002 of: (1) a rebate of 2000 income and payroll taxes up to \$600 for couples, \$450 for single parents, and \$300 for singles without children. (2) A new 12.5% income tax rate (rather than 15%) on the first \$12,000 in taxable income for couples, \$10,000 in taxable income for single parents, and \$6,000 for singles without children in 2001. (3) A reduction in that new 12.5% rate to 10% in 2002 and thereafter (with the brackets indexed for inflation after 2002). The tax rebate for 2000 taxes applies to the sum of positive income taxes (before refundable tax credits) and the 15.3% worker and employer payroll tax (or the SECA tax on the self-employed) up to the stated dollar limits. Average incomes and ranges shown above are for 2001.

Source: Institute on Taxation and Economic Policy Tax Model
Citizens for Tax Justice, March 27, 2001