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Contact: Steve Wamhoff
(202) 299-1066 x33

CTJ Citizens for Tax Justice

The Six Worst Tax Cuts in the Senate Stimulus Bill: Summary[1]

Senate Removes Spending When It Should Remove Tax Cuts for Business and Well-Off Individuals

The economic stimulus bill that the Senate approved today includes several tax cuts that are not in the stimulus bill approved by the House of Representatives two weeks ago and which should be excluded from the final bill that goes to the President.

Lawmakers who are sincere in their desire to stimulate the economy in the most cost-effective manner should seek to exclude from the final bill the following tax cuts, which economists believe will do little to boost consumer demand. The following six provisions add $124 billion (according to official projections) to the cost of the Senate's stimulus bill compared to the House stimulus bill. The real cost of these provisions is considerably more.

1. The Alternative Minimum Tax "Patch"

Projected Additional Cost: $70 Billion
Why It Won't Help the Economy: Bulk of benefits go to richest 10%.

The "patch" prevents the AMT from reaching more taxpayers, but seventy percent of the benefits of AMT relief go to the top 10 percent of taxpayers. Putting it in the stimulus bill allows this provision to be enacted without being paid for, adding $70 billion to the cost of the legislation and increasing the deficit unnecessarily.

2. Home Ownership Tax Credit

Projected Additional Cost: $35 Billion
Why It Won't Help the Economy: Benefits wealthy taxpayers and could inflate housing prices.

This "flip your house to your brother" tax credit will benefit people who can already afford to buy a house, not the people hardest hit by this crisis. Or, if this tax credit really does encourage home purchases, that could reinflate the housing bubble. Isn't that how we got into the current recession? And to get the full benefit of the $15,000 credit, a husband and wife with two children would need to have gross income of $116,500 in one year, or at least $78,250 for two consecutive years, and could not buy a house costing less than $150,000.

3. Above-the-line Deduction for Automobile Purchases

Projected Additional Cost: $11 Billion
Why It Won't Help the Economy: Encourages debt and doesn't target those who need help.

The above-the line" deduction for the interest paid on a automobile loan and for the excise taxes paid on the purchase of an automobile encourages families to take on more debt. This

[1] For more details on each of these tax cuts, see Citizens for Tax Justice, "The Six Worst Tax Cuts in the Senate Stimulus Bill," February 10, 2009. www.ctj.org/pdf/sixworsttaxcuts.pdf

provision would thus subsidize the sort of behavior that led to the current downturn. And it is targeted to only one industry—the automobile companies that are already getting bailout money.

4. Suspension of Tax on Unemployment Benefits

Projected Additional Cost: $4.7 Billion
Why It Won't Help the Economy: Benefits high-earners more than families who need help.

This tax break would not help recipients who have no federal tax liability (the lower-income and long-term unemployed people). And the higher the tax bracket, the bigger the benefit. What a break for the executive that earned $200,000 or more this year before losing his job!

5. Five-year Carryback of Net Operating Losses

Projected Additional Cost (Compared to House Bill): $2.2 Billion
Why It Won't Help the Economy: Puts more cash in the hands of business owners without changing their incentives to invest or create jobs.

This tax cut puts more money in the hands of business, but there is no correlation between a company's cash position and its plans to invest and create jobs. Companies invest in infrastructure and hiring and training employees when they believe there will be an increase in the demand for their goods and services. No demand, no investment.

The Senate bill adds $2.2 billion to the 10-year cost of this provision compared to the House version. The Senate version will cost $67.5 billion in its first two years, with paybacks thereafter. Its present-value cost is $24 billion.

6. Delayed Recognition of Certain Cancellation of Debt Income

Projected Additional Cost: $26.2 billion in first two years, with paybacks thereafter. Present value cost: $5.1 billion.
Why It Won't Help the Economy: Rewards the behavior that got us here in the first place.

This provision benefits companies who, for whatever reason, took on excessive or risky debt. It is a huge bailout for private-equity (buyout) firms who many believe substantially contributed to the economic downturn. Other companies "leveraged their balance sheet" to pay stockholder dividends. Their stockholders should bear the loss, not the American taxpayers. Casinos are big winners, too. These are not the sort of companies Americans want to bail out.