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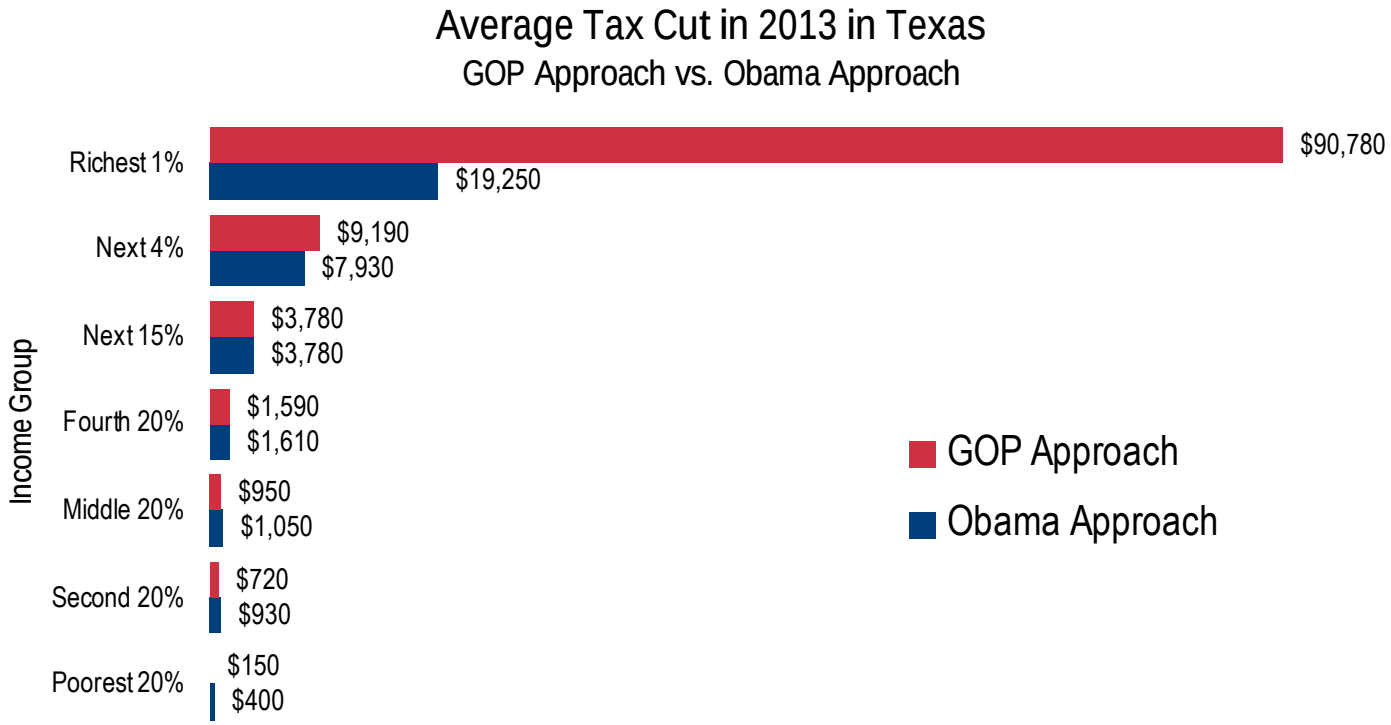
Texas Taxpayers and the Bush Tax Cuts:

President Obama's Approach vs. Congressional GOP's Approach

(More information and national figures available at www.ctj.org/bushtaxcuts2012.php)

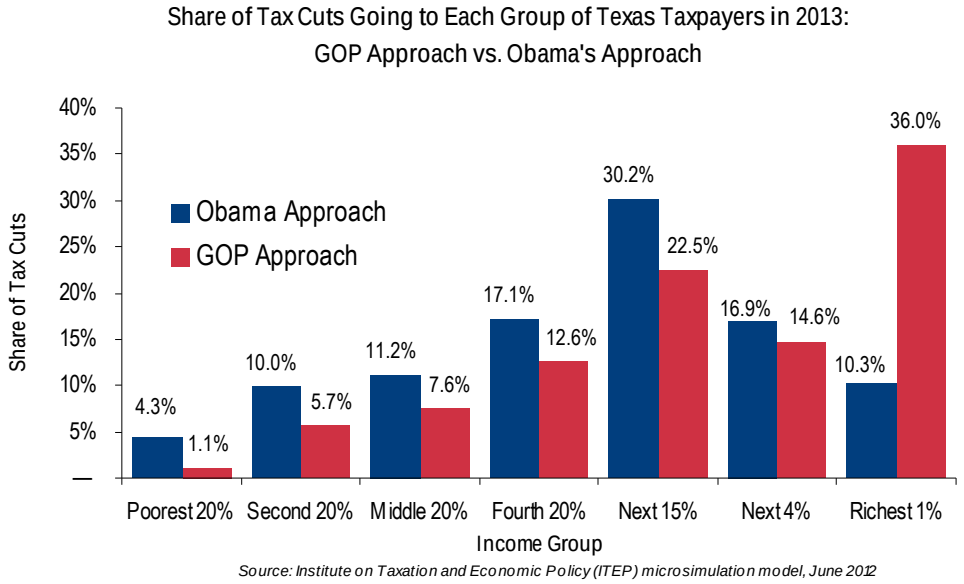
New figures from the Institute on Taxation and Economic Policy (ITEP) show what Texas residents would pay under Congressional Republicans' proposal to extend all the Bush tax cuts and President Obama's more limited proposal to extend most, but not all, of the tax cuts. In 2013, taxes for the richest one percent of Texas residents would be cut by $90,780 on average under the Republican approach and by $19,250 on average under the President's approach. In other words, the richest one percent in the state would pay $71,530 less under the GOP approach than under the President's approach next year.

The situation is the reverse for lower income groups. For example, in 2013 taxes for the poorest fifth of Texas residents would be cut by $150 on average under the Republican approach and by $400 on average under the President's approach. In other words, the poorest fifth of the state's residents would pay $250 more on average under the Republican approach than under the President's approach.



Figures rounded to the nearest ten dollars. Source: Institute on Taxation and Economic Policy (ITEP) microsimulation model, June 2012

Under the Congressional Republican approach, 36.0 percent of the tax cuts going to Texas would go to the richest one percent of the state's residents in 2013 and 50.5 percent would go to the richest five percent of the state's residents. Under President Obama's approach, 10.3 percent of the tax cuts going to Texas would go to the richest one percent of the state's residents in 2013 and 27.2 percent would go to the richest five percent of the state's residents.



The term "Bush tax cuts" commonly refers to the income tax cuts (for earnings, capital gains, stock dividends and other types of income) and estate tax cuts first enacted under President George W. Bush in 2001 and 2003. President Obama expanded certain parts of the income tax cuts helping low-income families (certain provisions increasing the Earned Income Tax Credit and Child Tax Credit) as part of the 2009 economic recovery act.

At the end of 2010, after much debate, President Obama and Congress enacted legislation that extended all these tax cuts for two years, through the end of 2012.[1]

Beginning in 2013, President Obama proposes to make permanent the income tax cuts for the first $250,000 a married couple makes annually and the first $200,000 that a single person makes annually. This would mean, for example, a married couple with $1 million in income would continue to enjoy the lower tax rates enacted under President Bush for (at least) their first $250,000 of income in a year, but would pay the higher tax rates in place at the end of the Clinton years on the remaining $750,000 of their income.

Only **1.9 percent** of Americans and **2.3 percent** of Texas residents would lose any portion of the Bush income tax cuts in 2013 under President Obama's proposal.[2]

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[1] The partial exception is the estate tax cut enacted under President Bush in 2001. That provision gradually cut the estate tax over a period of years until repealing it entirely in 2010. The law enacted by President Obama and Congress in 2010 slashed the estate tax steeply for 2011 and 2012 but did not extend the full repeal of the estate tax.

[2] President Obama's proposal would allow the top two income tax rates to revert to their pre-Bush levels and would adjust the income tax brackets so that no married couple with adjusted gross income (AGI) of less than $250,000

Congressional Republicans propose to extend the Bush income tax cuts for all levels of income, which is one reason why high-income Americans would receive a much larger average tax cut under the Republican approach.

Competing Approaches to the Bush Tax Cuts, Impact in 2013 in Texas						
State Taxpayers		Obama's Approach (Extend Bush income tax cuts for first $200k/250k, estate tax cut, extend EITC and child credit expansion from recovery act)		Republican Approach (Permanent Bush income tax cuts for all income, estate tax cut more, no EITC or child credit expansion from recovery act)		Republican vs. Obama Approach
Income Group	Average Income	Average Tax Cut	Share of Tax Cut	Average Tax Cut	Share of Tax Cut	Average Difference
Poorest 20%	$12,780	$ –400	4.3%	$ –150	1.1%	$+250
Second 20%	27,790	–930	10.0%	–720	5.7%	+210
Middle 20%	45,260	–1,050	11.2%	–950	7.6%	+100
Fourth 20%	74,120	–1,610	17.1%	–1,590	12.6%	+20
Next 15%	132,960	–3,780	30.2%	–3,780	22.5%	—
Next 4%	294,800	–7,930	16.9%	–9,190	14.6%	–1,260
Richest 1%	1,653,310	–19,250	10.3%	–90,780	36.0%	–71,530
ALL	$79,440	$ –1,860	100.0%	$ –2,500	100.0%	$ –640
Bottom 60%	$28,620	$ –800	25.5%	$ –610	14.4%	$+190

Figures rounded to the nearest ten dollars.
Source: Institute on Taxation and Economic Policy (ITEP) tax microsimulation model, June 2012.

Beginning in 2013, President Obama also proposes to make permanent part of the cut in the estate tax. The President would allow married couples to pass on at least $7 million in assets tax-free. The estate tax cut in effect now, which Republicans propose to make permanent, allows married couples to pass on at least $10 million in assets tax-free and taxes the rest at a lower rate. This is the second reason why high-income Americans would receive a much higher average tax cut under the Republican approach.

Beginning in 2013, President Obama also proposes to make permanent the expansions of the Earned Income Tax Credit and Child Tax Credit enacted in 2009, which the Republicans oppose. This is the reason why low-income and middle-income groups would pay more, on average, under the Republican approach than they would pay under President Obama's approach.

The President's approach would cost $1 trillion dollars less (including interest payments on the resulting debt) over the next decade than the GOP approach, as illustrated in the table to the right.

10-Year Cost Difference Congressional GOP Approach to Tax Cuts vs. President's Approach	
(in billions of dollars)	
personal income tax cuts*	$+848.9
estate tax cuts*	$+118.8
2009 Child Tax Credit expansion**	$ –75.8
2009 EITC expansions**	$ –26.7
total before debt service	$+865.2
debt service***	$+149.4
TOTAL including debt service	$+1,014.6

* See "General Explanations of the Administration's Fiscal Year 2013 Revenue Proposals," Department of the Treasury, February 2012, page 203.

** See Citizens for Tax Justice, "President Obama's 2013 Budget Plan Reduces Revenue by Trillions, Makes Permanent 78 Percent of Bush Tax Cuts," February 14, 2012.

*** Debt service calculated by Citizens for Tax Justice based on Congressional Budget Office interest calculations.

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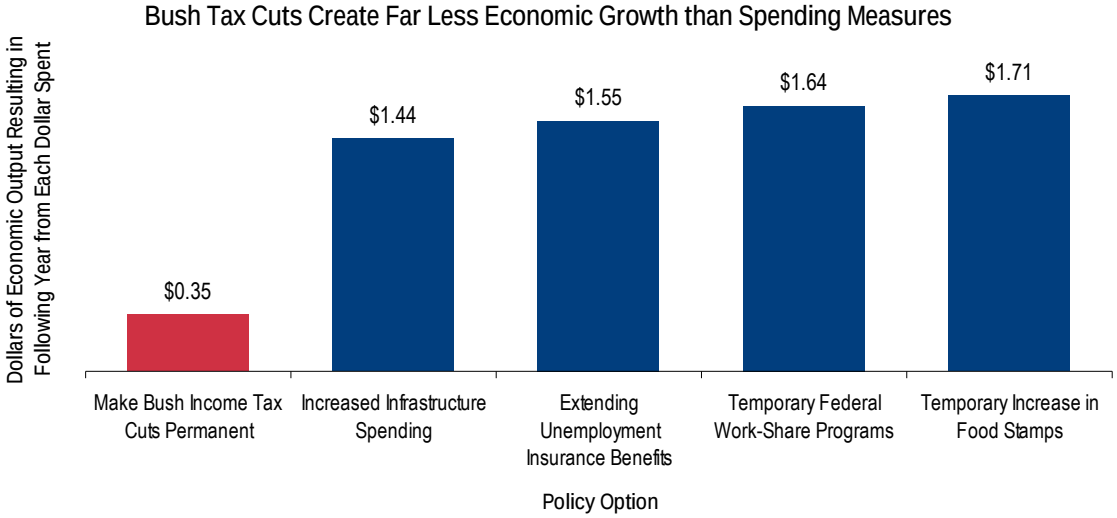
could fall into the top two tax brackets and no single person with AGI of less than $200,000 could fall into the top two brackets. These amounts would be indexed for inflation from 2009, when President Obama first formally made this proposal. This means that in 2013 a married couple would continue to enjoy the Bush income tax cuts for (at least) their first $264,850 of income and single people would continue to enjoy the tax cuts for (at least) their first $211,800 of income. Some taxpayers with income over these thresholds would not lose any portion of the Bush income tax cuts because deductions and exemptions would prevent them from falling into the top two income tax brackets.

Some claim that the economy will suffer if the Bush tax cuts expire as scheduled at the end of this year, but the expiration of the Bush tax cuts would only mean that the tax rules revert to those in place at the end of the Clinton years, when the economy was performing better than it is today. There is even less reason to worry about the economic effects of Obama's approach, which would fully extend the tax cuts for 98.1 percent of Americans and partially extend the tax cuts for the richest 1.9 percent.

Many economists agree that if Congress is willing to forego revenue (and increase the deficit) in order to boost the economy, there are far more effective measures than the Bush tax cuts.

For example, the noted economist (and former adviser to presidential candidate John McCain) Mark Zandi has concluded that for every dollar of revenue the federal government would lose from making permanent the Bush income tax cuts, U.S. economic output would increase by only 35 cents in the following year. On the other hand, he finds that for every dollar the federal government spends on increased food stamps, work share programs, or unemployment benefits, U.S. economic output would increase by $1.71, $1.64, and $1.55 respectively.[3]



Source: Written Testimony of Mark Zandi, Chief Economist and Co-Founder, Moody's Analytics, February 7, 2012.

These spending programs do more to boost the economy because they put money in the hands of people who are likely to spend it immediately, which allows the companies selling consumer goods and services to maintain or increase employment. The Republican proposal to extend the Bush income tax cuts would disproportionately benefit the wealthy, who tend to save a larger portion of their income, and would therefore provide far less of a boost to the economy. The same would clearly be true for the Republican proposal to extend the estate tax cut in place now.

[3] Written Testimony of Mark Zandi, Chief Economist and Co-Founder, Moody's Analytics, February 7, 2012. http://www.economy.com/mark-zandi/documents/2012-02-07-JEC-Payroll-Tax.pdf

Appendix: Details on Congressional GOP Approach and President Obama's Approach to the Expiring Tax Cuts

The table to the right explains which tax cut provisions (which all expire at the end of 2012) would be extended under the Congressional Republicans' approach and President Obama's approach.

* President Obama proposes to adjust the brackets so that no married couple with adjusted gross income (AGI) below $250,000 and no single person with AGI below $200,000 (in 2009 dollars) can fall into the top two income tax brackets. This means that in 2013 a married couple would continue to enjoy the Bush income tax cuts for (at least) their first $264,850 of income and single people would continue to enjoy the tax cuts for (at least) their first $211,800 of income. Some taxpayers with income over these thresholds would not lose any portion of the Bush income tax cuts because deductions and exemptions would prevent them from falling into the top two income tax brackets.

** The personal exemption phase-out and the itemized deduction disallowance limit the ability of relatively high-income taxpayers to reduce their taxable income with personal exemptions and itemized deductions. These limits were repealed as part of the Bush tax cuts, and Congressional Republicans would make permanent this repeal. President Obama proposes to allow the personal exemption phase-out and the itemized deduction disallowance to come back into effect, but only for married couples with AGI in excess of $250,000 and single taxpayers with AGI in excess of $200,000 (in 2009 dollars).

*** If the estate tax cuts are allowed to expire at the end of this year as scheduled under current law, married couples will be allowed to pass on at least $2 million in assets tax-free and the taxable portion of an estate will be taxed at a top rate of 55 percent. The tax cut in effect now, which Republicans propose to make permanent, allows couples to pass on at least $10 million in assets tax-free and taxes the taxable portion of an estate at a top rate of 35 percent. President Obama proposes an estate tax that is smaller than the one that would come into effect under current law if Congress does nothing, but larger than the one that would exist under the Republican proposal to extend the current estate tax cut. Under the President's proposal, married couples would be allowed to pass on at least $7 million in assets tax-free, and the taxable portion of an estate would be taxed at a top rate of 45 percent.

Tax Break	Congressional Republicans	President Obama
Income Tax Cuts First Enacted 2001 and 2003		
■ reduction of the 36% and 39.6% rates to 33% and 35%	Extended	Expire*
■ reduction of the 28% and 31% rates to 25% and 28%	Extended	Extended
■ introduction of the ten percent tax bracket (lowest bracket was previously 15 percent)	Extended	Extended
■ reduction of rates for capital gains in bottom four brackets from 10% and 20% to 0% and 15%	Extended	Extended
■ reduction of rates for capital gains in top two brackets from 20% to 15%	Extended	Expire*
■ reduction of rates on stock dividends in bottom four brackets from ordinary rates to capital gains rates	Extended	Extended
■ reduction of rates on stock dividends in top two brackets from ordinary rates to capital gains rates	Extended	Expire*
■ expansion of Child Tax Credit	Extended	Extended
■ elimination of "marriage penalty" in the standard deduction	Extended	Extended
■ elimination of "marriage penalty" in the 15 percent rate bracket	Extended	Extended
■ reduction in "marriage penalty" in the Earned Income Tax Credit.	Extended	Extended
■ expansion of the Dependent Care Credit	Extended	Extended
■ repeal of the personal exemption phase-out	Extended	Partly Extended**
■ repeal of the itemized deduction disallowance	Extended	Partly Extended**
■ increase in the exemptions in the Alternative Minimum Tax (AMT)	Extended	Extended
2009 Expansions of Certain Income Tax Cuts		
■ further reduction in the "marriage penalty" in Earned Income Tax Credit	Expire	Extended
■ increase in Earned Income Tax Credit for larger families	Expire	Extended
■ making the refundable part of Child Tax Credit more accessible to lower-income earners	Expire	Extended
Estate Tax Cuts		
■ increase in amount of assets exempt from estate tax	Extended	Partly Extended***
■ reduction in estate tax rate	Extended	Partly Extended***