

Gingrich Tax Plan Would Resume Raid on Social Security. Most of Speaker's Tax Cuts Are Targeted to Top Earners.

House Speaker Newt Gingrich has called for using two-thirds of the projected \$1.5 trillion dollar surplus in the Social Security trust funds over the next decade to pay for tax cuts. An analysis of the key items in the Speaker's tax plan by the Institute on Taxation and Economic Policy, released by Citizens for Tax Justice, finds that most of Mr. Gingrich's suggested tax cuts would benefit people making more than \$200,000 per year.

"Although we hear about a federal budget surplus of \$1.5 trillion, the fact is that the surplus is almost entirely attributable to the Social Security trust fund reserves," said Michael Ettlinger, tax policy director of Citizens for Tax Justice. "The government is supposed to have a surplus now so that it will be able to pay Social Security benefits in the future. Spend the surplus now and paying the expected level of Social Security benefits to today's workers when they retire will be very difficult. The decision we face is not how to spend a budget surplus, but what to do with the Social Security trust fund reserves. Tax cuts should not be on that list of options."

Of the \$750 billion in tax cuts that the Speaker proposes, the analysis found that:

- # 60% would go to the two percent of taxpayers making more than \$200,000 a year.
- # The average tax cut in the over \$200,000 group would exceed \$17,600 per year.
- # In contrast, less than 5 percent of the Speaker's tax cuts would go to the 70 percent of taxpayers making less than \$50,000 a year. The average tax cut for these taxpayers would be only \$39 a year, or 75 cents a week.

The Speaker's key suggested tax cuts include:

- # A capital gains tax cut. In 1997, the top capital gains tax rate was cut from 28% to 20%. The Speaker proposes a further reduction to 15%—a tax cut worth \$16 billion a year. Three quarters of that would go to those with incomes above \$200,000.
- # "Marriage penalty" relief. The leading House proposal on this issue, sponsored by Rep. Jerry Weller (R-Ill.) and David McIntosh (R-Ind.), would make the married tax brackets and standard deduction double the current single amounts. This plan would cost \$34 billion a year, with most of the tax cuts going to couples making more than \$100,000.
- # Elimination of the estate tax. Under current law, this tax raises \$25 billion a year, and applies only to the largest 2% of estates.

“The fact that Speaker Gingrich’s suggested tax cuts are so heavily tilted toward the very top of the income scale makes his plan even more egregious,” Ettliger added. “It’s hard to imagine that the typical American taxpayer would favor undermining Social Security in exchange for a tax cut of 75 cents a week.”

“There is a surplus, but all the surplus belongs to the Social Security Trust Funds. . . . I’m telling you there is no surplus.”

Senate Budget Committee Chairman Pete Domenici (R-NM), *BNA Daily Tax Report*, July, 22, 1998, GG-3

Mr. Ettliger is also employed by the Institute on Taxation and Economic Policy and is co-author of the ITEP analysis with Robert S. McIntyre.

Citizens for Tax Justice is a nonpartisan research and advocacy group devoted to improving the fairness of America’s tax laws.

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ITEP Analysis Follows

Effects of Speaker Gingrich’s Three Key Tax Cut Proposals

(1999 Levels)

Income Group	% of All Returns	Tax Cuts for Couples		Capital Gains Tax Cut		TOTAL Tax Cuts With Estate Tax Repeal	
		Average Cut For Married Couples	% of Tax Cut for Couples	Average Cut, All	% of Total Capital Gains Tax Cut	Average For All Taxpayers	% of TOTAL Tax Cut
<\$10,000	12.2%	\$ —	—	\$ -0	0.0%	\$ -1	0.0%
\$10-20,000	20.0%	-28	0.4%	-1	0.1%	-9	0.3%
\$20-30,000	16.7%	-94	1.9%	-3	0.4%	-35	1.0%
\$30-40,000	11.5%	-157	3.0%	-6	0.5%	-82	1.6%
\$40-50,000	9.2%	-158	3.0%	-13	1.0%	-110	1.7%
\$50-75,000	14.6%	-383	15.1%	-30	3.5%	-313	7.7%
\$75-100,000	7.1%	-993	22.5%	-69	4.0%	-920	11.0%
\$100-200,000	6.1%	-1,123	22.4%	-288	14.2%	-1,607	16.4%
\$200,000+	2.0%	-4,879	31.6%	-4,663	76.4%	-17,686	60.3%
ALL	100.0%	\$ -603	100.0%	\$ -123	100.0%	\$ -592	100.0%
Annual Tax Cut		-\$34.2 billion		-\$15.5 billion		-\$74.6 billion	

The three tax cuts modelled include: the Weller-McIntosh “marriage penalty” bill; a reduction in the top capital gains tax rate to 15% (7.5% for 15% bracket taxpayers); and elimination of the estate tax. All three proposals are shown fully effective.

Source: Institute on Taxation and Economic Policy Microsimulation Tax Model, July 1998, preliminary.