

GOP Tax Plan Offers Wealthy and Corporations Immediate Relief. Others Must Wait. Don't Spend That \$160 Tax Cut Right Away

As Republican congressional leaders tour the country this month to tout their tax cut plan, average American taxpayers should keep a number of things in mind.

- # For starters, there's the fact that the tax cuts spend an illusory "surplus" that exists only if there are deep reductions in domestic programs—reductions that not only shouldn't happen, but almost certainly won't. That's why many people are starting to call the GOP tax plan the "Deficit Restoration Act of 1999."
- # Then there's the fact that two-thirds of the GOP tax cuts will go to the best-off tenth of all taxpayers. People at the very top, the best-off one percent, do particularly well, with an average annual tax cut of some \$46,000 each.
- # On the other hand, for families in the middle of the income scale and below, the average tax cut, when everything is fully in place, is only about \$160—far less than the amount they stand to lose in reduced government services.

Finally, there's an additional insult to ordinary taxpayers in the bill. While corporations and wealthy investors will start seeing big tax cuts right away, the tax reductions reserved for the non-rich don't even start to take effect until the year 2001, and are only gradually phased in thereafter.

Thus, under the GOP tax plan, the capital gains tax cut is retroactive to January 1 of this year. The corporate tax loopholes start to take effect in 1999 as well. And the phased-in elimination of the estate tax starts after Dec. 31, 2000. But as for the other provisions:

- # The reductions in income tax rates don't even begin until 2001, and aren't fully effective until 2005.
- # The increase in the standard deduction for couples is only gradually phased in between 2001 and 2005.
- # The boost in the credit for child care expenses starts to take effect in 2001, but most of the increase is put off until 2006.
- # The increase in the earned income tax credit for some lower-income couples doesn't take effect at all until 2006.
- # The deduction for health insurance costs for those without employer-paid plans doesn't start phasing in until 2002 and isn't fully in place until 2007.
- # Raising the dollar amount for the starting point for the 28% tax bracket doesn't start until 2005 and won't be completed until 2008.

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How Congressional Republicans Plan to Phase In Their Tax Cuts

Phase-in rules	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009*
Capital gains tax reduction	100%	→									
Corporate tax breaks**	33%	50%	67%	100%	→						
Estate tax elimination	—	—	25%	30%	35%	40%	45%	50%	55%	60%	100%
Reduce individual income tax rates—											
15% to 14% (14.5% in 2001 and 2002)	—	—	50%	50%	100%	→					
Other income tax rates minus 1%	—	—	—	—	—	—	100%	→			
Increase standard deduction for couples	—	—	20%	40%	60%	80%	100%	→			
Increase dependent care credit	—	—	27%	27%	27%	27%	27%	100%	→		
Increase earned income tax credit for couples	—	—	—	—	—	—	—	100%	→		
Deduction for health insurance	—	—	—	25%	25%	25%	35%	65%	100%	→	
Raise starting dollar amounts for 28% bracket	—	—	—	—	—	—	25%	50%	75%	100%	→

*Many provisions are technically supposed to terminate after 2008. That feature is ignored here.

**Some provisions are supposed to terminate in later years.

Source: Joint Committee on Taxation, 8/4/99. Some calculations by Citizens for Tax Justice.

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“The message from GOP congressional leaders is clear,” said Citizens for Tax Justice Director Robert S. McIntyre. “If you made your campaign contributions early and often, you’ll get big tax cuts right away. But if you’re just an ordinary American citizen, then your promised tax cut is not only paltry, it will be delayed for many years.”

Citizens for Tax Justice is a non-partisan, non-profit tax policy research group based in Washington, D.C.