

Bush Scales Back Tax Cut Plan to Trim Cost

New \$1.9 Trillion Plan Tilts Even More to Very Top

GOP presidential candidate George W. Bush has scaled back his \$2.2 trillion tax cut plan by about \$300 billion over ten years, according to new details recently published by the congressional Joint Committee on Taxation. The newly-described changes would sharply lower the tax cuts for taxpayers in the top fifth of the income scale—except for the top one percent of taxpayers. The top one percent, whose tax cut is lowered only slightly, would actually get a noticeably larger share of the total Bush tax cuts than under the originally-described plan.

The revised Bush tax plan would reduce revenues by almost \$1.6 trillion over ten years, costing a total of \$1.92 trillion, including \$355 billion in added interest on the national debt.

Under the revised plan, a major portion of the income tax cuts people making between \$65,000 and \$319,000 would have expected from the Bush plan are illusory. Although Bush proposes to reduce the current 28% and 31% income tax rates to 25%, his campaign now says that much of that change will be obviated by retaining the 26% and 28% “alternative minimum tax” rates. The alternative tax is paid if it exceeds the regular tax due.

Currently about a million taxpayers pay the alternative tax. Under Bush’s revised plan, the number would jump to more than 20 million taxpayers by the year 2010. MORE . . .

Effects of George W. Bush’s Revised Tax Plan

Including a Vastly Expanded Alternative Minimum Tax & Other Recent Changes

(Annual effects at 1999 income levels, \$-billions except averages)

Income Group	Income Range	Average Income	Revised Bush Plan		Compare: Original Plan	
			Average Tax Cut	% of Total Tax Cut	Average Tax Cut in Original Plan	% of Total in Original Plan
Lowest 20%	Less than \$13,600	\$ 8,600	\$ -42	0.8%	\$ -43	0.6%
Second 20%	\$13,600–24,400	18,800	-187	3.5%	-203	3.0%
Middle 20%	\$24,400–39,300	31,100	-453	8.4%	-501	7.4%
Fourth 20%	\$39,300–64,900	50,700	-876	16.2%	-1,043	15.4%
Next 15%	\$64,900–130,000	86,800	-1,447	20.1%	-1,908	21.1%
Next 4%	\$130,000–319,000	183,000	-2,253	8.4%	-5,340	15.7%
Top 1%	\$319,000 or more	915,000	-46,072	42.6%	-50,196	36.9%
ALL		\$ 50,800	\$ -1,070	100.0%	\$ -1,349	100.0%
ADDENDUM						
Bottom 60%	Less than \$39,300	\$ 19,500	\$ -227	12.6%	\$ -249	11.0%
Top 10%	\$92,500 or more	218,000	-6,410	59.4%	-8,367	61.6%

The revised Bush plan costs \$1.8 trillion over ten years, including interest, compared to \$2.2 trillion for the original plan. Figures reflect the latest revisions to the Bush plan, including: a vastly expanded Alternative Minimum Tax that by 2008 will affect more than half of all taxpayers earning \$65,000 or more (more than three-fifths by 2010), compared to only four percent today; a narrower 10% bottom tax bracket than previously advertised (because of no indexing until 2007); expanded child credits for parents making more than \$200,000; a lower dollar cap on the second-earner deduction (because of no indexing); and a limit on the charitable deduction for non-itemizers. Estimates exclude expanded Education Savings Accounts. Tax changes are shown fully effective at 1999 levels.

Source: Institute on Taxation and Economic Policy Tax Model.

“Bush Tax Calculator” hugely overstates tax cuts, as revised, for many families

Because of the recent changes to the plan, the revised Bush tax cuts are inconsistent with the tax cuts advertised on Bush’s website (www.georgewbush.com) for many families. For example, a one-earner couple with two children earning \$80,000 (in 1999 dollars) and taking the standard deduction is supposed to get an income tax cut of \$2,162 according to the “Bush Tax Calculator.” But under the revised plan, in the first year that the Bush income tax cuts would be fully effective (2006), such a couple’s tax cut would be \$1,602. By the fifth year of the Bush tax cuts, the couple’s tax cut would drop to only \$760. Thus, during the first five years, the “Bush Tax Calculator” overstates the couple’s tax cut under the Bush plan by 35% to 184%.

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Examples of How the Bush Tax Calculator Overstates the Bush Tax Cuts

A two-child couple earning \$80,000 (in 1999 dollars) in the first 5 years the Bush tax cuts are fully in place

	2006		2007		2008		2009		2010	
	Now	Bush	Now	Bush	Now	Bush	Now	Bush	Now	Bush
Regular tax—										
Adj. Gross Income	\$80,000		\$80,000		\$80,000		\$80,000		\$80,000	
Personal Exemptions	11,000		11,000		11,000		11,000		11,000	
Standard Deduction	7,200		7,200		7,200		7,200		7,200	
Taxable income	61,800		61,800		61,800		61,800		61,800	
Tax before credits	11,707	10,640	11,707	10,640	11,707	10,640	11,707	10,640	11,707	10,640
Child credits	840	1,680	820	1,640	800	1,600	780	1,560	760	1,520
Tax after credit	10,867	8,960	10,887	9,000	10,907	9,040	10,927	9,080	10,947	9,120
Alternative tax—										
Taxable income	61,800		61,800		61,800		61,800		61,800	
Add back exemptions	11,000		11,000		11,000		11,000		11,000	
Add back std. ded.	7,200		7,200		7,200		7,200		7,200	
Taxable bef. exemption	80,000		80,000		80,000		80,000		80,000	
Alternative exemption	37,900		36,900		36,000		35,200		34,300	
Alt. taxable income	42,100		43,100		44,000		44,800		45,700	
Alt. tax before credits	10,946		11,206		11,440		11,648		11,882	
Less child credits	840	1,680	820	1,640	800	1,600	780	1,560	760	1,520
Alternative tax	10,106	9,266	10,386	9,566	10,640	9,840	10,868	10,088	11,122	10,362
Income tax (higher of regular or alternative)	10,867	9,266	10,887	9,566	10,907	9,840	10,927	10,088	11,122	10,362
Bush tax cut		-1,601		-1,321		-1,067		-839		-760
Bush Tax Calculator Says		-2,162		-2,162		-2,162		-2,162		-2,162
Tax Calculator Overstates Cut By		+35%		+64%		+103%		+158%		+184%

All figures are in 1999 dollars, including the rules governing the child credit and the alternative minimum tax (there is no indexing for inflation of these provisions under either current law or the Bush plan). Figures assume extension of the current rule allowing the child credit against the alternative tax under both the Bush plan and current law, based on past congressional practice. Without this assumption, the Bush tax calculator would still overstate the Bush tax cuts by 29% to 42% for couples making \$80,000, over the first five years that the Bush plan is fully in effect.

Note: The Bush tax calculator assumes use of the standard deduction in all of its examples, even though that is not typically the case for couples making more than about \$60,000 a year.

Changes from the Original Bush Tax Plan (May 2000):

1. Narrower 10 Percent Tax Bracket. The new 10 percent tax bracket, advertised as applying to the first \$12,000 in taxable income for couples, \$6,000 for singles and \$10,000 for single parents in 1999 dollars, will actually not reach those levels in nominal dollars until 2006. As a result, income eligible for the 10 percent brackets will actually be 16 percent lower than originally promised (in constant dollars): \$10,100 for couples, \$5,050 for singles, and \$8,400 for single parents.

2. Limits on the charitable deduction for non-itemizers. The charitable deduction for non-itemizers will be limited to \$7,200 for couples, \$4,300 for singles and \$6,350 for single parents (in 1999 dollars, indexed for inflation) when the deduction is fully in place in 2006. (This change was made after it was revealed that the original proposal would have provided a large tax cut to George W. Bush had it been in effect for tax year 1998, because his extremely high income that year caused him to lose most of his itemized charitable deductions under current law.)

3. Unindexed second-earner deduction. The \$3,000 cap on the 10 percent second-earner deduction is in nominal dollars, not indexed for inflation. (This was not clear in the original proposal.) Thus, by the time the deduction is fully effective in 2006, the maximum will be only \$2,500 in 1999 dollars. By 2008 the maximum deduction in 1999 dollars will be only \$2,400. The deduction will continue to decline in real terms in succeeding years.

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Description of How the "Bush Tax Calculator" Miscalculates Tax Cuts

One-earner, 2-child married couple earning \$80,000 in 1999 dollars

(In 2008 — the mid-point of the first five years the tax cuts are fully in effect)

	What the Bush Tax Calculator Says		Accurate Calculations (based on revised plan)		Notes on the Bush Tax Calculator's Errors
	Current Law	Bush Tax Plan	Current law should be	Bush plan should be	
Regular income tax before credits	11,707	10,545	11,707	10,640	Ignores inflation's effects on Bush's proposed \$12,000, 10% tax bracket. The Bush 10% rate does not take effect until 2006 and thereafter, when it will apply to the first \$10,100 in taxable income for couples, in 1999 dollars.
Child credits	1,000	2,000	800	1,600	Ignores inflation's effects on the child credit under both current law and Bush's plan. Bush's plan does not double the credit until 2006. (The unindexed credit falls in real terms under both current law and Bush's plan).
Regular income tax after credits	10,707	8,545	10,907	9,040	Understates regular tax (especially under Bush) due to above factors. But failure to compute the alternative tax (see below) makes these errors mostly irrelevant.
Alternative tax, if applicable	<i>Not Computed</i>		Not applicable	9,840	Ignores the fact that the alternative tax will apply under the Bush plan, because the plan fails to reduce the alternative tax rates in line with the cuts in the regular tax rates. (In addition, because the alternative exemption is not indexed, it falls in real terms, from \$45,000 in 1999 to \$36,000 in 2008.)
Higher of regular or alternative tax			10,907	9,840	
Bush tax cut	\$-2,162		\$-1,067		Bush Tax Calculator overstates Bush tax cut by 103%.

4. Slower phase-out of the child credit at high income levels. The doubled child tax credit will be phased out at a two percent rate rather than five percent. Since the phase-out starting point is raised to \$200,000, that means, for example, that partial credits will be available to families with two children until income exceeds \$300,000. (As under current law, the child credit and the phase-out rules are not indexed for inflation.)

5. Major Offset to Apparent Tax Cuts from the Alternative Minimum Tax. Most important, the 26 and 28 percent tax rates for the alternative minimum tax—which is paid if higher than the regular income tax—will not be reduced in line with the reductions in the regular tax rates. (Information on Bush’s website, including the “Bush Tax Calculator,” strongly implies that the minimum tax rates would be reduced under the Bush tax plan.)

As a result of the decision not to adjust the alternative tax rates (along with the fact that the alternative tax exemptions are not indexed for inflation under both current law and the Bush plan), many taxpayers whose income taxes would apparently go down substantially under the Bush plan due to his reduction in the 28 and 31 percent regular tax rates to 25 percent will lose much or most of their promised tax cuts. By 2010, close to 20 million taxpayers will owe the alternative tax under the Bush plan, compared to only about a million taxpayers today. In addition, millions of other taxpayers will have to fill out the complicated alternative tax form along with the regular tax forms to determine if the alternative tax applies to them.

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Examples of the Effects of the Alternative Minimum Tax and Inflation on the Bush Tax Cuts in 2008
Married with Two Children, One Earner, All Ordinary Income, 1999 levels

	Cur. Law	Bush	Cur. Law	Bush	Cur. Law	Bush	Cur. Law	Bush	Cur. Law	Bush	Cur. Law	Bush	Cur. Law	Bush
Adj. Gross Income	\$85,000		\$100,000		\$125,000		\$185,000		\$250,000		\$400,000		\$525,000	
Regular Tax—														
Personal exemptions	11,000		11,000		11,000		11,000		5,500		—		—	
Itemized deductions	17,700		20,500		25,200		35,600		44,600		60,400		68,300	
Taxable income	56,300		68,500		88,800		138,400		199,900		339,600		456,700	
Tax before credits	10,168	9,265	13,584	12,315	19,268	17,390	34,186	29,790	55,319	48,473	107,643	94,574	154,014	133,217
Child credits	800	1,600	320	1,600	—	1,600	—	1,200	—	160	—	—	—	—
Regular tax	9,368	7,665	13,264	10,715	19,268	15,790	34,186	28,590	55,319	48,313	107,643	94,574	154,014	133,217
Apparent tax cut	-1,703		-2,549		-3,478		-5,596		-7,006		-13,069		-20,797	
Alternative Tax—														
Taxable income	56,300		68,500		88,800		138,400		199,900		339,600		456,700	
Add back pers. exe.	11,000		11,000		11,000		11,000		5,500		—		—	
Add back S&L taxes	5,900		7,100		9,000		13,400		17,900		27,400		33,600	
Subtotal	73,200		86,600		108,800		162,800		223,300		367,000		490,300	
Alt. exemption	36,000		36,000		36,000		25,300		10,200		—		—	
Alt. taxable income	37,200		50,600		72,800		137,500		213,100		367,000		490,300	
Alt. tax before credits	9,672		13,156		18,928		35,750		56,866		99,958		134,482	
Child credits	800	1,600	320	1,600	—	1,600	—	1,200	—	160	—	—	—	—
Alternative Tax	8,872	8,072	12,836	11,556	18,928	17,328	35,750	34,550	56,866	56,706	99,958	99,958	134,482	134,482
Alternative adds:	—	+407	—	+841	—	+1,538	+1,564	+5,960	+1,548	+8,393	—	+5,384	—	+1,265
Total income tax	9,368	8,072	13,264	11,556	19,268	17,328	35,750	34,550	56,866	56,706	107,643	99,958	154,014	134,482
Net Bush Tax Cut	-1,296		-1,708		-1,940		-1,200		-160		-7,685		-19,532	
Alter. tax lowers Bush tax cut by:	-24%		-33%		-44%		-79%		-98%		-41%		-6%	

The effects of Bush's decision not to reduce the alternative minimum tax rates are not taken into account on the "Bush Tax Calculator" on Bush's website, causing the the "calculator" to hugely overstate Bush's tax cuts for families earning from about \$60,000 up to the calculator's \$100,000 limit. The effects abate at very high incomes.

Notes: Itemized deductions shown above, including state and local taxes deducted net of refunds, are estimated actual averages for couples that itemize deductions in 1999. Figures assume extension of the rule allowing personal credits against the alternative minimum tax under both current law and the Bush plan.