

Update on House GOP Budget Plan

Yesterday, the ranking Republican on the U.S. House of Representatives' Budget Committee, Congressman Paul Ryan (R-Wisc.), released a budget plan¹ which he argues is a more fiscally responsible alternative to the budget outline proposed by President Obama and the similar budget resolutions working their way through the House and Senate. His proposal is apparently an update on the plan that House GOP leaders introduced last week and is different in some key respects.

Comparing the income tax proposals in the House GOP plan to the income tax proposals in the House Democratic plan in 2010, we find that:

- Over a *third* of taxpayers, mostly low- and middle-income families, would pay *more* in taxes under the House GOP plan than they would under the House Democratic plan in 2010.
- The richest one percent of taxpayers would pay \$75,000 less, on average, in income taxes under the House GOP plan than they would under the Democratic plan in 2010.
- The income tax proposals in the House GOP plan, which is presented as a fiscally responsible alternative to the Democratic plan, would cost over \$225 billion more than the Democratic plan's income tax policies in 2010 alone.

Impact of Income Tax Proposals in House GOP Budget Plan Compared to Income Tax Proposals in House Democratic Budget Plan, in 2010					
Income Group	Average Income	Difference (\$Millions)	Difference (average)	% Who Pay LESS under GOP plan compared to Democratic plan	% Who Pay MORE under GOP plan compared to Democratic plan
Lowest 20%	\$ 12,500	\$ +8,498	\$ +297	13.8%	52.7%
Second 20%	25,100	+2,978	+104	36.3%	39.5%
Middle 20%	40,700	-6,870	-240	47.1%	39.1%
Fourth 20%	66,700	-27,674	-966	59.1%	37.3%
Next 10%	101,800	-23,870	-1,665	65.3%	31.8%
Next 5%	143,800	-27,058	-3,774	79.6%	17.0%
Next 4%	251,600	-43,211	-7,537	88.3%	6.6%
Top 1%	1,389,500	-107,931	-75,315	97.3%	0.7%
ALL	\$ 69,200	\$ -225,055	\$ -1,548	45.6%	37.8%
Bottom 60%	\$ 26,100	\$ +4,606	\$ +54	32.4%	43.8%

Source: ITEP Microsimulation Model, April 2009

¹"Report on the Path to American Prosperity: The House Republican Budget Alternative," April 1, 2009
http://www.house.gov/budget_republicans/press/2007/pr20090401_gopbudget.pdf

The House GOP Budget Plan

The House Republicans' budget plan would move towards cutting and privatizing Medicare, convert Medicaid into limited block grants to states, and even cut Social Security benefits for some retirees. The plan would deeply cut the relatively small amount of government spending devoted to non-military, non-mandatory programs by refusing to adjust the budgets of these programs for inflation and population growth for five years.

House GOP Plan Would Repeal the Economic Stimulus Law

Of more immediate concern is how the House GOP budget would address the current economic crisis. Incredibly, the House GOP plan would repeal the recently enacted economic stimulus law (the American Recovery and Reinvestment Act of 2009, or ARRA) a year before its expiration at the end of 2010. (The GOP plan would make an exception for the expanded unemployment insurance benefits in the ARRA, which would remain in place.)

Economists largely agree that the recession can be mitigated by measures to temporarily increase government spending and measures that put money in the hands of working families who will spend it quickly, both of which can provide a quick boost in consumer demand. The ARRA does both in order to stop the downward spiral of declining consumer demand leading to companies laying off workers, leading to more declining demand and more layoffs.

Several tax cuts in the ARRA put money in the hands of working families. These include a modestly expanded Earned Income Tax Credit (EITC), a reduction in the earnings required for families to receive the refundable part of the Child Tax Credit, and the new refundable Making Work Pay Credit worth \$400 for most working people (or \$800 for married couples if at least one spouse works).

These refundable credits are sometimes cast by their critics as "tax cuts for people who don't pay taxes," but that argument implies that only federal income taxes are "taxes." A third of American households do not have sufficient income to owe federal income taxes.² But all working families (and only families with earnings are eligible for the refundable tax credits in question) pay federal payroll taxes, not to mention various federal, state and local consumption taxes that affect low-income families far more than high-income families. Refundable income tax credits play an important role in offsetting the impact of these other regressive taxes on families of modest means.

The House GOP budget plan says in several places that it "repeals 'stimulus' spending beyond the current year, excluding unemployment insurance, and directs the savings to deficit reduction." The budget figures in the plan indicate that this includes repealing the Making Work Pay Credit and the expansions of the EITC and Child Tax Credit.³ We estimate that repealing these tax cuts for low- and middle-income families in 2010 would raise about \$36 billion.

²Citizens for Tax Justice, "Claims that Stimulus Tax Cuts Go to 'People Who Don't Pay Taxes' Are Intentionally Misleading," January 29, 2009. <http://www.ctj.org/pdf/refundablecredits.pdf>

³The Congressional Budget Office counts the refundable parts of these tax credits as spending, so the House Republicans apparently feel justified in repealing them despite their general support for tax cuts.

House GOP Plan to Extend Bush Tax Cuts for the Rich and Make Capital Gains Tax-Free

The House Republicans propose to eliminate capital gains “for the balance of 2009 and all of 2010.” The plan is unclear on whether taxes on dividends, which are currently taxed the same way as capital gains, would also be eliminated temporarily. (Our estimates assume that the dividends tax is temporarily eliminated along with the capital gains tax).

The House Republicans would also, like the House Democrats, make the most recent reduction in the Alternative Minimum Tax (AMT) permanent and index the AMT exemptions in effect this year for inflation.

For years after 2010, the House GOP plan would also make permanent the Bush tax cuts for all Americans (which House Democrats propose to do for all but the very richest taxpayers).

The House GOP’s Optional “Simplified” Income Tax

The House Republicans also propose an alternative, “simplified” income tax that families could file under at their option. The “simplified” tax would include a 10 percent bracket for the first \$100,000 of a married couple’s taxable income (the first \$50,000 of a single taxpayer’s income), a standard deduction of \$25,000 for married couples (\$12,500 for others) and personal exemptions of \$3,500 for each filer and dependent. (We assume that the temporary elimination of taxes on capital gains and dividends applies in the optional simplified tax as well as in the regular income tax).

Of course, letting taxpayers choose which tax system to use will inevitably cost a lot of money, since taxpayers will choose the system that offers them the lower tax. The GOP bill attempts to mitigate this problem a bit by forcing people to choose one tax system over the other on a permanent basis, rather than switching from one system to the other each year. But it has exceptions to this rule — most notably for divorce or marriage — that will allow many taxpayers to switch whenever they want.

Our calculations assume that taxpayers will choose to file under the simplified tax system only if it saves them money in 2010. We estimate that the simplified tax, combined with the elimination of taxes on capital gains and dividends, will cost over \$261 billion in 2010.

House GOP Income Tax Cuts Would Cost Over \$225 Billion More Annually

While the House Democratic budget plan would largely leave income taxes unchanged until after 2010, the House GOP plan would result in a large net reduction in income taxes paid that year. Many low- and middle-income taxpayers would actually pay more because the Making Work Pay Credit and the expansion of the EITC and Child Tax Credit would be repealed. But the tax cuts for the wealthy would be much larger than the tax increases for working families. The result is that the income tax provisions of the House GOP plan would cost over \$225 billion more than the House Democrats’ proposed income tax policies in 2010 alone.

Other Tax Cuts in the House GOP Plan

Not included in our estimates are changes that the House Republican budget plan would make outside of the income tax. Their plan would repeal the estate tax, which in recent years has affected fewer than one percent of estates.⁴ Repealing the estate tax would cost well in excess of a trillion dollars over a decade and can only benefit families who are wealthy enough to pass on millions of dollars to their heirs.

The House GOP plan would also slash the corporate tax rate from 35 percent to 25 percent, a tax cut that would cost \$70 billion in 2010 alone. Most analysts assume that the benefits of cutting the corporate tax would flow mainly to corporate stockholders, meaning more than half of the benefits would go to the richest one percent of taxpayers. The plan says that this change would be coupled with the reduction or elimination of certain preferences in the corporate tax which could, in theory, replace the revenue lost as a result of the lower rate. Whether a rate reduction really would be joined with enough loophole-closing measures to make the corporate tax changes revenue-neutral is an open question.

[The following page has more detailed figures comparing the income tax policies in the House GOP plan to those in the House Democratic plan and notes describing the details of each.]

⁴Citizens for Tax Justice, "Latest State-by-State Data Show Why Obama Should Scale Back His Proposal to Cut the Estate Tax," December 3, 2008. <http://www.ctj.org/pdf/estatetax20081203.pdf>

Impact of Income Tax Proposals in House GOP Budget Plan Compared to Income Tax Proposals in House Democratic Budget Plan, in 2010									
Income Group	Average Income	ALL Taxpayers				Taxpayers Who Pay LESS Under House GOP Plan than Democratic Plan		Taxpayers Who Pay MORE Under House GOP Plan than Democratic Plan	
		Difference (\$Millions)	Difference (average)	% Who Pay LESS under GOP plan compared to Democratic plan	% Who Pay MORE under GOP plan compared to Democratic plan	Difference (\$Millions) for Those Who Pay LESS	Difference (average) for Those Who Pay LESS	Difference (\$Millions) for Those Who Pay MORE	Difference (average) for Those Who Pay MORE
Lowest 20%	\$ 12,500	\$ +8,498	\$ +297	13.8%	52.7%	\$ -899	\$ -228	\$ +9,397	\$ +622
Second 20%	25,100	+2,978	+104	36.3%	39.5%	-5,654	-543	+8,632	+763
Middle 20%	40,700	-6,870	-240	47.1%	39.1%	-14,403	-1,067	+7,533	+673
Fourth 20%	66,700	-27,674	-966	59.1%	37.3%	-34,210	-2,018	+6,536	+612
Next 10%	101,800	-23,870	-1,665	65.3%	31.8%	-26,874	-2,872	+3,004	+659
Next 5%	143,800	-27,058	-3,774	79.6%	17.0%	-27,864	-4,885	+806	+661
Next 4%	251,600	-43,211	-7,537	88.3%	6.6%	-43,396	-8,574	+185	+485
Top 1%	1,389,500	-107,931	-75,315	97.3%	0.7%	-107,937	-77,413	+6	+656
ALL	\$ 69,200	\$ -225,055	\$ -1,548	45.6%	37.8%	\$ -261,248	\$ -3,939	\$ +36,193	\$ +659
Bottom 60%	\$ 26,100	\$ +4,606	\$ +54	32.4%	43.8%	\$ -20,957	\$ -753	\$ +25,563	\$ +679

Source: ITEP Microsimulation Model, April 2009

These estimates assume that the House GOP plan (as presented by Congressman Paul Ryan) would:

1. Repeal the American Recovery and Reinvestment Act (with the exception of expanded unemployment benefits) a year before its expiration at the end of 2010. This means that several tax breaks in the ARRA would be repealed for 2010, including:

- The new Making Work Pay Credit worth \$400 for most working people (\$800 for couples).
- The lower earnings requirement for families receiving the refundable part of the Child Tax Credit.
- The increased EITC for families with three or more children and the reduced "marriage penalty" for all married couples receiving the EITC.
- (Other tax cuts in the ARRA, such as the American Opportunity Credit, which are not included in our estimates due to data limitations).

2. Make permanent AMT relief by making permanent the 2009 exemptions and indexing them for inflation.

3. Eliminate taxes on capital gains and dividends in 2010 only. (We assume this applies to dividends, although the plan is unclear on this point.)

4. Create an optional, "simplified" tax that would include:

- A standard deduction of \$12,500 (\$25,000 for married couples).
- Personal exemptions of \$3,500.
- Just two rates, 10% for the first \$100,000 in taxable income for married couples (\$50,000 for others) and 25% for taxable income beyond that amount.
- No tax on capital gains and dividends in 2010. (We assume this applies to the simplified income tax as well as the regular income tax.)
- No Alternative Minimum Tax (AMT).

(We assume that taxpayers will file under the "simplified" tax only when doing so saves them money.)

5. Make permanent the Bush tax cuts (which has no effect until after 2010 and thus does not affect these figures).

The House Democratic budget plan would make few changes to income taxes in 2010, the year for which these figures are calculated. We assume that the Democratic plan would:

- Leave in place the tax cuts enacted as part of the ARRA until their expiration at the end of 2010.
- Make permanent AMT relief by making permanent the 2009 exemptions and indexing them for inflation.
- Make permanent the Bush tax cuts for most taxpayers, (which has no effect until after 2010 and thus does not affect these figures).

Generally, taxpayers with incomes below \$200,000 (or \$250,000 for married couples) would keep their Bush income tax cuts after 2010.

The Democratic plan would also partially extend the Bush tax cut for dividends even for people with income above those levels

(setting the top rate for dividends at 20%, equal to the top rate for capital gains in 2011).