

House Committee Approves Bush Income Tax Rate Cuts Republicans and Democrats Disagree on Tax Breaks for Rich

On March 1, the House Ways and Means Committee approved the biggest item in President George W. Bush’s tax plan, a sharp reduction in personal income tax rates. Republicans and Democrats on the Committee generally agreed on the size of the tax cuts for all but the richest taxpayers. But they sharply differed on the tax breaks for the best-off one percent, and thus on the overall size of the tax cut.

The GOP plan, which passed on a party-line vote, offers the top income group an average tax cut of more than \$28,000 a year once the plan is fully in place. In contrast, the Democratic plan would limit its tax breaks for the top one percent to \$737 a year.

Under the Republican income tax plan, the wealthiest one percent would get 44.3 percent of the total income tax reductions. Under the Democratic plan, the top one percent would get two percent of the total tax breaks.

As a result, the GOP plan would total \$958 billion over the next decade, according to the Joint Committee on Taxation. Including \$258 billion in added interest on the national debt, the total cost would be \$1.2 trillion over ten years. The Democrats’ alternative would cost only about half as much, even though the tax reductions for all but the top income group would be almost identical—or, in the case of the poorest taxpayers, larger—than under the GOP plan.

“The battle lines have been drawn,” said Robert S. McIntyre, director of Citizens for Tax Justice. “Both sides agree on tax cuts for middle-income families. But one side believes the wealthy are especially needy—apparently compared to almost any other public priority.”

The GOP income tax rate reductions are identical to those proposed by President Bush, with a portion of the cuts accelerated to tax year 2001. Under the plan, the top income tax rates, now 36 percent and 39.6 percent, would be reduced to 33 percent; the current 28 percent and 31 percent rates would be reduced to 25 percent; the current 15 percent rate would be continued; and a new bottom rate of 10 percent would apply to the first \$12,000 in taxable income for couples and \$6,000 for singles. The rate reductions would be phased in, and would take full effect in 2006.

The Democratic income tax cuts include a new 12% tax bracket, applicable to the first \$20,000 in taxable income for couples, \$16,000 for single parents and \$10,000 for single taxpayers without children; an increase in the standard deduction for couples to double the single amount; and enhancements to the earned-income tax credit for moderate-income working families. The provisions would be phased in, and would be fully effective in 2003.

The GOP plan envisions a vast expansion in the number of taxpayers in the top fifth of the income distribution (but not the top one percent) who would have to pay the Alternative Minimum Tax. According to the Joint Committee on Taxation, by 2008, some 24 million taxpayers would pay the complicated “AMT” under the GOP plan. This result is very unlikely to be politically acceptable, but it reduces the apparent cost of the GOP income tax rate cuts by almost a quarter over ten years.

When fully in place, the Bush income tax rate cuts would represent about half the total cost of Bush’s proposed tax cuts, apparently leaving another trillion dollars or so in Bush tax cuts still awaiting congressional action.

Two Competing Income Tax Cuts

Income Group	Republicans		Democrats	
	Average Tax Cut	% of Tax Cut	Average Tax Cut	% of Tax Cut
Lowest 20%	\$ -41	1.3%	\$ -81	4.4%
Second 20%	-168	5.3%	-167	9.1%
Middle 20%	-316	9.9%	-289	15.7%
Fourth 20%	-511	16.0%	-531	28.8%
Next 15%	-761	17.9%	-781	31.8%
Next 4%	-838	5.3%	-763	8.3%
Top 1%	-28,256	44.3%	-737	2.0%
ALL	\$ -633	100.0%	\$ -366	100.0%
ADDENDUM				
Bottom 60%	\$ -175	16.5%	\$ -179	29.1%
Top 10%	-3,603	56.5%	-768	20.8%

Effects of George W. Bush's Income Tax Rate Cuts
as approved by the Ways and Means Committee, Mar. 1, 2001
(Annual effects when fully in place, at 2001 income levels)

Income Group	Income Range	Average Income	Total tax cut (\$-bill.)	Average Income Tax Rate Cut	% of Income Tax Rate Cut
Lowest 20%	Less than \$15,000	\$ 9,300	\$ -1.1	\$ -41	1.3%
Second 20%	\$15,000–27,000	20,600	-4.4	-168	5.3%
Middle 20%	\$27,000–44,000	34,400	-8.2	-316	9.9%
Fourth 20%	\$44,000–72,000	56,400	-13.3	-511	16.0%
Next 15%	\$72,000–147,000	97,400	-14.9	-761	17.9%
Next 4%	\$147,000–373,000	210,000	-4.4	-838	5.3%
Top 1%	\$373,000 or more	1,117,000	-36.8	-28,256	44.3%
ALL		\$ 57,800	\$ -83.0	\$ -633	100.0%
ADDENDUM					
Bottom 60%	Less than \$44,000	\$ 21,400	\$ -13.7	\$ -175	16.5%
Top 10%	\$104,000 or more	256,000	-46.9	-3,603	56.5%

Source: Institute on Taxation and Economic Policy Tax Model

Citizens for Tax Justice, March 2001

Effects of 2001 Ways & Means Democrats' Income Tax Plan
(Annual effects when fully in place, at 2001 income levels)

Income Group	Income Range	Average Income	Income tax cuts (\$-bill.)	Average Income Tax Cut	% of Income Tax Cut
Lowest 20%	Less than \$15,000	\$ 9,300	\$ -2.1	\$ -81	4.4%
Second 20%	\$15,000–27,000	20,600	-4.3	-167	9.1%
Middle 20%	\$27,000–44,000	34,400	-7.5	-289	15.7%
Fourth 20%	\$44,000–72,000	56,400	-13.8	-531	28.8%
Next 15%	\$72,000–147,000	97,400	-15.2	-781	31.8%
Next 4%	\$147,000–373,000	210,000	-4.0	-763	8.3%
Top 1%	\$373,000 or more	1,117,000	-1.0	-737	2.0%
ALL		\$ 57,800	\$ -47.9	\$ -366	100.0%
ADDENDUM					
Bottom 60%	Less than \$44,000	\$ 21,400	\$ -14.0	\$ -179	29.1%
Top 10%	\$104,000 or more	256,000	-10.0	-768	20.8%

Figures show the effects of the income tax cut plan proposed by Ways and Means Committee Democrats on March 1, 2001. It includes: (a) Add a new 12% tax bracket, applicable to the first \$20,000 in taxable income for couples, \$16,000 for single parents and \$10,000 for single taxpayers without children. (b) Raise the married standard deduction to double the single amount. (c) Raise the maximum earnings on which the maximum earned-income tax credit is calculated by \$800 for families with children, move the start and end points of the earned-income tax credit phase-out up by \$2,500 for couples, and adjust the credit phase-out rates. (d) Adjust the Alternative Minimum Tax calculation so that these income tax changes (all of which are fully effective by 2003) do not affect the AMT.

Source: Institute on Taxation and Economic Policy Tax Model.

Citizens for Tax Justice, March 2, 2001