

Kennedy Tax Freeze Keeps Bush Tax Cuts for All But Richest

Senator Edward Kennedy (D-Mass.) has proposed foregoing some \$280 billion of the \$1.35 trillion Bush tax cut enacted last year. Specifically, Kennedy calls for scrapping the future reductions in the top three income tax rates that are currently slated for 2004 and 2006. He also wants to drop the scheduled repeal of the estate tax, offering instead to exempt all but the biggest 0.3 percent of all estates.

A distributional analysis of the Kennedy proposal finds:

- 97.5 percent of all taxpayers have no personal stake in keeping the tax cuts that Kennedy wants to eliminate. In other words, the vast majority of Americans will get every penny of their Bush tax cut even if the Kennedy plan is enacted.
- Virtually all of those who would be adversely affected by the Kennedy income tax rate cut freeze—some 95 percent of the total—are in the top one percent of the income scale.
- By income group, the average tax cuts foregone under the Kennedy plan, on an annual basis when fully phased in (in 2001 dollars), are as follows: Lowest 20%: zero. Next 20%: zero. Middle 20%: zero. Fourth 20%: zero. Next 15%: \$17. Next 4%: \$432. Top 1%: \$42,949.

Although President Bush has oddly attacked the Kennedy tax-freeze proposal for “raising taxes in the midst of a recession,” in fact Kennedy’s proposal would not even begin to take effect until 2004, with 85 percent of the foregone tax cuts affecting only fiscal 2007 and thereafter.

A full distributional table of the Kennedy proposal is attached.

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Effects of the Kennedy Partial Freeze of the Future Bush Tax Cuts

(Annual effects when fully in place, at 2001 income levels)

Income Group	Income Range	Average Income	Income tax cuts foregone (\$-bill.)	Estate tax cuts foregone (\$-bill.)	Total Tax Cuts Foregone (\$-bill.)	Average income tax cuts foregone	Average Total Tax Cuts Foregone	% of income tax cuts foregone	% of Total Tax Cuts Foregone	ADDENDUM: % of Bush tax cuts retained
Lowest 20%	Less than \$15,000	\$ 9,300	\$ —	\$ —	\$ —	\$ —	\$ —	—	—	100%
Second 20%	\$15,000–27,000	20,600	—	—	—	—	—	—	—	100%
Middle 20%	\$27,000–44,000	34,400	—	—	—	—	—	—	—	100%
Fourth 20%	\$44,000–72,000	56,400	—	—	—	—	—	—	—	100%
Next 15%	\$72,000–147,000	97,400	0.3	—	0.3	17	17	1.1%	0.6%	99%
Next 4%	\$147,000–373,000	210,000	1.2	1.0	2.2	233	432	4.2%	3.8%	87%
Top 1%	\$373,000 or more	1,117,000	27.3	28.6	55.9	20,983	42,949	94.7%	95.6%	19%
ALL		\$ 57,800	\$ 28.8	\$ 29.6	\$ 58.5	\$ 220	\$ 446	100.0%	100.0%	68%
ADDENDUM										
Bottom 60%	Less than \$44,000	\$ 21,400	\$ —	\$ —	\$ —	\$ —	\$ —	—	—	100%
Top 10%	\$104,000 or more	256,000	28.7	29.6	58.4	2,209	4,485	99.6%	99.8%	43%

The Kennedy proposal would freeze the reductions in the top three income tax rates (formerly 39.6%, 36% and 31%) at the one point reductions that took effect on Jan. 1, 2002, thus foregoing the further tax rate reductions scheduled for 2004 and 2006. It would also freeze the scheduled repeal of the personal exemption phase-out and partial itemized deduction disallowance (at high income levels), currently scheduled to be phased in between 2006 and 2010. Finally, it would replace the Bush repeal of the estate tax with an increase in the the estate tax exemption to \$4 million for couples (\$2 million for singles). The tax cuts foregone would total approximately \$280 billion from fiscal 2004 through fiscal 2011, with 85% of that occurring in fiscal 2007 and thereafter. The income tax freeze would affect 2.5% of all taxpayers; 95% of those affected are the top one percent of taxpayers. The foregone estate tax cuts would affect 0.3% of all estates.

Source: Institute on Taxation and Economic Policy Tax Model, January 22, 2002.