

## Senate GOP Minimum Wage Hike Provides \$75 Billion in Upper-Income Tax Breaks

The 114-page minimum wage increase bill introduced last Friday by Senate GOP leaders devotes its first two pages to a one dollar increase in the minimum wage over three years (to \$6.15 an hour starting March 1, 2002). The bill's remaining 112 pages outline new tax subsidies, targeted to better-off taxpayers, that would total \$75 billion over the next ten years.

According to an analysis of the Senate bill released today by Citizens for Tax Justice, more than half of the bill's tax abatements would go to the top fifth of all taxpayers. The analysis found:

- # 55.2% of the bill's proposed tax breaks would go to the best-off 20 percent. The average annual benefit for taxpayers in the top fifth would be \$237 a year in 1999 dollars.
- # The bottom three-fifths of all taxpayers would get an average tax break of \$38 a year (in 1999 dollars).
- # The top one percent of all taxpayers would get 18.9% of the bill's proposed tax abatements, averaging \$1,628 per year (in 1999 dollars).

"With Senate leaders taking 114 pages to increase the minimum wage, and House leaders looking at some 300 pages to do the same, I think we're starting to see a pattern here," said Citizens for Tax Justice director Robert S. McIntyre. "In both cases, a simple idea to help low-wage workers is being hijacked to give tax abatements to the better off."

The bill's major elements include:

- # **Upside-down health insurance subsidies:** Individuals who purchase health insurance (including long-term care insurance) and whose employers pay less than half their health insurance costs would have a portion of their premiums paid by the government, through tax concessions. The subsidies would be based on income levels, and would range from zero percent for those with the lowest incomes up to 39.6% for those with the highest incomes.
- # **Business tax breaks:** Businesses with gross receipts below \$7.5 million a year could write off 80% of their meals and entertainment expenses, rather than 50% under current law. A tax credit for hiring certain low-wage workers would be extended permanently. The amount of business capital expenditures that can be written off immediately rather than depreciated over time would be increased.

# **Expanded pension tax breaks for high-income workers:** The upper limits on pension and 401(k) plan contributions and benefits would be raised substantially. The changes include increasing the maximum annual pension benefit under defined benefit plans from \$90,000 to \$160,000, raising the maximum annual contribution to a defined contribution plan from \$30,000 a year to \$40,000, increasing compensation that can be taken into account for pension contributions from \$150,000 a year to \$200,000, and raising the 401(k) elective deferral limit from \$10,000 a year to \$15,000.

A table detailing the results of the analysis follows.

## Effects of the Senate GOP Tax Cuts in the Minimum Wage Bill

(Annual effects at 1999 levels; \$-billion except averages)

Income Group	Income Range	Average Income	Health & Long-Term-Care Insurance	Business Tax Breaks	Pensions & 401Ks	Total Tax Cuts	Average Tax Cut	% of Total Tax Cut
Lowest 20%	Less than \$13,300	\$ 8,400	\$ -0.3	\$ -0.0	\$ -0.0	\$ -0.3	\$ -13	3.1%
Second 20%	\$13,300-23,800	18,300	-0.9	-0.1	-0.0	-1.0	-38	8.8%
Middle 20%	\$23,800-38,200	30,300	-1.5	-0.2	-0.0	-1.6	-64	14.8%
Fourth 20%	\$38,200-62,800	49,100	-1.7	-0.3	-0.0	-2.0	-78	18.0%
Next 15%	\$62,800-124,000	83,600	-1.9	-0.4	-0.1	-2.4	-127	22.2%
Next 4%	\$124,000-301,000	173,000	-0.8	-0.4	-0.3	-1.5	-303	14.1%
Top 1%	\$301,000 or more	837,000	-0.2	-1.2	-0.6	-2.1	-1,628	18.9%
<b>ALL</b>		<b>\$ 48,700</b>	<b>\$ -7.3</b>	<b>\$ -2.5</b>	<b>\$ -1.1</b>	<b>\$ -10.9</b>	<b>\$ -85</b>	<b>100.0%</b>
<b>ADDENDUM</b>								
Bottom 60%	Less than \$38,200	\$ 19,000	\$ -2.6	\$ -0.3	\$ -0.0	\$ -2.9	\$ -38	26.7%
Top 20%	\$62,800 or more	139,000	-2.9	-2.0	-1.0	-6.0	-237	55.2%

Figures show the annual effects of the \$75 billion in tax abatements over the next 10 years included in the Senate GOP minimum wage increase bill. All provisions are measured as fully effective, at 1999 income levels. Estimates are from the Institute on Taxation and Economic Policy Tax Model.

Citizens for Tax Justice, November 8, 1999