

THE TAXONOMIST

Bush's Most-Favored Taxpayers

By Robert S. McIntyre

As federal budget deficits head back into the stratosphere, most congressional Democrats remain petrified about frontally attacking the Bush tax cuts that are the central cause of the problem. Perhaps if they understood that most of us already face a tax-cut freeze, they'd be more willing to fight to extend such a freeze to the richest Americans, too.

By the richest Americans, I mean people in the top one percent of the income scale. This year, that includes the 1.3 million families and individuals who make more than \$356,000, with average incomes of just over a million dollars. By 2010, the number will grow to 1.4 million taxpayers, all making more than \$500,000 and averaging \$1.5 million. Every state has at least a few of these wealthy people, although most live in just eight big states, California, New York, Florida, Texas, New Jersey, Pennsylvania, Illinois and Michigan.

A new study by my group, Citizens for Tax Justice, finds that from 2001 to 2010, the richest Americans are slated to pocket almost a half trillion dollars from the Bush tax cuts enacted last year. The \$477 billion in tax breaks the Bush administration has targeted to this elite group will average \$342,000 each over the decade.

By 2010, when (and if) the Bush tax reductions are fully in place, an astonishing 52 percent of the total tax cuts will go to the richest one percent. Their tax-cut windfall in that year alone will average \$85,000 each. Put another way, of the estimated \$234 billion in tax cuts scheduled for the year 2010, \$121 billion will go just 1.4 million taxpayers.

If the American people will just focus on their own enlightened, patriotic self-interest, however, all this need not happen. Because the tax cuts for the rich are not yet a done deal.

To be sure, the rich have already received a hefty down payment on their Bush tax cuts—averaging just under \$12,000 each this year. But 80 percent of their windfall is scheduled to come from tax changes that won't take effect until *after* this year, mostly from items that phase in after 2005.

In sharp contrast, the vast majority of taxpayers have already received most of their tax cuts from the 2001 legislation. For the four out of five families and individuals making less than \$73,000 this year, three-quarters of the tax cuts—averaging about \$350 this year—are already in place. Tax cuts for the 19 percent of taxpayers making between \$73,000 and \$356,000 this year will grow a little over the next four years as the cuts in the upper tax rates continue to

kick in, but then will dwindle thereafter (see addendum). By 2010, the tax cuts for this group will be no bigger as a share of income than they are now.

In other words, for 99 percent of us, the tax cuts are already mostly or fully frozen. Only the very rich have a lot more to gain if future tax-cut phase-ins are allowed to continue.

Everybody else, of course, has a lot to lose, in the reduced government services and bigger deficits that failing to freeze the tax cuts will inevitably entail. How are we going to afford to defend our country and protect Social Security, not to mention address pressing needs like prescription drugs for seniors, if so much of our tax money is siphoned off in unaffordable tax giveaways to the super wealthy?

Obviously, we can't expect President Bush to repudiate tax breaks for what he jovially calls his "base." But that's why we have elections. Freezing the tax cuts for the wealthy, too, ought to be a key political issue this year and in 2004.

Addendum:

Policy wonks may recall that when Citizens for Tax Justice (CTJ) previously analyzed the Bush tax cuts, we found that "only" 38 percent of the tax breaks were targeted to the top one percent—a statistic cited *ad nauseam* by Al Gore. Why does the rich's share jump to more than half by 2010 in CTJ's new study? The answer was touched on in my previous column: the exploding impact of the individual "alternative tax."

CTJ's earlier analyses measured the distribution of the Bush tax program as if each element were "fully effective" (and we presented our results in 2001 dollars). That meant we counted the bill's limited alternative-tax relief, even though that is oddly scheduled to expire after 2004. But in our latest effort, we analyzed the bill's specific effects in each year from 2001 to 2010, taking account of the fact that after 2004, the alternative-tax relief disappears.

Our new 2010 snapshot find that more than three-quarters of the ostensible Bush tax cuts for the 27 million taxpayers making between \$100,000 and \$500,000 will be wiped out by the alternative tax. That in turn makes the *share* of the total tax cuts going to the truly rich, who aren't affected much by the alternative tax, much larger.

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