

House GOP Leaders' Budget Plan

Poor Pay More and Rich Pay Less Under GOP Plan that Costs \$300 Billion Annually More than the President's Plan

Yesterday, the Republican leadership in the U.S. House of Representatives released the outlines of a tax and spending plan¹ that they argue 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.

Comparing the income tax proposals in the House GOP plan to the income tax proposals in the President's plan, we find that:

- Over a fourth of taxpayers, mostly low-income families, would pay more in taxes under the House GOP plan than they would under the President's plan.
- The richest one percent of taxpayers would pay \$100,000 less, on average, under the House GOP plan than they would under the President's plan.
- The income tax proposals in the House GOP plan, which is presented as a fiscally responsible alternative to the President's plan, would cost over \$300 billion more than the Obama income tax cuts in 2011 alone.

| Impact of Income Tax Proposals in House GOP Budget Plan Compared to Income Tax Proposals Obama Budget Plan, in 2011 | | | | | |
|---|------------------|-------------------------|----------------------|--|--|
| Income Group | Average Income | Difference (\$Millions) | Difference (average) | % Who Pay LESS under GOP plan compared to Obama's plan | % Who Pay MORE under GOP plan compared to Obama's plan |
| Lowest 20% | \$ 12,800 | \$ +8,532 | \$ +294 | 14.6% | 52.4% |
| Second 20% | 25,900 | +831 | +29 | 44.1% | 32.3% |
| Middle 20% | 41,900 | -14,743 | -509 | 66.4% | 20.3% |
| Fourth 20% | 68,800 | -45,713 | -1,577 | 89.2% | 8.1% |
| Next 10% | 105,100 | -38,395 | -2,651 | 94.6% | 3.7% |
| Next 5% | 148,600 | -29,939 | -4,128 | 94.2% | 4.0% |
| Next 4% | 261,400 | -41,463 | -7,153 | 89.1% | 2.7% |
| Top 1% | 1,467,200 | -151,221 | -104,347 | 98.3% | 0.7% |
| ALL | \$ 71,800 | \$ -312,029 | \$ -2,123 | 60.7% | 23.3% |
| Bottom 60% | \$ 26,900 | \$ -5,379 | \$ -62 | 41.7% | 35.0% |

Source: ITEP Microsimulation Model, March 2009

¹"The Republican Road to Recovery," March 26, 2009
<http://www.gop.gov/solutions/budget/road-to-recovery-final>

The House GOP Plan

The House GOP plan makes some vague statements about restricting the relatively small amount of federal spending devoted to non-military, non-entitlement programs and discusses a few ways to cut federal health care funding and rely even more on the existing health insurance system to provide coverage.

The plan argues for smaller-scale bailouts for financial institutions (apparently without any increased regulation) and would end the government's role in helping working families to own homes. It proposes measures to prod the Federal Reserve to focus more on combating inflation (an apparent worry for GOP leaders despite its near non-existence) rather than employment.

The core of the Republican leaders' plan, however, involves taxes. They would start out by making permanent the Bush tax cuts for all Americans (which President Obama proposes to do for all but the very richest taxpayers). Their plan also says that they would "permanently fix the Alternative Minimum Tax (AMT)." We assume this means that they would, like the President, make the most recent reduction in the Alternative Minimum Tax (AMT) permanent and index the AMT exemptions in effect this year for inflation.

They would also reduce the lowest two income tax rates by 5 percentage points each. (A previous report from CTJ analyzed a similar proposal during the stimulus debate, and noted that only one in five taxpayers had enough income to receive the full benefit of this rate reduction.)²

They also propose an alternative, "simplified" income tax that families could file under at their option. Presumably, taxpayers would calculate their taxes under both the regular tax and the simplified tax to see which results in lower taxes. This will not, of course, simplify tax filing. After all, if people cared more about filing a simple tax form than saving money, they are already able to streamline their own tax filing by skipping whatever deductions and credits are available to them.

The "simplified" tax would have a "marginal tax rate for taxable income up to \$100,000 of 10 percent and a rate of 25 percent for any income above that, also with a large standard deduction and personal exemption." While the details are not spelled out, this clearly mirrors the tax proposals in the budget proposal introduced by Congressman Paul Ryan (R-Wisc.) last year, which was analyzed by CTJ.³ We assume that House GOP leaders' plan would, like the Ryan plan, 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 equal to those allowed under current law.

The plan says that it "would lower the capital gains tax" without specifying a rate. We assume

²Citizens for Tax Justice, "Less than a Quarter of the House GOP's Tax Rate Reduction Proposal Would Go to the Poorest 60 Percent of Taxpayers," January 28, 2009. <http://www.ctj.org/pdf/housestimulusupdate.pdf>

³Citizens for Tax Justice, "House GOP Tax and Entitlement Plan Would Raise Taxes on Four Fifths of Americans While Slashing Taxes on the Wealthy," July 7, 2008. <http://www.ctj.org/pdf/gophousestaxplan20080707.pdf>

that capital gains and dividends would be taxed at no more than 10 percent under the simplified income tax.

Contrast with the President's Plan

Note the components of the President's plan that are left out of the House GOP program.⁴

1. Besides extending the Bush tax cuts for the very richest Americans, the House GOP plan does not include the President's proposal to reduce the benefits of itemized deductions for high-income taxpayers.

2. Nor does it include the President's proposal to make permanent several provisions of the recently enacted economic recovery legislation that expanded the availability of refundable tax credits for 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 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 seems to imply that only federal income taxes are "taxes." A third of American households do not have sufficient income to owe federal income taxes.⁵ 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.

This explains why many taxpayers, particularly in the poorest 40 percent of the income distribution, would be worse off under the House GOP plan than they would be under the President's plan.

House GOP Income Tax Cuts Would Cost Over \$300 Billion More Annually

Remarkably, the income tax provisions of the House GOP plan would cost over \$300 billion more annually than the President's proposed income tax changes. To put that number in perspective, the increase in the Child Tax Credit and Earned Income Tax Credit and the new Making Work Pay Credit *combined* would only cost \$75 to \$80 billion a year.

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

⁴For more on the President's budget plan for fiscal year 2010, see Citizens for Tax Justice, "Tax Proposals in President Obama's First Budget," revised March 18, 2009. <http://www.ctj.org/pdf/obamabudgetreport03122009.pdf>

⁵Citizens 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>

| Impact of Income Tax Proposals in House GOP Budget Plan Compared to Income Tax Proposals Obama Budget Plan, in 2011 | | | | | | | | | | |
|---|------------------|-------------------------|----------------------|--|--|---|---|---|---|--|
| Income Group | Average Income | ALL Taxpayers | | | | Taxpayers Who Pay LESS Under House GOP Plan than Obama's Plan | | Taxpayers Who Pay MORE Under House GOP Plan than Obama's Plan | | |
| | | Difference (\$Millions) | Difference (average) | % Who Pay LESS under GOP plan compared to Obama's plan | % Who Pay MORE under GOP plan compared to Obama's 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% | \$ 12,800 | \$ +8,532 | \$ +294 | 14.6% | 52.4% | \$ -995 | \$ -236 | \$ +9,528 | \$ +628 | |
| Second 20% | 25,900 | +831 | +29 | 44.1% | 32.3% | -6,515 | -510 | +7,347 | +786 | |
| Middle 20% | 41,900 | -14,743 | -509 | 66.4% | 20.3% | -18,952 | -985 | +4,210 | +714 | |
| Fourth 20% | 68,800 | -45,713 | -1,577 | 89.2% | 8.1% | -47,003 | -1,819 | +1,290 | +548 | |
| Next 10% | 105,100 | -38,395 | -2,651 | 94.6% | 3.7% | -38,715 | -2,827 | +320 | +595 | |
| Next 5% | 148,600 | -29,939 | -4,128 | 94.2% | 4.0% | -30,108 | -4,408 | +169 | +579 | |
| Next 4% | 261,400 | -41,463 | -7,153 | 89.1% | 2.7% | -41,550 | -8,045 | +87 | +557 | |
| Top 1% | 1,467,200 | -151,221 | -104,347 | 98.3% | 0.7% | -151,271 | -106,225 | +50 | +5,055 | |
| ALL | \$ 71,800 | \$ -312,029 | \$ -2,123 | 60.7% | 23.3% | \$ -335,123 | \$ -3,757 | \$ +23,095 | \$ +675 | |
| Bottom 60% | \$ 26,900 | \$ -5,379 | \$ -62 | 41.7% | 35.0% | \$ -26,463 | \$ -730 | \$ +21,084 | \$ +693 | |

Source: ITEP Microsimulation Model, March 2009

These estimates assume that the House GOP plan would:

1. Make permanent the Bush tax cuts,
2. Reduce the lowest two income tax rates by 5 percentage points
3. Make permanent AMT relief by making permanent the 2009 exemptions and indexing them for inflation.
4. Create an optional, "simplified" tax that would include:
 - a. Almost no credits or itemized deductions.
 - b. A "generous standard deduction and personal exemption." The description is vague but the proposal is similar to one proposed by Rep. Paul Ryan (R-Wisc), so we assume that this would allow the same \$25,000 standard deduction for a married couple (\$12,500 for others) and current law personal exemptions that were included in the Ryan plan.
 - c. 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.
 - d. A reduced rate for capital gains and dividends. (Because the reduction is not defined, we assume a 10% rate for the second bracket and 0% for the first bracket.)
 - e. No Alternative Minimum Tax (AMT).

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

The income tax proposals in President Obama's budget plan would:

1. Make the Bush tax cuts permanent for couples with incomes below \$250,000 and others with incomes below \$200,000.
2. 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)
3. Make permanent AMT relief by making permanent the 2009 exemptions and indexing them for inflation.
4. Limit the benefits of itemized deductions to a maximum of 28 cents for each dollar deducted.
5. Make permanent several provisions in the American Recovery and Reinvestment Act that expanded the availability of refundable income tax credits for working families, including:
 - a. The new Making Work Pay Credit worth \$400 for most working people (\$800 for couples).
 - b. The lower earnings requirement for families receiving the refundable part of the Child Tax Credit.
 - c. The increased EITC for families with three or more children and the reduced "marriage penalty" for all married couples receiving the EITC.

These estimates do not include the impact of the President's American Opportunity Credit or expanded Savers' Credit due to data limitations.