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Republican Approach to Extending the Bush Tax Cuts Would Result in \$54,600 Break for Richest 1% and Higher Taxes for the Middle Class, Compared to Obama's Approach (State-by-State figures available at www.ctj.org/bushtaxcuts2010.php)

The tax cuts enacted during the presidency of George W. Bush, and modifications of those tax cuts included in the economic recovery act enacted last year, expire at the end of 2010. Congress must soon decide which parts of these tax cuts to extend or make permanent, and which parts to let expire as scheduled.

President Obama proposes to make the Bush tax cuts permanent for all but the richest two percent of taxpayers. He also proposes to make permanent the modifications of the Bush tax cuts (expansions of the Child Tax Credit and Earned Income Tax Credit) that were included in the recovery act.

Republicans in Congress have offered several tax proposals over the last several years, and all of them start with making permanent *all* the tax cuts enacted under President Bush (including those benefitting the richest two percent), and *none* of them include making permanent the modifications of the Bush tax cuts included in the recovery act.¹

- Under the Republican approach, the bottom 60 percent of U.S. taxpayers would pay \$124 more in 2011, on average, than they would under President Obama's approach.
- Under the Republican approach, the richest one percent of U.S. taxpayers would pay \$54,600 less in 2011, on average, than they would under President Obama's approach.
- Under the Republican approach, the richest one percent of taxpayers would receive 37 percent of the total tax cuts in 2011.

Competing Approaches to the Bush Tax Cuts, Impact in 2011 on U.S. Taxpayers						
U.S. Taxpayers		Obama's Approach <small>(Permanent Bush income tax cuts for those below \$200k/250k, estate tax cut, permanent EITC and child credit expansion)</small>		Republican Approach <small>(Permanent Bush income tax cuts for everyone, estate tax repealed, no EITC or child credit expansion)</small>		Republican Approach vs. Obama Approach
Income Group	Average Income	Average Tax Cut	Share of Tax Cut	Average Tax Cut	Share of Tax Cut	Average Difference
Lowest 20%	\$ 11,705	\$ -251	2.8%	\$ -95	0.8%	\$ +155
Second 20%	26,569	-672	7.6%	-531	4.7%	+141
Middle 20%	44,270	-942	10.7%	-866	7.7%	+76
Fourth 20%	70,548	-1,531	17.4%	-1,520	13.5%	+10
Next 15%	121,220	-3,408	29.1%	-3,424	22.7%	-16
Next 4%	263,451	-7,008	15.9%	-7,712	13.6%	-704
Top 1%	1,378,168	-28,728	16.4%	-83,347	37.0%	-54,619
ALL	\$ 72,358	\$ -1,740	100.0%	\$ -2,237	100.0%	\$ -496
Bottom 60%	\$ 27,522	\$ -622	21.2%	\$ -498	13.2%	+124

Note: Table does not include the Making Work Pay Credit, which President Obama proposes to extend only for one year, through 2011.

This report focuses on the Bush tax cuts and the modifications made to the Bush tax cuts in the recovery act. The table on the first page includes the impact of the President's approach and Congressional Republicans' approach to the Bush tax cuts and the modifications of the Bush tax cuts made in the recovery act.

Other Republican tax proposals (besides those that would simply extend the Bush tax cuts) are even *more* regressive. For example, Congressman Paul Ryan, the ranking Republican on the House Budget Committee, has proposed a radical budget that would first make permanent the Bush tax cuts, then eliminate all income taxes on capital gains and dividends (a massive boon to the rich) while also creating a consumption tax that would mean higher taxes for all but the richest ten percent of taxpayers.²

Why Congress Will Act this Year to Address the Bush Tax Cuts

The tax cuts enacted by President George W. Bush and his allies in Congress included a provision causing them to expire at the end of 2010. Supporters of the Bush tax cuts have consistently demanded that they be made permanent but failed to achieve this goal during the Bush administration.

President Barack Obama campaigned on a pledge to allow all the Bush income tax cuts to expire for taxpayers with adjusted gross income (AGI) above \$200,000 (and above \$250,000 for married couples). Only about 2 percent of taxpayers have AGI above that threshold, which means that President Obama has pledged to make permanent the Bush income tax cuts for 98 percent of taxpayers.³

President Obama has also called on Congress to meet Bush halfway on the estate tax, meaning the estate tax would not be repealed but would be cut in half (in terms of the revenue it collects) compared to the pre-Bush estate tax. Fewer than half of one percent of estates would be affected by the estate tax under Obama's proposal.

Finally, President Obama signed into law the American Recovery and Reinvestment Act (ARRA) in 2009, which included modifications of provisions in the Bush tax cuts related to the Child Tax Credit (CTC) and Earned Income Tax Credit (EITC) for working families. President Obama has called on Congress to make permanent these changes in the CTC and EITC.

Republican leaders in Congress have offered their own proposals to make all the Bush tax cuts permanent, including the tax cuts for the wealthy. This is why the very rich would pay much less under the Republican approach than under the President's approach.

At the same time, Congressional Republicans have opposed the expansions of the CTC and EITC in the recovery act and would allow them to expire. This is why low-income and middle-income taxpayers would pay more under the Republican approach than under the President's approach.

Why the Bush Tax Cuts for the Rich Should Expire as Scheduled

Fiscal responsibility, job creation, and tax fairness all depend on Congress allowing the Bush tax cuts for the rich to expire at the end of this year as scheduled.

Extending the tax cuts for the rich would add over a trillion dollars to the ten-year federal budget deficit.

According to figures from the Treasury, extending the Bush income tax cut for the richest 2 percent would cost \$678 billion over a decade. Permanently repealing the estate tax would cost over \$300 billion more than President Obama's compromise on the estate tax, over ten years. Since no one in Congress has even entertained the idea of offsetting the costs of any of these tax cuts,

they would result in additional interest payments on the national debt far exceeding \$100 billion during the first decade alone.

The federal budget deficit is a long-term problem that cannot be addressed in one year, but must be addressed over several years. The first step in addressing the deficit is to stop enacting tax cuts for the taxpayers who need them the least.

Extending the Bush tax cuts for the rich would limit resources that could be used to create jobs and improve the economy.

The non-partisan Congressional Budget Office (CBO) recently ranked making permanent the Bush tax cuts for all taxpayers (including the rich) as the least effective policy option for creating jobs over the next couple of years.⁴

The CBO and most economists believe that short-term job creation is more likely to result from policies that put money in the hands of low-income and middle-income people, who are likely to immediately spend any new money on necessities that they have delayed purchasing. This increase in consumer demand will allow businesses that make and sell the products to hire more workers or avoid layoffs that would otherwise occur.

In the long-term, many economists believe that investments in education, infrastructure, alternative energy and other public goods are far more beneficial to our economic growth than the parts of the Bush tax cuts that benefit the wealthy.

This should not be surprising. Federal taxes were higher for most Americans at the end of the Clinton years, and the economy was performing far better then than it is now. At very least, one can conclude that the Bush tax cuts did not result in the economic prosperity that their supporters promised would result. Requiring two percent of taxpayers to once again pay income taxes at rates in place during the Clinton years will not harm the economy, and neither will the President's proposal to cut the estate tax in half rather than permanently repeal it all together.

Extending the Bush tax cuts for the rich will perpetuate the unfairness that President Bush added to the federal tax system

Before President George W. Bush took office, the federal income tax already included a special, low rate for income that takes the form of capital gains. Since three fourths of capital gains income goes to the richest one percent of taxpayers, this means that some very wealthy taxpayers could pay federal income taxes at lower effective rates than middle-income people whose income takes the form of wages and salaries.

President Bush increased this unfairness by reducing the special top rate for capital gains from 20 percent to 15 percent, and by creating a new special rate for stock dividends (which had previously been taxed just like any other income), also set at 15 percent.

Middle-income people who work pay federal income taxes at a top rate of 15 or 25 percent, and must also pay about 15 percent in federal payroll taxes on all their income. This is why middle-income people who work often pay more in federal income taxes than wealthy people who live off their investment income.

Why the Modifications of the Bush Tax Cuts Enacted as Part of the Recovery Act Should be Made Permanent

Many middle-income and low-income taxpayers would end up paying more in taxes under the Republican approach to the Bush tax cuts than they would under President Obama's approach. That's because President Obama proposes to make permanent some modifications of the parts of

the Bush tax cuts that really did help working families (provisions related to the CTC and EITC) while Republican lawmakers would allow these modifications of the CTC and EITC to expire.⁵

The CTC and EITC are both refundable tax credits, meaning that they often benefit families who don't earn enough to have any federal income tax liability. These families pay other types of federal taxes (like payroll taxes, gas taxes, tobacco taxes and others) as well as state and local taxes. These other types of taxes are particularly regressive, meaning they take a larger share of income from middle-income and low-income families than they take from the rich.⁶

So it's entirely reasonable that Congress and the President would use refundable credits in the federal income tax like the CTC and EITC to offset some of the regressive impact of those other taxes.

If the improvements in the CTC and EITC are not made permanent, the poorest three fifths of taxpayers would lose \$124 of tax cuts, on average.

The expansion of the CTC, which President Obama wants to make permanent, makes it more accessible to low-income families by lowering the earnings requirement for the refundable portion of the credit.⁷

The expansion of the EITC, which President Obama also wants to make permanent, has two parts. One part further reduces the "marriage penalty" that would otherwise make the EITC less generous for a married couple than for two unmarried individuals. The second part modestly increases the EITC for larger families.⁸

Appendix

Congressional Republicans' Opposition to Expansion of Refundable Tax Credits

Centrist Democrats in Congress managed to persuade Republicans and George W. Bush to make improvements in refundable tax credits (the Child Tax Credit and EITC) part of President Bush tax cut package in 2001. However, Republicans have opposed any additional expansion of these refundable tax credits.

During the 2008 presidential election campaign, Senator John McCain said that the expansion of refundable tax credits proposed by then-Senator Barack Obama was "welfare" and akin to "socialism." For example, see Michael Kranish, "Details of Tax Credit Debate Can Get Lost in the Slogans," Boston Globe, October 22, 2008.

(http://www.boston.com/news/politics/2008/articles/2008/10/22/details_of_tax_credit_debate_can_get_lost_in_the_slogans/)

Shortly after taking office, President Obama signed into law the American Recovery and Reinvestment Act of 2009, which built upon the improvements in the child tax credit and EITC that were part of the Bush tax cuts. The recovery act also included the refundable Making Work Pay Credit. The legislation passed the House of Representatives without a single Republican vote and passed the Senate with only three Republican votes (and one of those Republicans would later switch parties).

In the spring of 2009, the House Republicans offered a budget proposal that would repeal the recovery act (and thus the expansions in the refundable tax credits), make permanent the Bush tax cuts and create additional tax cuts that would mostly benefit high-income taxpayers. See Citizens for Tax Justice, "Update on House GOP Budget Plan," April 2, 2009.

(<http://www.ctj.org/pdf/housegopplanupdate.pdf>)

This year, the ranking Republican on the House Budget Committee has offered another version of the House Republican plan, this time including a value-added tax (VAT) that would result in a net tax increase for all but the richest ten percent of taxpayers. This plan would allow the expansions in refundable tax credits included in the recovery act to expire. See Citizens for Tax Justice, "Rep. Ryan's House GOP Budget Plan: Federal Government Would Collect \$2 Trillion Less Over a Decade and Yet Require Bottom 90 Percent to Pay Higher Taxes," March 9, 2010. (<http://ctj.org/pdf/ryanplan2010.pdf>)

Congressional Republicans' Support for Making Permanent the Bush Tax Cuts

A year after the first major tax cut was enacted under President George W. Bush in 2001, Republicans were arguing that the tax cut should be made permanent, despite its regressive impact and high-costs. See Joel Friedman, Robert Greenstein, Richard Kogan, "The Administration's Proposal to Make the Tax Cut Permanent," Center on Budget and Policy Priorities, April 16, 2002. (<http://www.cbpp.org/cms/?fa=view&id=1137>) This pattern repeated itself throughout the Bush years as Republicans in the White House and Congress pressed for the tax cuts to be made permanent.

After Democrats took control of Congress in 2007, they made it clear that their budgets would assume that the Bush tax cuts would be made permanent for low-income and middle-income taxpayers but not the very rich. Republicans still argued that the Bush tax cuts should be made permanent for all taxpayers, and that anything less would amount to a "tax increase" and even the "biggest tax increase in history." See Lori Montgomery, "Democrats' Budget Plan Narrowly Passes in the House," March 30, 2007, Washington Post. (<http://www.washingtonpost.com/wp-dyn/content/article/2007/03/29/AR2007032902125.html>)

The following year, as Democrats worked to pass their second budget resolution since taking control of Congress, Republicans attempted to amend the resolution to make permanent most of the parts of the Bush tax cuts that benefit the wealthy. The amendment failed, with all but two Republicans voting in favor and all Democrats present voting against.

(http://senate.gov/legislative/LIS/roll_call_lists/roll_call_vote_cfm.cfm?congress=110&session=2&vote=00043) Also see "Senate Backs Some Tax Cuts, Nixes Others," March 13, 2008.

(<http://home.muzi.com/news/ll/english/10063905.shtml?cc=13672&ccr=24077>)

Republicans in Congress continued to press this position after President Obama took office. In 2009, Senator McCain offered an amendment to the Senate budget resolution that would make permanent the Bush tax cuts for all taxpayers and cap discretionary spending below the levels proposed by President Obama. All but three Senate Republicans voted in favor of this amendment, and all Senate Democrats voted against it.

(http://senate.gov/legislative/LIS/roll_call_lists/roll_call_vote_cfm.cfm?congress=111&session=1&vote=00129)

Notes

1. See the appendix for information about the Congressional Republicans' approach to the Bush tax cuts and the modifications to the Bush tax cuts passed as part of the recovery act.

2. Citizens for Tax Justice, "Rep. Ryan's House GOP Budget Plan: Federal Government Would Collect \$2 Trillion Less Over a Decade and Yet Require Bottom 90 Percent to Pay Higher Taxes," March 9, 2010.

<http://ctj.org/pdf/ryanplan2010.pdf> Congressman Ryan's plan would also reduce Social Security benefits and partially privatize the program, replace Medicare and Medicaid with gradually declining subsidies for private health insurance, and dramatically slash other types of non-military spending.

3. President Obama would allow the income tax rates for the top two income tax brackets to return to their pre-Bush levels, and he would adjust the top two brackets so that they cannot include any unmarried taxpayers with adjusted gross income (AGI) below \$200,000 or married taxpayers with AGI below \$250,000. (Taxpayers above this income level would partially keep one break, because Obama would set the rate for stock dividends in the top two rates at 20 percent, which is lower than the ordinary income tax rates that will apply to dividends if Congress does nothing when the Bush tax cuts expire.)

President Obama would also allow the personal exemption phase-out and the limit on itemized deductions to come back into effect as scheduled, but would limit their impact so that they only affect those with AGI over the \$200,000/\$250,000 threshold.

Both President Obama and Congressional Republicans would make permanent the relief from the Alternative Minimum Tax (AMT), which is necessary largely because the Bush tax cuts reduced regular income taxes for many taxpayers without permanently reducing their AMT.

4. Congressional Budget Office, "Policies for Increasing Economic Growth and Employment in 2010 and 2011," January 2010. <http://www.cbo.gov/ftpdocs/108xx/doc10803/01-14-Employment.pdf>

5. Note that making permanent these modifications in the CTC and EITC would cost around one tenth as much as making permanent the tax cuts for the rich. Figures from the Treasury show that making permanent the CTC expansion in the recovery act would cost \$83.1 billion over ten years, while making permanent the two parts of the EITC expansion would, combined, cost \$30.1 billion over ten years. See Department of Treasury, General Explanations of the Administration's Fiscal Year 2011 Revenue Proposals, February 2010.

<http://www.treas.gov/offices/tax-policy/library/greenbk10.pdf>

6. Citizens for Tax Justice, "All Americans Pay Taxes: Those Who Pay No Federal Income Taxes Pay Other Types of Taxes, Most of Which Take More from the Poor and Middle Class than from the Rich," April 15, 2010.

<http://www.ctj.org/pdf/taxday2010.pdf>

7. The refundable portion of the CTC is limited to 15 percent of earnings above a certain threshold or \$1,000 per child, whichever is less. The recovery act reduced that earnings threshold to \$3,000. If Congress allows this provision of the recovery act to expire, the threshold will be around \$12,850 in 2011 (and will increase each year with inflation).

8. Before the recovery act was enacted, the EITC had three credit rates. The credit was worth 7.65 percent of earnings (up to the maximum credit) for childless adults, 34 percent for families with one child, and 40 percent for families with two or more children. The recovery act added a fourth rate of 45 percent for families with three or more children.