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TAX CUT BENEFITS WILL BE SMALLER THAN ADVERTISED FOR MANY FAMILIES, BUT WILL GROW DRAMATICALLY FOR WEALTHIEST

Failure to address the AMT means tax cut will disappear for some families

Washington, D.C. **–** Under the new tax bill (H.R. 1836, The Economic Growth and Tax Relief Reconciliation Act of 2001), benefits to the highest-income households will grow dramatically over the next ten years – as upper bracket rate cuts and repeal of high-income phase-outs take effect – while some two-earner families with children will see their tax cut disappear completely after the first few years, according to a new analysis by the Democratic staff of the **Joint Economic Committee** (JEC).

Key findings of the analysis include the following:

Although lower income households are the major beneficiaries of the bill in the early years, over time the gains to upper-income household increase in relative importance (Figure 1). Low-income families benefit largely because of the refundability of the child credit added under pressure from Democrats and moderate Republicans. Higher income taxpayers will see significant cuts as rate reductions in higher tax brackets and other relief for upper-income taxpayers phase in.

- In 2001, a married couple with two children and income of $20,000 would see a $1,000 tax cut, which will increase their after-tax income by 4.8 percent. Higher-income families will see similar or even larger cuts in dollar terms, but their cuts will be smaller relative to their incomes.

- By 2010, the distribution of the tax cut will change. The real dollar value of the tax cut to a married couple with two children and $20,000 in gross income (in 2001 dollars) will double; but for families with $500,000, the tax cut will increase more than six-fold. Many families with $200,000 in income will lose their tax cut entirely, due to the AMT.

Many taxpayers will not receive the tax cuts advertised by proponents of the tax bill. Much was made of a $1,500 tax cut for working single moms with two kids that would result from doubling the child credit and adding a new 10 percent bottom tax bracket. Yet single parents with incomes between $25,000 and $45,000 will never see a tax cut of that size in today's dollars **(Figure 2)**.

- The child credit increases gradually over time and does not reach $1,000 until 2010 – the equivalent of less than $800 in today's dollars.

- Unlike all other tax brackets, the new 10 percent tax bracket is not indexed for inflation until 2009. Thus the tax saving from the lower tax rate will diminish over time when measured in today's dollars.

Many higher income families, and especially those families with children, will see reduced or eliminated tax cuts because of the Alternative Minimum Tax (AMT). The AMT was a problem that was expected to worsen even *before* the tax act. The AMT is not indexed for inflation, so over time an increasing numbers of taxpayers will become subject to the AMT, reducing or even eliminating their tax cut **(Figure 3).**

- By 2010, many married couples with two children and gross income as low as $75,000 (in 2001 dollars) will see their tax cut reduced by the AMT, and many families with gross income as low as $120,000 will get *no* cut. Meanwhile, the AMT leaves fully intact the tax cuts for families with gross incomes exceeding $690,000.

Official revenue estimates hide the true cost of the tax cut (Figure 4) The cost of more permanent AMT relief is estimated to be between $300 and $400 billion dollars over the 2001-2011 period. Eliminating the sunsetting of the bill would raise its cost even more – to over $1.8 trillion.

The bill passed by the Congress last month managed to maintain the key provisions of the Administration's tax proposal, add additional tax benefits for retirement saving and education, and yet remain within the $1.35 trillion constraint of the budget resolution.

Stuffing the Bush provisions into a smaller container required numerous tricks and gimmicks such as lengthy phase-ins of some provisions, sunsetting others, and sunsetting the entire tax bill at the end of 2010. Those gimmicks hide the true cost of the tax cut and make it difficult to assess how taxpayers in different economic and family circumstances will benefit.

"This tax bill is a classic bait-and-switch maneuver," said Senator Jack Reed, D-R.I. "What was advertised is not what you get.

"Many families will enjoy only a brief honeymoon from the marriage penalty under this tax bill. The public will demand action on the AMT problem, making the true cost of the bill higher and tilting tax relief further in favor of the wealthiest families." (Senator Reed is expected to serve as Vice Chairman of the Joint Economic Committee.)

The Joint Economic Committee, established under the Employment Act of 1946, was created by Congress to review economic conditions and to recommend improvements in economic policy.