Dissenting Views of the Democratic Members
Committee on Ways and Means
The Jobs and Growth Reconciliation Tax Act of 2003
May 6, 2003

We are united in our opposition to the committee bill. It is difficult to imagine a bill that could be more unfair and fiscally irresponsible than the one reported by the Committee. The Committee bill is as reckless as the President's proposal, it uses gimmicks to pretend to cut its cost. The Committee bill is even more unfair than the President's proposal.

The unfairness of the Committee bill is apparent on its face, no sophisticated distributional analysis is necessary. All of the benefits in the Committee bill that are targeted for low- and moderate-income individuals, such as expansion of the lowest income tax rate bracket, marriage penalty relief and child credit increase last only three years. In contrast, the new tax reduction for capital gains and dividends (totaling $276 billion), is sunsetted at the end of the budget window. Seventy percent of all capital gain and dividend income is enjoyed by the fortunate 2.5 % of taxpayers with annual incomes over $200,000. Those fortunate taxpayers will find that their Federal tax rate on that income will be one-half of the combined Federal income and payroll tax rate on wages earned by moderate income working families.

The Committee bill will result in persistent long-term deficits that could reduce economic growth in the future. Even Federal Reserve Chairman Alan Greenspan has cautioned against costly new tax reductions at a time when the Government is facing exploding deficits. The Committee bill is particularly irresponsible now that we are faced with the uncertain cost of continued occupation of Iraq and its reconstruction.

Normally in time of war, this country has a sense of shared sacrifice. Now the Administration and its congressional Republican allies are pursuing a course that calls for sacrifices from some, but rewards for others. Individuals in the military are being asked to risk their lives in Iraq. The elderly, poor and unemployed will see reductions in Medicare, Medicaid and other programs. The ability to meet our commitment to Social Security beneficiaries will be reduced by the irresponsible nature of the Committee bill. In contrast, upper income individuals will receive large tax reductions from the Committee bill. Households with annual income over $1 million will receive a $93,500 increase in their "take-home" income in 2003 and more in later years.

The individuals in the military who risked their lives in Iraq deserve more than a welcoming speech and a parade when they come back. They should receive educational and other benefits commensurate with those that we have provided to the veterans of prior conflicts. Their children should not face diminished opportunities for an education because the Congress and the President have failed to meet the bold promises they made in enacting the No Child Left Behind Act. Above all, the military returning from Iraq should not be presented with a bill for the party that was held in their absence and that provided little assistance to them or their families.

The President in his State of the Union Address earlier this year said that "...we will not pass along our problems to other Congresses, other Presidents, and other generations." The President's program and the Committee bill are totally inconsistent with that pledge. The Wall Street firm, Goldman Sachs, estimates that annual deficits over the next ten years could total $4 trillion. Notwithstanding the President's rhetoric, the problem of paying a very large bill will be passed on to our children.

The Committee bill arguably will be the third "economic stimulus" package recommended by the Bush Administration. Part of the sales pitch for the 2001, $1.35 trillion tax cut was its stimulative effect on the economy. When the economy continued to experience sluggish growth, another economic stimulus plan was enacted in March, 2002.

Now we are continuing to see slow economic growth. The Committee Republicans and the Bush Administration are using those economic conditions to justify proposals that will provide little short-term help to our economy, but advance their long-term agenda of reducing taxes on upper income individuals and eliminating all income taxes on investment income. Their ultimate goal is a tax system that only taxes wages and does so without progressive rates. The Committee bill is a step in a plan to reach that goal, a goal that we do not share.

The recent analysis by the Congressional Budget Office demonstrates that these proposals will do little to improve the economy and add jobs. CBO found that the President's proposals would probably reduce, not increase, investment. Even the Republican-appointed head of CBO concluded that the President's proposals would have little impact on the economy.

Following is an elaboration of some of the reasons why we oppose this bill.

Persistent Long-Term Deficits

All of the $5.6 trillion projected surpluses used in 2001 to defend the Bush position that we could afford a large tax cut and other priorities, such as a prescription drug benefit, now are all gone. Instead, we will have large budget deficits for the foreseeable future even without taking into account the cost of indefinite occupation of Iraq. The bipartisan commitment to preserve the Social Security and Medicare surpluses has been totally abandoned by the Bush Administration and its Congressional Republican allies.

Each new budget projection from the Congressional Budget Office brings increasingly bad news. The most recent report indicates that the deficit for the current fiscal year will be $47 billion greater than what CBO estimated only two months earlier. The 10-year budget picture has worsened by $446 billion, again compared to estimates made only two months earlier. Since that time, Congress appropriated approximately $80 billion for the short-term cost of the war in Iraq. In addition, income tax receipts from the April 15 filing season are substantially smaller than earlier estimated. The deficit for this fiscal year could easily set a record. Analysts at Citibank are now suggesting that this year's deficit could approach $500 billion. Already we have seen record levels of Federal borrowing in the first quarter of this year.

The current projections dramatically understate the long-term fiscal problems. They do not take into account any of the costs of indefinite occupation of Iraq or of its reconstruction. The projections do not take into account the costs of fixing the individual alternative minimum tax nor the cost of extending widely popular tax benefits. They also assume that the Congressional Republicans will not provide a significant Medicare prescription drug benefit.

The Administration has argued that deficits don't matter. Federal Reserve Chairman Alan Greenspan clearly does not agree. "There is no question that as deficits go up, contrary to what some have said, it does affect long-term interest rates. It does have a negative impact on the economy."

The Committee has attempted to hide the true cost of its bill through gimmicks, following the example of the 2001 tax cut legislation. In 2001, Congress used temporary provisions and the overall sunset to hide the cost of the bill. Now, we have legislation that temporarily accelerates the temporary provisions of the 2001 Act, gimmicks piled on top of gimmicks. The true cost of the Committee bill is far greater than the promised total of $550 billion because of the implicit promise to extend its tax benefits in the future. If all of its provisions were extended indefinitely, the cost would exceed $1 trillion over the next 10 years.

We can finance the cost of the irresponsible Committee bill only if foreign investors continue to be willing to lend us money. The value of our currency is a barometer of confidence in our fiscal policies and a strong dollar is necessary for continued foreign investment in this country. There has been a steady decline in the value of the dollar. The European currency has risen twenty-six percent against the dollar since the beginning 2002. If the recent declines in the value of the dollar continue, we could face dramatic interest rate increases in order to borrow the $1.5 billion a day that we need from foreign investors to fund our trade and budget deficits. Even officials at the International Monetary Fund have raised concerns over our fiscal policies.

<u>State and Local Fiscal Crisis</u>

State and local governments are grappling with unprecedented budget crises. Unlike the Federal government, those governments do not have the luxury of borrowing money to cover their deficits. The tax increases and spending cuts at the State and local level could offset totally any beneficial effect from Federal action. The Republicans refused to provide any significant assistance to assist States in meeting that crisis, even though previous excessive Republican tax cuts for the wealthy have contributed to those growing State deficits.

<u>The Tax Cuts are Tremendously Skewed to the Affluent</u>

The Committee bill is tremendously skewed to the affluent. Its capital-gains/dividend tax cut is even more skewed than the President's dividend tax cut. Capital gains are even more concentrated at the top than are dividends.

The middle-class oriented tax breaks (e.g., greater child credit, wider 10% tax-rate bracket, and marriage relief) expire after only three years, but <u>not</u> the tax breaks for dividends and capital gains, nor the cut in the top tax rate from 38.6% to 35%.

While the income and payroll tax rates on an extra dollar of ordinary wages earned by families with median income typically add to 30% (15% each), and <u>stay</u> that way under the Committee bill plan, the maximum tax rates on capital gains and dividends go down to only 15% – half as much. This is another big step on the road to changing the income tax into a tax on only wages, while continuing to "double tax" wages under both the income and the payroll taxes.

Famous investor Warren Buffett recently told Senators that getting rid of the tax on dividends, as the President proposed, would reduce his federal tax bill by $300 million a year. Mr. Buffett said that would mean he would pay proportionately less in taxes than his secretary. Mr. Buffet would get this tax break for doing nothing differently than he does already. House Republicans are forging ahead to give Mr. Buffett much of that dividends tax cut and a bigger capital gains tax cut.

A study by the Brookings/Urban Institutes' Tax Policy Center quantifies the skewed benefits of the Committee bill. According to that study –

- For tax-year 2003, $93,500 is the average tax cut for those with incomes of one million or more. $452 is the tax cut for households with incomes between $40,000 and $50,000. For the millionaires, this is like a "bonus" equal to 4.4% of their take-home income, almost four times as much as for the middle-class group that gets a 1.1% increase.

- A clear indication of what will happen later, after the middle-class relief expires, comes from looking at the capital-gains/dividends tax cut which persists.

- In tax year 2003, the capital-gains tax cut which only covers eight months of the year is worth $30,700 to millionaires, but only $42 to households with incomes between $40,000 and $50,000.

- 61% of the benefits from the capital-gains dividend tax cut go to the only 2% of households with incomes over $200,000.

- Only 21% of households within the $40,000-$50,000 income group get any thing at all, because so few even have capital-gains or dividend income.

The affluent benefit so much because they get most of the capital gains and dividend income in society, and because such a large share of their total income is from capital gains and dividends, which the Committee bill favors.

Households with incomes over $500,000 get 41% of their income from capital gains and dividends, which are favored by the Committee bill. Households with incomes between $40,000 and $75,000 get only 4% of their income from the sources favored by the Committee bill. (See graph.)

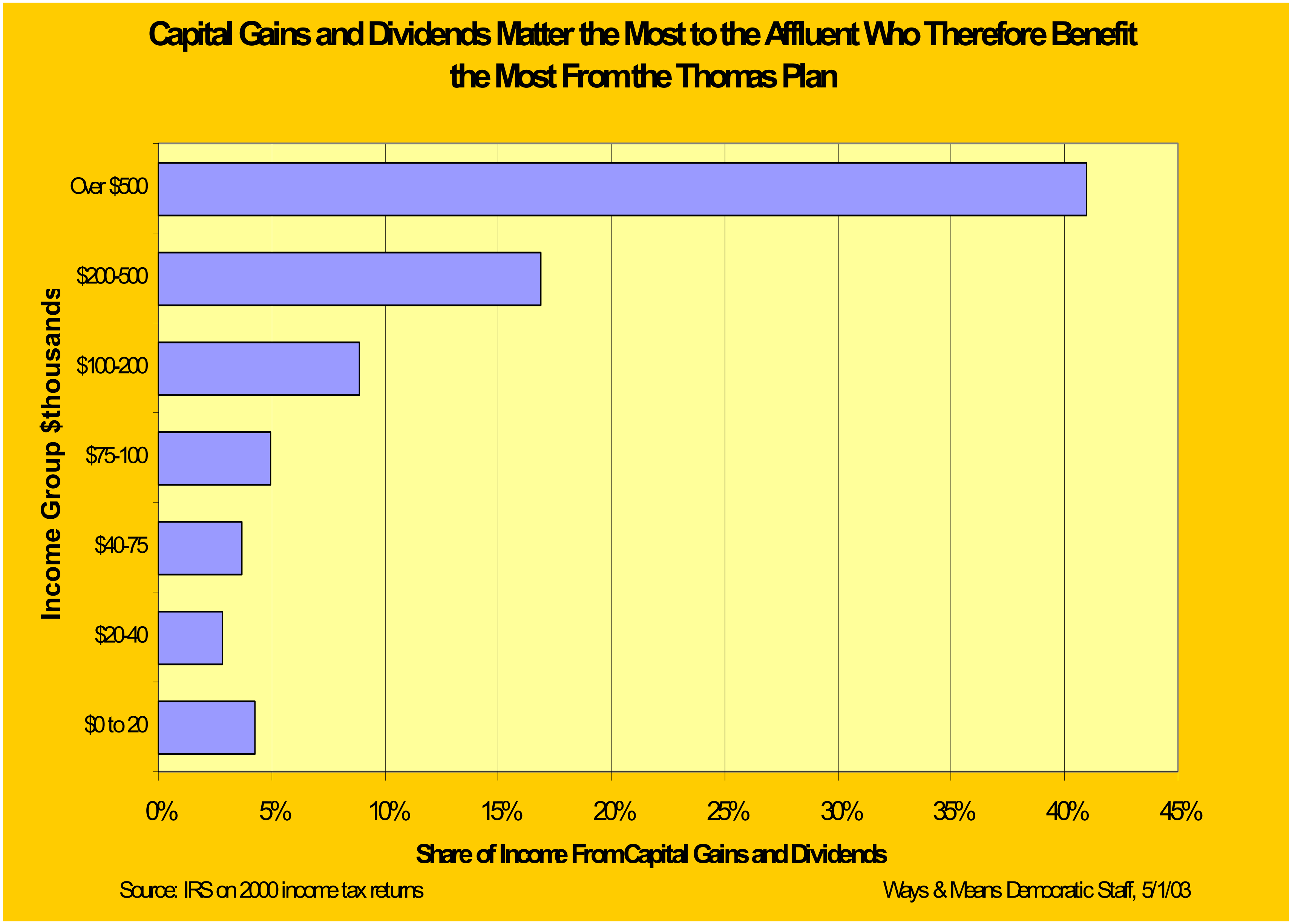
The very affluent have a large share of total capital gains and dividend income even though they are a small share of households. IRS data for 2000 show that those with incomes over $500,000 accounted for 57% of all capital gains and dividends, but comprised only 0.5% of taxpayers and accounted for only 17% of income from all sources. The opposite is true for taxpayers with incomes between $40,000 and $75,000. They comprised 21% of all taxpayers and accounted for 24% of all income, but only 7% of capital gains and dividends.

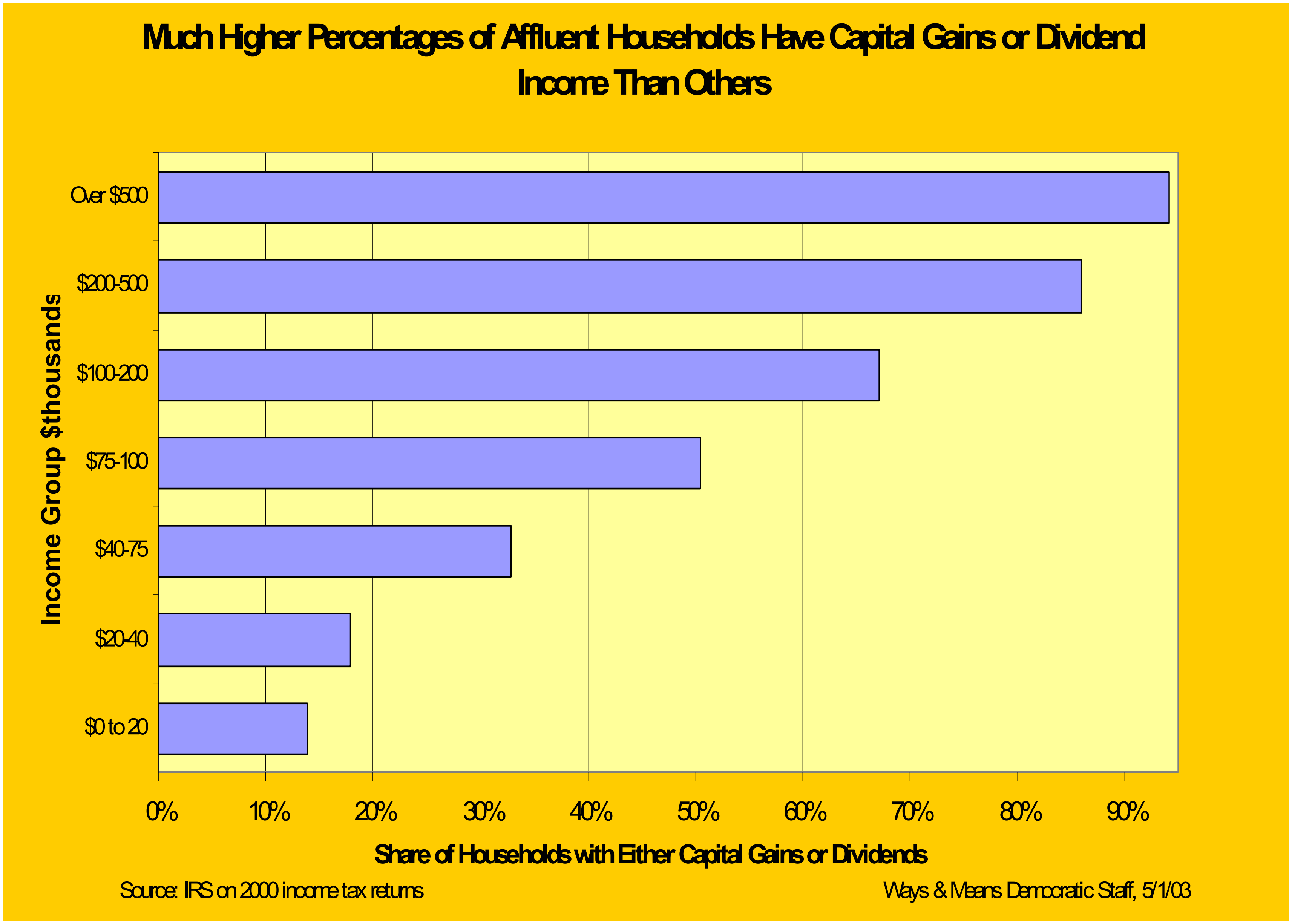
Income group year-2000	Share of capital gains and dividends	Share of total taxpayers	Share of Total Income (Adjusted Gross Income)
Over $500,000	57%	0.5%	17%
$200,000-500,000	13%	2%	10%
$100,000-200,000	12%	6%	17%
$75,000-100,000	5%	7%	11%
$40,000-75,000	7%	21%	24%
$20,000-40,000	3%	25%	14%
$1 to $20,000	3%	39%	8%

A very high percentage of affluent households have either capital gains or dividend income that is favored under the Committee plan. This is not true of middle-income households. For example, 94% of households with incomes over $500,000 have dividends or capital gains. Only 33% of households with incomes between $40,000 and $75,000 have dividends or capital gains. (See graph.)

Conclusion

Earlier this year, Mr. Rangel sent a “Dear Colleague” letter describing the President’ tax cuts as being reckless and unfair. The Committee has produced a bill equally reckless, and even more unfair. It is easy to vote no.


Capital Gains and Dividends Matter the Most to the Affluent Who Therefore Benefit the Most From the Thomas Plan
Income Group $thousands
Over $500
$200-500
$100-200
$75-100
$40-75
$20-40
$0 to 20
0%
5%
10%
15%
20%
25%
30%
35%
40%
45%
Share of Income From Capital Gains and Dividends
Source: IRS on 2000 income tax returns
Ways & Means Democratic Staff, 5/1/03



Much Higher Percentages of Affluent Households Have Capital Gains or Dividend Income Than Others
Income Group $thousands
Over $500
$200-500
$100-200
$75-100
$40-75
$20-40
$0 to 20
0%
10%
20%
30%
40%
50%
60%
70%
80%
90%
Share of Households with Either Capital Gains or Dividends
Source: IRS on 2000 income tax returns
Ways & Means Democratic Staff, 5/1/03

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H.R. 2
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