RPC FISCAL FACTS

Tax Rates Must Not Be Raised

In 2001, Congress passed a $1.3 trillion bipartisan tax relief bill.[i] This lowered income taxes for every American who pays them and was concentrated largely on the middle class. In response to a weak economy, Congress followed up these tax cuts with a $350 billion bipartisan bill in 2003 that lowered taxes on savings and provided aid to states.[ii] Because of the way the 2001 and 2003 tax bills were structured, all of these tax cuts are set to expire at the end of 2010. If Congress does not extend current tax law, it will impose the largest tax increase in American history, raising taxes in the middle of a recession on families, small businesses, and lower-income Americans.

Tax cuts benefited all Americans who paid taxes.

- At the time of the 2001 tax cuts, the Joint Committee on Taxation (JCT) showed that 77 percent of the tax cuts went to taxpayers earning less than $200,000.[iii]
- This bipartisan tax relief cut all income tax rates, doubled the child tax credit, increased the standard deduction, lowered the marriage penalty, and provided significant tax incentives for education and saving.
- The most recent data from the Congressional Budget Office (CBO) show that the richest 10 percent went from paying 81 percent of all federal income taxes in 2000 to paying 86 percent in 2006.[iv] At the same time, the share of income taxes paid by every other group has gone down.
- The tax relief has led to more than 13 million taxpayers being taken off the tax rolls since 2000, meaning these people now pay no federal income tax at all.[v] Democrats attempt to diminish this by saying these people still pay payroll taxes, however those taxes largely fund defined-benefit or open-ended social insurance programs that everyone benefits from in old age.

Taxes that are set to go up in 2011 unless Congress acts[vi]	
Marginal rates increase for all taxpayers	Child tax credit is cut in half
Top capital gains tax rate rises to 20 percent, and the rate paid by most people goes from 0 to 10 percent.	Top dividend rate increases by 164 percent,.
Standard deduction for married couples drops, imposing a marriage penalty	Imposes an estate tax of 55 percent, harming small, family run businesses
Refundable portion of the child tax credit decreases	Eliminates the 10 percent bracket for lower incomes
Imposes a limit on itemized deductions	Phases out personal exemptions
Small business expensing drops to $25,000	The above-the-line tuition deduction is lost
The student loan interest deduction is limited and the number of months it can be taken is capped	Limits on contributions to education saving accounts are cut by 3/4.

The President is proposing tax increases on small businesses and savings.

- Despite thorough and consistent condemnation of the "irresponsible" tax relief, President Obama's FY11 budget and the FY10 budget resolution adopted by a Democratic Congress endorses extending $2.3 trillion of the 2001 and 2003 tax cuts, all but the most economically important pieces of tax relief – lower taxes on small businesses and savings.[vii]
- The Obama Administration has proposed raising $678 billion in what they call "upper-income tax provisions."[viii] More than half of this revenue comes from raising the top two individual income tax rates.
- Revenue generated by raising the top two rates will come directly from small businesses that are the engine of job growth. According to JCT, 44 percent of the tax revenue from small businesses that pay

taxes at the individual level, by far the most common arrangement for businesses, comes from small businesses that pay these top two tax rates.[ix]

- More than 20 million workers are employed by firms that are subject to these top two rates.[x] Businesses are reluctant to start hiring until they know their taxes are not going up.
- A recent survey of small businesses by NFIB - the nation's largest organization for small businesses - found that "taxes" were the second most important problem facing small business.[xi]
- $100 billion of this $678 billion tax increase would come from raising taxes on capital gains and dividends – i.e., taxes on savings. This income is taxed multiple times at the corporate and individual levels. Research from the President's own advisors found that economic growth suffers when the government takes more money earned by savings and investment.[xii] Yet Democrats have embraced raising taxes on savings by not exempting them from their pay-as-you-go rules and imposing a 3.8 percent tax on savings in their health care takeover. For the United States to advance and compete in the world, the tax code should encourage, not punish, savings.

The proposed policies in the President's budget would increase taxes above their historical average of 18.1 percent to 19.6 percent of national output.[xiii] They would also raise the average effective tax on labor from 28.5 percent today to 30.6 percent in 2020, but still pile on more than $9 trillion in debt. America's debt problem is a spending problem, not a taxing problem. For the sake of the economy, tax rates must be kept the way they are.

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[i] JCT Estimate of H.R. 1836, Document JCX-51-01 at http://www.jct.gov/publications.html?func=startdown&id=2001

[ii] JCT Estimate of H.R. 2, Document JCX-55-03, at http://www.jct.gov/publications.html?func=startdown&id=1746

[iii] Distribution Effects of the Conference Agreement for H.R. 1836, Joint Committee on Taxation JCX-52-01, at: http://www.jct.gov/publications.html?func=startdown&id=1999

[iv] Shares of Federal Tax Liability for All Households, 1979-2006, at: http://cbo.gov/publications/collections/tax/2009/tax_liability_shares.pdf

[v] IRS Statistics of Income Historical table 1, at: http://www.irs.gov/taxstats/article/0,,id=175788,00.html

[vi] CBO pay-as-you-go estimate for H.R. 1836 at http://www.cbo.gov/doc.cfm?index=2867&type=0, Treasury Department Tax Provisions of the Jobs and Growth Tax Relief Reconciliation Act of 2003, at http://www.ustreas.gov/press/releases/js408.htm, JCT's "List of Expiring Federal Tax Provisions, 2010-2020," at http://www.jct.gov/publications.html?func=startdown&id=3646, and Budget of the United States Government, Fiscal Year 2011, Office of Management and Budget, at: http://www.whitehouse.gov/omb/budget/Overview/ table S-7.

[vii] Budget of the United States Government, FY2011, Office of Management and Budget, at: http://www.whitehouse.gov/omb/budget/Overview/

[viii] Ibid, Table S-8, page 164.

[ix] Letter from Edward Kleinbard of the Joint Committee on Taxation to Mark Prater of the Senate Finance Committee regarding "Revenue Estimate" dated April 8, 2009, cited in Senate Floor Speech by Finance Ranking Member Charles Grassley, who said, "Data from the Joint Committee on Taxation, which is the nonpartisan official Congressional scorekeeper on tax issues, shows that 44% of the flow-through business income will be hit with the increase in the top two tax rates proposed by the President and Democratic Congressional Leadership. This hits small businesses particularly hard, since most small businesses are organized as flow-through entities."

[x] See analysis by Senate Finance Committee staff, available at: http://finance.senate.gov/newsroom/ranking/release/?id=d527a612-1f64-490a-a2ae-1acce9e0fa94

[xi] NFIB Small Business Economic Trends, April 2010, at http://www.nfib.com/Portals/0/PDF/AllUsers/SBET201004.pdf

[xii] See "The After-Tax Rate of Return Affects Private Savings," by Lawrence H. Summers, currently the head of President Obama's National Economic Council and top economic advisor. In this paper, Dr. Summers argues, "Both the theoretical analysis and the empirical work demonstrate the strong likelihood that increases in the real after-tax rate of return received by savers would lead to substantial increases in long-run capital accumulation." In AEA Papers and Proceedings, May 1984.

[xiii] "An Analysis of the President's Budgetary Proposals for Fiscal Year 2011," CBO, March 2010, at http://cbo.gov/ftpdocs/112xx/doc11231/index.cfm