

August 13, 2004

# New Congressional Budget Office Report Confirms that George Bush is Shifting the Tax Burden to the Middle Class

*For Immediate Release*

"George W. Bush keeps trying to mislead Americans into thinking we're turning the corner, but truth is that he is turning his back on middle class families. By putting more of the tax burden on them and ignoring record health care and energy costs, the Bush policies are exacerbating the squeeze that working families have been feeling for the last four years. John Kerry knows we can do better and has a plan to provide a more generous tax cut to the middle class," Kerry spokesman Phil Singer said.

## The Headlines Say It All

**"Tax Burden Shifts to the Middle."** [Washington Post headline, 8/13/04]

**"Budget Office Says Biggest Tax Cuts Go to Richest 1%."** [Wall Street Journal headline, 8/13/04]

**"Report Finds Tax Cuts Heavily Favor the Wealthy."** [New York Times headline, 8/13/04]

## Bush Tax Cuts Shifted Tax Burden to the Middle Class

"Since 2001, President Bush's tax cuts have shifted federal tax payments from the richest Americans to a wide swath of middle-class families, the Congressional Budget Office has found." [Washington Post, "Tax Burden Shifts to the Middle," 8/13/04]

- **Wealthiest taxpayers saw share of federal taxes drop from 64.4 percent in 2001 to 63.5 percent this year.** "the wealthiest 20 percent, whose incomes averaged \$182,700 in 2001, saw their share of federal taxes drop from 64.4 percent of total tax payments in 2001 to 63.5 percent this year." [Washington Post, "Tax Burden Shifts to the Middle," 8/13/04]
- **Middle-class families saw their tax burden jump from 18.7 percent of Federal taxes to 19.5 percent of Federal taxes.** Over that same period, taxpayers with incomes from around \$51,500 to around \$75,600 saw their share of federal tax payments increase. Households earning around \$75,600 saw their tax burden jump the

most, from 18.7 percent of all taxes to 19.5 percent. [Washington Post, "Tax Burden Shifts to the Middle," 8/13/04]

### **Middle-class Got Disproportionately Smaller Tax Cuts**

- **Middle-class got disproportionately small tax cuts.** "The report, made at the Democrats' request, confirms what the Democrats and their presidential nominee, Sen. John Kerry of Massachusetts, have charged – that the wealthy disproportionately benefit." [WSJ, "Budget Office Says Biggest Tax Cuts Go the Richest 1%, 8/13/04]
- **The richest got the largest boost to their income from the Bush tax cuts.** "The average after-tax income for people in the top 1 percent of income earners climbed 10.1 percent, while that of those in the middle 20 percent climbed 2.3 percent, and that of those in the bottom fifth only 1.6 percent." [New York Times, "Report Finds Tax Cuts Heavily Favor the Wealthy," 8/13/04]

<b>Largest Boost in Income for the Most Fortunate</b>		
	<b>Average Income</b>	<b>Increase in After-tax Income</b>
Bottom 20 percent	\$16,620	+1.6%
Middle 20 percent	\$57,430	+2.3%
Top 1 percent	\$1,171,030	+10.1%

[Washington Post, "Tax Burden Shifts to the Middle," 8/13/04; Joint Economic Committee Democrats, "New CBO Analysis Confirms that the Bush Tax Cuts Are Skewed Toward the Rich," August 2004]

- **Taxes cut by proportionately more for the wealthy than for the middle class.** "The effective federal tax rate of the top 1 percent of taxpayers has fallen from 33.4 percent to 26.7 percent, a 20 percent drop. In contrast, the middle 20 percent of taxpayers – whose incomes averaged \$51,500 in 2001 – saw their tax rates drop 9.3 percent." [Washington Post, "Tax Burden Shifts to the Middle," 8/13/04]
- **Tax cuts are 70 times larger for top 1 percent of taxpayers than for middle-class families.** "President Bush's three tax-cut laws will reduce this year's income taxes for the richest 1% of taxpayers by an average of \$78,460, more than 70 times the average benefit for the middle 20% of taxpayers, congressional analysts found." [WSJ, "Budget Office Says Biggest Tax Cuts Go the Richest 1%, 8/13/04]

### **Wealthiest Got Largest Share of the Tax Cuts – Enough to Pay Health and Education**

- **Millionaires got a larger share of the tax cut than the bottom 80 percent of families.** "Fully one-third of President Bush's tax cuts in

the last three years have gone to people with the top 1 percent of income, who have earned an average of \$1.2 million annually.” According to the report, the top 1 percent of taxpayers, families with an average income of \$1,171,030, got 33.6 percent of the tax cut. In contrast, the bottom 80 percent of taxpayers – families making up to about \$100,000 – got only 32.5 percent of the tax cut. [New York Times, “Report Finds Tax Cuts Heavily Favor the Wealthy,” 8/13/04; Joint Economic Committee Democrats, “New CBO Analysis Confirms that the Bush Tax Cuts Are Skewed Toward the Rich,” August 2004. Note, the CBO analysis does not include the estate tax repeal, adding that would make the tax cuts even more regressive.]

- **Families making an average of \$1.2 million a year got tax cuts totaling \$89 billion in 2003 – enough to pay for Kerry’s plan for more affordable health care for all Americans and to invest in education** The tax cuts for just the top 1 percent of taxpayers totaled \$88.9 billion in 2003, 33.6 percent of the total cost. This is the average annual cost of John Kerry’s health and education plans – plans that would cut health premiums by up to \$1,000 per family, extend health insurance to every child and 95 percent of Americans, fully fund No Child Left Behind, and provide a tax cut on up to \$4,000 of college tuition. [Joint Economic Committee Democrats, “New CBO Analysis Confirms that the Bush Tax Cuts Are Skewed Toward the Rich,” August 2004 and Kerry campaign analysis]

### **The Tax Cuts Have Created Record Deficits Without the Job Growth America Needs**

The Bush tax cuts have helped take America from a record surplus of \$236 billion in 2000 to a projected record dollar deficit of \$422 billion in 2004. At the same time, America has lost 1.8 million private sector jobs. Even in the last year, the jobs recovery has not been enough to keep up with population and has been the weakest since 1949. One of the reasons for this is that the Bush tax cuts were very poorly designed stimulus. Shifting the tax burden from the wealth of the wealthy to the work of the middle class did not provide the needed stimulus while increasing the deficit and undermining economic confidence.

- **President Bush’s original 2001 tax proposal had no direct stimulus in 2001.** President Bush’s original 2001 tax proposal was phased in over a number of years. Only under Democratic pressure did the 2001 cut include a partial rebate to put money immediately into family’s pockets. Still, the Administration insisted on making the partial rebates non-refundable, therefore leaving out the 34 million low-income taxpayers most likely to spend it.
- In the wake of 9/11, the Bush Administration ignored the growing jobs crisis and pushed non-stimulus corporate tax cuts like eliminating the corporate Alternative Minimum Tax.

- The Congressional Budget Office concluded that eliminating the Corporate AMT would be poor stimulus: “[It] does little by itself to change the near-term incentive for businesses to invest. Its bang for the buck is small because it is primarily a reduction in taxes on the return from capital that is already in place, not an incentive for new investment.” [Congressional Budget Office, Economic Stimulus: Evaluating Proposed Changes in Tax Policy, January 2002]
- Yet eliminating the corporate AMT would have given \$25 billion in immediate rebates to just 16 companies – including a \$254 million rebate to Enron. [Congressional Research Service. “Corporate Alternative Minimum Tax for 50 Corporations,” October 16, 2001]
- In 2003, the Administration again opted for capital gains and dividend tax cuts judged by independent organizations to be extremely poor stimulus.
  - The Congressional Research Service found that “[a] capital gains tax cut appears the least likely of any permanent tax cut to stimulate the economy in the short run; a temporary capital gains cut is unlikely to provide any stimulus.” [Jane G. Gravelle “Economic and Revenue Effects of Permanent and Temporary Capital Gains Tax Cuts” updated January 29, 2003]
  - A Goldman Sachs analysis concluded that “[t]he dividend tax exclusion looks especially ineffective as a stimulative measure, providing only 8 cents on the dollar.” [Goldman Sachs U.S. Economics Analyst. “Fiscal Policy – In Search of Balance, Creativity, and Grit,” May 2, 2003]
  - Warren Buffett described the dividend tax cut as “class welfare. For my class.” [Warren Buffett. “Dividend Voodoo,” Washington Post, May 20, 2003]

### **The Bush Tax Cuts Have Been a Failure As Stimulus**

- **The President predicted the 2003 stimulus would create 306,000 jobs per month – we have fallen short in 12 of the 14 months since the stimulus.** In February 2003 the President’s Council of Economic Advisers issued a White Paper predicting that the President’s stimulus plan would create an average of 306,000 jobs per month for the following 18 months. The economy has fallen short of this prediction in 12 of the 14 months since the tax cut – creating an average of 100,000 jobs per month. [Council of Economic Advisers, 2/4/04, “Strengthening America’s Economy” and BLS]
- **7 million jobs short of President Bush’s prediction.** Annual projections in the 2002 Economic Report of the President implied 6 million new jobs between January 2001 and July 2004. Instead, we have lost 1.1 million jobs. As a result, we are 7 million jobs short of the prediction which President Bush made after 9/11, the tech bubble, and the recession. [BLS and Economic Report of the President, 2002.]

Note the Economic Report of the President projected an average of 138.3 million in 2004. That corresponds to roughly 138.4 million jobs in July; the actual jobs total in July was 131.3 million.]

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