Tax Cuts

108-2-04 | 2/24/2004

Our tax system should be fair to all workers. Last year CWA opposed the largest tax cut plan in th history of this country, the bulk of which went to multi-millionaires.

Congress was forced to reduce these extreme tax cuts to $350 billion (from $726 billion), with $20 billion going to the states to fund Medicaid for the poor. Shamefully, last year's tax cut plan still gave millionaires an average tax cut of $93,500, while the average tax cut for middle-income households was only $217.

The tax cuts go to those who need them least

President Bush's misguided tax plan is a major shift away from taxation of investment income. It would bring the tax rate on capital gains and dividends down to levels not seen since before the Great Depression. This radical change in tax policy will hurt the well-being of America's working families. Under the Administration's proposal, workers will be unfairly saddled with paying for unde funded public services.

Now the President wants to make the tax cuts permanent

In another move to further his tax cut plan, the President has proposed in his budget for fiscal yea 2005, billions in additional tax breaks for those who need them least (HMOs and other wealthy corporate interests). It would also radically change the federal budget rules to accommodate them Changing these budget rules would prevent Congress from funding critical priorities while making i easier to enact more unpaid-for tax cuts.

CWA and the Fair Taxes for All Coalition oppose the Bush proposal to make the tax cuts permanent.

The Administration has squandered the opportunity to help more workers live the American dream Instead it has taken a $5.6 trillion surplus and turned it into a $4.8 trillion deficit. These policies have done nothing to improve job, health, retirement, and education security for the average American. The middle-class is particularly feeling the squeeze as these policies starve state budget and force steep hikes in tuition costs. Since Bush's first $1.35 trillion tax cut in 2001, which was suppose to result in the creation of new jobs, the country has, instead, experienced a loss of 2.7 million jobs, and massive state budget cuts.

This year, embedded in his budget proposal, President Bush is asking for $2.2 trillion dollars to make the tax cuts permanent. It is a gamble that only benefits the rich while doing little to strengthen today's economy. Over the long-term, the cost of making these cuts permanent is mor than three times the size of the long-term shortfall in Social Security. Under this plan, millionaires would receive an average annual tax cut of $125,000, while middle-income Americans would get a tax cut of just about $655.

Bush Tax Cuts Must Not Be Made Permanent

According to the Congressional Budget Office's Economic and Budgetary Outlook, the federal defici will be $477 billion in the current fiscal year alone (2004) and $2.4 trillion total over the next ten years - - but - - only if the tax cuts passed by Congress last year expire on schedule. Extending th tax cuts passed in 2001 and 2003 and those in the President's budget will explode the federal deb by an additional $2 trillion over the next ten years. According to the CBO that is a total federal deficit of $4.4 trillion.

Bush's tax proposal would continue to favor the wealthy over working families

Millionaires would receive an average annual tax cut of $125,000 - - exceeding the annual income 90 percent of tax filers. Congress must reverse these misguided policies. Our nation simply cannot afford any additional tax cuts without offsetting revenue increases. It is essential to rollback these policies by reforming the tax system to ensure that everyone pays his or her fair share and that adequate revenues are provided for our schools, health care system, and to provide economic opportunity for all.

Estate Tax

On a similar note, CWA opposes President Bush's plan to extend the full repeal of the estate tax. Extending the full repeal would cost taxpayers an estimated $200 billion over the next 10 years, a over $980 billion over the next 20 years. This will add to an already massive federal budget deficit and further threaten funding for vital public programs and services. CWA supports the Statement o Principles on Estate Tax Reform put forth by Americans for a Fair Estate Tax to protect federal funding priorities. That statement contends that the estate tax is the only significant federal tax or massive amounts of accumulated wealth. The estate tax:

• Makes the overall tax system fairer by ensuring the wealthy pay their fair share and taxing incon that has never been taxed before;

• Raises significant amounts of revenue necessary to fund essential government programs;

• Encourages charitable giving by allowing unlimited deductions for charitable giving;

and,

• Promotes the ideals of a vibrant American democracy by limiting the amount of inherited wealth and hence political power.

For these reasons, CWA opposes permanent repeal of the estate tax, and supports reasonable and responsible reform that can be implemented immediately.

Consistent with the above ideals, CWA believes that any modifications to the estate tax ought to follow certain principles. In particular, we believe any reforms must ensure that the tax:

Is fair and does not unnecessarily tax people who cannot afford to pay. A fair tax system should require that those who can best afford to pay bear more of the burden; and great wealth is perhap the best indicator of ability to pay. The vast majority of Americans already pay no estate tax. The tax should target the very wealthy - - those who are multi-millionaires - - and insure they do not escape the tax. Most family-owned farms and businesses should continue to pay little or no tax. Revisions to the tax rate and to the amount of wealth excluded from any taxation should ensure th the burden falls only on those that can best afford to pay. Those who have taxable estates but lacl sufficient liquid assets to pay the tax in full should continue to be allowed to pay the tax over time The exclusion level should be adjusted annually based on inflation to insure that salaries that rise with inflation and appreciation of essential assets such as homes, farms, or businesses do not caus "wealth creep".

Continues to provide much needed resources to federal and state governments. Repeal of the esta tax will cost the federal government $982 billion over the next 20 years. Any reform must not significantly undermine the revenue raised by the estate tax. Additionally, the estate tax also provides revenue to states that "piggy-backed" on the federal law through a state credit.

However, the state tax credit is being phased out, with full repeal occurring in 2005. The state tax credit must be restored, specially at a time when states are facing extreme fiscal constraints.

Provides charitable giving incentives. By eliminating the tax incentive to donate to charity, repeal (the estate tax will cost charities roughly $10 billion per year, according to a recent study by The Brookings Institution. Modification of the tax must result in minimal adverse impact on giving.

Is simplified and closes loopholes. The law must be simplified to make filing estate taxes less complicated and to minimize accounting costs for all taxpayers. Loopholes that exist in the tax law must be closed, and any changes to the law must not create new ways to shelter income or avoid the tax altogether. A simplified tax will have the benefit of making it easier to do estate planning and will help catch those trying to game the system. The burdensome and complex carry-over bas rule, scheduled to go into effect in 2010, must be revised.

Tax Credits Do Little for Working Families. CWA opposes President Bush's misguided health insurance tax credit proposal to give low-income workers a refundable tax credit to buy health insurance up to $1,000.

The Employer Retirement Savings Accounts (ERSAs) would consolidate $401(K) Plans, SIMPLE 401 (k), 403 (k), 403 (b), and 457 employer-based Defined Benefit Contribution accounts into a single plan. These ERSAs could avoid nondiscrimination testing regulations, and state and local governments would not be subject to nondiscrimination testing under certain circumstances.

(individuals) and $3,000 (families). This proposal would do little to help the uninsured because tax credits ignore the high cost of insurance premiums. Under the Bush plan an individual with income of $20,000 (with no dependents) would be eligible for only $556 in premium credit. This is more than one-third the cost of the least expensive policy. This ignores the fact that since 2001 the cost for employer coverage has risen by 13.9 percent.

Tax credits are an ineffective means for insuring persons who do not qualify for Medicaid or have employer-sponsored health care. Many workers do not earn enough to make funds available to create health savings accounts, or to pay up front for health care costs and then file for the tax credit later. The Health Care Coverage Tax Credit created to help those who lost their jobs as a result of trade, benefited only 5 percent of eligible workers. This was mostly due to the rising costs of premiums.

Tax credits would undermine the existing employer-sponsored health care plans, and allow insurance companies to skim-off the healthier and younger workers; leaving employer-sponsored health plans paying for the sicker, older, and more expensive workers. This would result in higher insurance costs for those workers who stay in the health plan. These tax credits would also encourage employers with large numbers of low-wage workers to terminate their health care plans to encourage these workers to rely on the tax credit instead.

Retirement Savings Accounts would undermine the existing retirement system. CWA opposes President Bush's proposal to create two consolidated savings accounts for retirement, included in h fiscal year 2005 budget. This proposal would create "tax free" Retirement Savings Accounts, Lifetime Savings Accounts, Employer Retirement Savings Accounts, and Individual Development Accounts. Persons would convert their existing 401(k) plans into these new accounts with contribution limits of $5,000 per year. These are a repeat of President Bush's proposals that CWA opposed last year, with a slight modification the of last year's proposal contribution limit which wa $7,500.

For further information, contact: Rosie Torres, Legislative Representative

(202) 434-1315

rtorres@cwa-union.org

www.cwa-governmentaffairs.org

 Contact