

# ISSUE BRIEF

## Tax Fairness for Working Families

**The \$1.74 trillion tax cut enacted in 2001 is the single biggest reason for the deterioration of our long-term budget situation and our inability to meet the critical needs of today and the future.** Making these cuts permanent and taking the further step of eliminating taxes on dividends, as President George W. Bush has proposed, will force still more drastic cuts in education, health care and homeland security. Congress should reject tax cuts that are heavily tilted to the wealthiest Americans, which would exacerbate the current trend toward income inequality.

According to Congressional Budget Office (CBO) data, the 2001 tax cuts played a central role in the sharp decline in projected 10-year federal budget surpluses, which plunged from \$5.6 trillion in January 2001 to only \$336 billion in August 2002. The real cost of the 2001 tax cuts exceeds \$2 trillion, once other inevitable changes are taken into account. CBO has also reported that the federal government is now expected to run deficits (when excluding Social Security funds) through 2011, and the Bush administration has acknowledged the budget will be in deficit for the next decade.

**Most of the benefits of the 2001 tax cut and the proposed elimination of dividends taxes go to the wealthiest.** According to Citizens for Tax Justice, the 2001 tax cuts provided more than 37 percent of their benefits to the wealthiest 1 percent of taxpayers who make \$373,000 or more annually. Estate taxes are owed by less than 2 percent of deceased taxpayers, but the repeal cost the government over \$100 billion. Eliminating taxes on dividends would be a further windfall for the wealthy: Seventy five percent of the benefit would flow to tax filers with incomes over \$100,000, and the millionaires' share is 25 percent, with average tax breaks exceeding \$45,000. Taxpayers with incomes below \$50,000, who file roughly 70 percent of all returns, would get less than 10 percent of the benefit, with average tax breaks below \$135.

**Making the tax cut permanent will not solve our current economic problems and may exacerbate them.** When Congress passed the 2001 tax cut, the nation had just ended the longest period of economic expansion since World War II, and budget surpluses were predicted as far as the eye could see. President Bush and many members of Congress relied on these boom conditions to argue that we could afford huge tax cuts and still have adequate resources to meet critical needs without doing any long-term budget damage. Since the 2001 tax cut passed, however, the nation has entered a costly and protracted war and the economy has experienced a sustained downturn with the highest levels of unemployment and job loss in a decade. Poverty levels and the number of Americans without health insurance are up, and states are experiencing their worst fiscal crisis since World War II. Making the tax cut permanent and excluding dividend income from taxation will do nothing to alleviate these crushing economic problems. And the long-term rise in deficits and corresponding interest-rate hikes resulting from these tax changes could actually dampen economic activity.

**Making the tax cuts permanent will drain billions more in revenue.** Giving away the store in tax breaks for the wealthy will break the bank when it comes to meeting broadly shared needs and advancing the interests of all Americans. According to the Center on Budget and Policy Priorities, making the 2001 tax cut permanent would cost an additional \$374 billion in fiscal years (FYs) 2003–2012 and \$4 trillion in FYs 2013–2022, the decade during which most baby boomers will retire and

begin relying on Social Security and Medicare. Permanently repealing the estate tax alone accounts for over \$1 trillion of lost revenue during those critical years. And ending taxation of dividends carries a price tag of more than \$364 billion. These estimates do not include the additional interest payments on the federal debt that would be required.

**Making the 2001 tax cut permanent and adding new dividend tax cuts will explode the federal deficit and saddle our children with crippling debt.** The 2001 tax cut contributed substantially to the \$159 billion deficit the government ran in 2002, after three straight years of budget surpluses. According to Bush administration estimates, adding the president's new dividends tax cuts to the 2001 cuts will raise deficits this year to \$200 billion and next year to \$300 billion. These estimates are more than double the predictions the White House made when it submitted its FY 2003 budget to Congress in February of last year.