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WHO IN CALIFORNIA WILL BENEFIT FROM PRESIDENT BUSH'S PROPOSED TAX CUT?

The House of Representatives has passed the first three parts of President Bush's proposed tax cut with only minimal time for debate allowed by the House leadership. Taken together, HR 3, HR 6, and HR 8 will 1) reduce personal income tax rates and create a new 12 percent tax bracket; 2) partially eliminate the so-called "marriage penalty;" 3) increase the \$500 per child tax credit to \$1,000 by 2006; 4) expand the Earned Income Tax Credit for married couples; and 5) modestly increase the Alternative Minimum Tax exemption for married couples; and 6) gradually repeal the estate tax.

A new analysis prepared by the Institute on Taxation and Economic Policy (ITEP) for the California Budget Project finds one out of four (24.0 percent) – 3.458 million – California taxpayers would receive **no** benefit from the President's proposed income tax reductions. The analysis also shows that the wealthiest one percent of California taxpayers will receive half (49.0 percent) of the total benefits of the Bush tax cut received by California taxpayers. The poorest 20 percent of taxpayers will receive less than one percent (0.9 percent) of the benefits of the tax cut received by California taxpayers. The bottom 80 percent of California taxpayers will receive just over a quarter (27.0 percent) of the total benefits of the tax cut.

The ITEP study examined how the tax measures passed by the House, along with the modest corporate tax provisions contained in the Bush package, will affect California taxpayers at various income levels. The ITEP analysis shows that:

- The California taxpayer exactly at the middle of the income distribution would receive a \$580 reduction when the tax cuts are fully implemented. Nearly all (\$571) of this amount is attributable to the income tax proposals in the President's package.
- The wealthiest one percent of California taxpayers, with average incomes of \$1,135,000 per year, would receive an average total tax cut of \$50,563. Slightly less than half (\$24,587) of this amount is attributable to income tax reductions; the remainder is attributable to the elimination of the estate tax and modest corporate tax provisions in the President's package.
- Put another way, the wealthiest one percent of taxpayers would receive an average total tax cut 857 times larger than that received by the poorest 20 percent (\$50,563 versus \$59). The wealthiest one percent would receive an average tax cut 87 times larger than that received by middle income Californians (\$50,563 versus \$580).
- The distribution of the benefits from the repeal of the estate tax and the very limited corporate tax relief contained in the Bush package are particularly skewed. The top one percent will receive 82 percent of the benefits from the estate and corporate tax provisions – more than eight out of every ten dollars – while the bottom 80 percent of taxpayers will receive only 1.5 percent of the estate and corporate tax cuts.

How Are the Benefits of President Bush's Tax Cut Divided Among California Taxpayers?

Income Group	Income Range	Number of Tax Returns (in thousands)	Average Income	Total Income Tax Cut (in millions)	Percent of Income Tax Cut	Estate & Corporate Tax Cut (in millions)	Percent of Estate & Corporate Tax Cut	Total Tax Cut (in millions)	Percent of Total Tax Cut	Average Income Tax Cut	Average Total Tax Cut
Bottom 20%	Less than \$16,000	2,848	\$9,700	-\$164	1.3%	-\$5	0.1%	-\$169	0.9%	-\$58	-\$59
Second 20%	\$16,000 - \$29,000	2,848	\$22,200	-\$726	5.5%	-\$13	0.2%	-\$740	3.9%	-\$255	-\$260
Middle 20%	\$29,000 - \$46,000	2,849	\$37,100	-\$1,626	12.4%	-\$26	0.4%	-\$1,652	8.7%	-\$571	-\$580
Fourth 20%	\$46,000 - \$79,000	2,848	\$60,500	-\$2,502	19.1%	-\$43	0.7%	-\$2,545	13.4%	-\$879	-\$894
Next 15%	\$79,000 - \$165,000	2,136	\$108,000	-\$2,950	22.5%	-\$190	3.3%	-\$3,141	16.6%	-\$1,381	-\$1,470
Next 4%	\$165,000 - \$556,000	528	\$233,000	-\$604	4.6%	-\$797	13.7%	-\$1,401	7.4%	-\$1,144	-\$2,651
Top 1%	\$556,000 or more	184	\$1,135,000	-\$4,524	34.5%	-\$4,764	81.6%	-\$9,288	49.0%	-\$24,587	-\$50,563
	ALL	14,398	\$64,600	-\$13,099	100.0%	-\$5,838	100.0%	-\$18,937	100.0%	-\$910	-\$1,315
Median California Taxpayer			\$37,100							-\$571	-\$580

Source: Institute on Taxation and Economic Policy