

March 16, 2007

HAVE PRO-GROWTH TAX POLICIES FAVORED THE WEALTHY OVER OTHER AMERICANS?

The standard criticism that the pro-growth tax policies enacted over the past six years have unfairly benefited the wealthiest Americans at the expense of others is not based in fact. The critics often argue that the wealthiest have seen their share of income increase greatly, while middle and lower income Americans have seen their share of the pie dwindle.

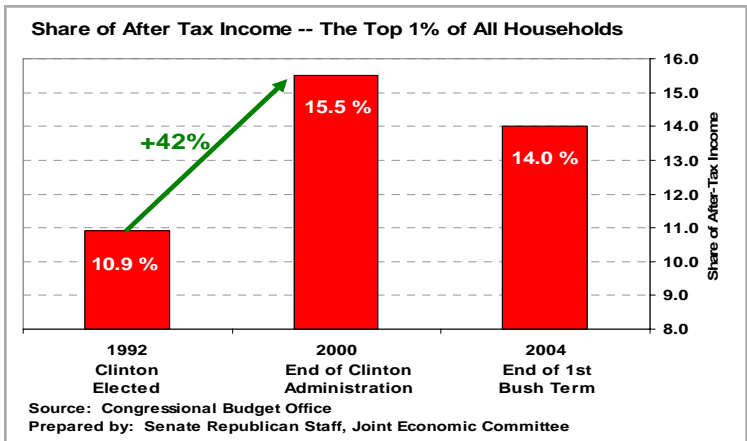
These arguments are not factual. Among the data included in the supplemental tables of the Congressional Budget Office's December 2006 "Historical Effective Tax Rates: 1979-2004" are average effective tax rates, income shares and income. These data show that tax relief has not been unfairly balanced.

Share of After-Tax Income

The argument that an ever increasing shares of income is going to the highest income group is not supported by the data in CBO's report.

As the preceding two charts show:

- ⇒ During the period of 1992-2000, the top 20% of households was the only income quintile to see its share of after-tax income increase.
- ⇒ During the 2000-2004 period, the four lowest income quintiles experienced an increase in their share of after-tax income; only the top 20% saw their share decline.



The above chart reveals that:

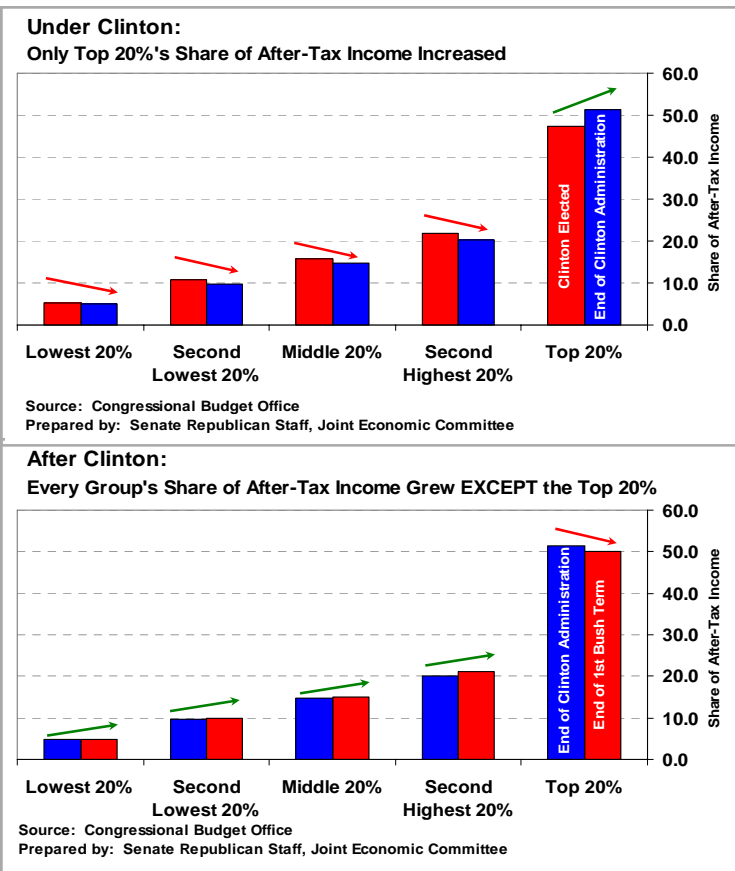
- ⇒ The share of after-tax income received by the top 1% of households grew 42% from 10.9% in 1992 to a peak of 15.5% at the end of the Clinton Administration in 2000.
- ⇒ The after-tax share of income received by the top 1% of households actually DECLINED from 2000 to 2004.

The data do not support the assertion that there has been a massive shift of income to the highest income households since 2000. In fact, the data show that the share of income received by the top 1% of households in 2004 is lower than the peak reached in 2000.

Who Is Paying The Federal Income Tax?

The critics of the pro-growth tax policies enacted after 2000 assert that highest income households have disproportionately benefited from those policies at the expense of lower income households. That criticism implies that the income tax burden of lower income households has risen relative to high income households.

The data simply do not support such an assertion.

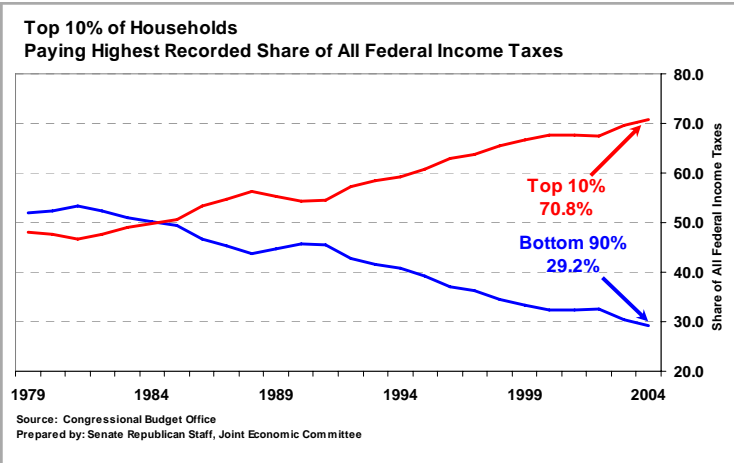


HAVE PRO-GROWTH TAX POLICIES BENEFITED THE WEALTHY OVER OTHER AMERICANS?

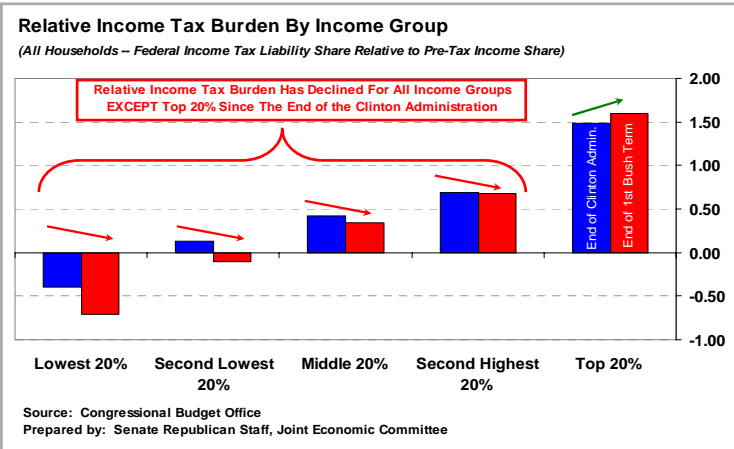
In the period 1979-1984, the bottom 90% of households paid a majority of all income taxes.

Since 1984, the share of income taxes paid by the bottom 90% has trended downward. Conversely, in the period following 1984, the top 10% of households have paid an increasing majority of all federal income taxes.

In fact, in 2004, the final year of data available in CBO's report, the share of federal income taxes paid by the top 10% of households reached a high of 70.8%, while the bottom 90% paid only 29.2%.



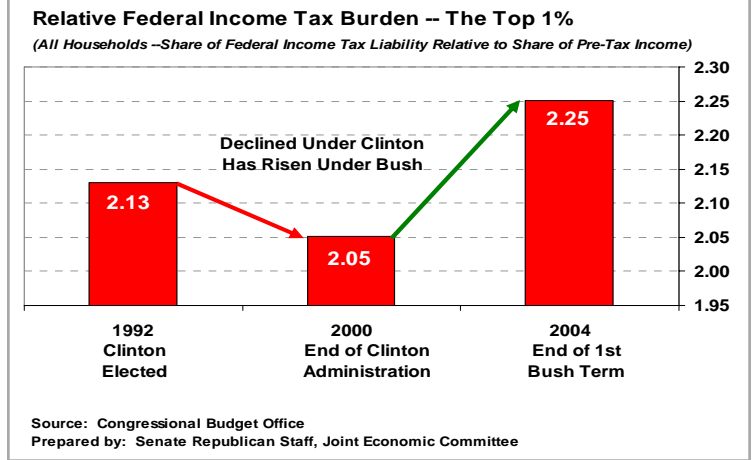
It is worth noting that in 2004, the bottom 40% of households paid a NEGATIVE share of federal income taxes; that is, they received resources from the income tax system..



Since 2000, the “Relative Federal Income Tax Burden,” or the share of all federal income taxes paid compared to the group’s share of all income, has DECLINED for all income quintiles EXCEPT the top 20%.

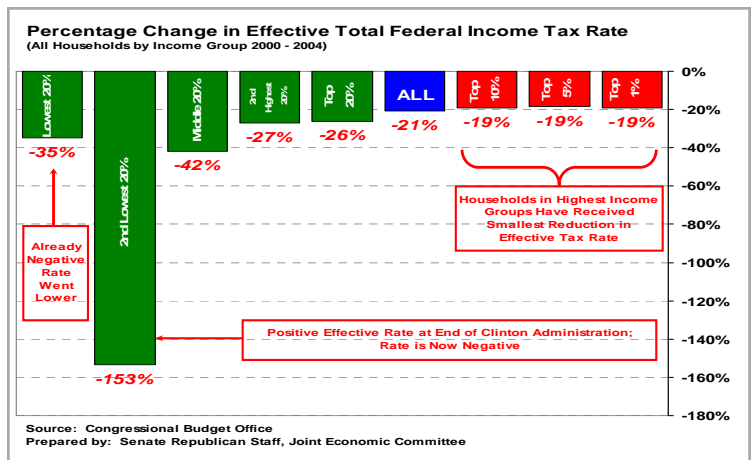
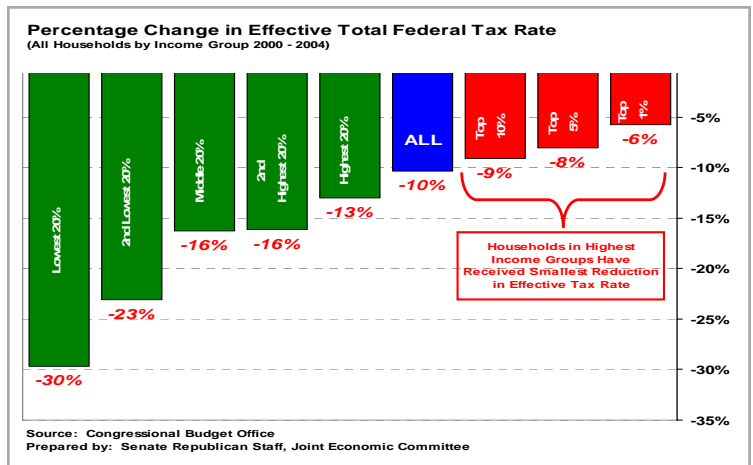
From 2000-2004, the Relative Federal Income Tax Burden of the top 1% of households increased from 2.05 to 2.25 — a level higher than existed in 1992.

Striking is the fact that the Relative Federal Income Tax Burden of the top 1% of households DECLINED from 1992—2000.



Effective Total Federal and Effective Total Federal Income Tax Rates Have Declined By Greater Percentages for Lower Income Groups

The CBO's report also reveals that for the time period 2000-2004, the effective total federal tax and effective total federal income tax rate reductions have been the highest on a percentage basis for the lowest income groups.



Clearly the tax policies enacted since 2000 have benefited all income groups and have not resulted in a shift in income shares in favor of high income households or in tax burdens toward lower income households.