US Congress nears approval of $800 billion tax cut for the rich

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The tax cut legislation passed by the US House of Representatives last week and scheduled for a final vote July 30 by the US Senate is one of most brazen pieces of class legislation ever adopted by an American Congress. It proposes to cut $792 billion in federal taxes, with the vast majority of the windfall going to the wealthiest families.

Different versions of the bill were passed by the House and Senate, which must now be reconciled in a conference committee, but either way the legislation would provide the biggest tax break for the wealthy since the notorious Reagan tax cut approved by a Democratic-controlled Congress in 1981.

The major provisions in the House version, and their estimate cost in lost revenue, are as follows:

* A 10 percent cut over ten years in the rate of income tax levied on all income levels. The majority of taxpayers, taxed at a 15 percent rate, would see their rate drop gradually to 13.5 percent, a reduction of 1.5 percent. Those in the top tax bracket would enjoy a much larger reduction, from 39.6 percent to 35.7 percent, a cut of 3.9 percent. Cost: $405.1 billion.

* The complete repeal of all taxation on inheritances. At present, estates of less than $1 million are tax-free. Under the House bill billionaires could bequeath their entire wealth without paying a penny of tax. Cost: $75.2 billion.

* Elimination of the alternative minimum tax, which was established to ensure that corporations and wealthy individuals could not make use of tax credits and other loopholes to evade all taxation. Cost: $94.1 billion.

* Cut the capital gains tax—the tax on profits from the buying and selling of stock—for individuals from 20 percent to 15 percent and for corporations from 35 percent to 25 percent. Cost: $69.0 billion.

* Tax cuts and credits for specific industries and industry groups. Cost: $100 billion.

* Reduction in the so-called marriage penalty, a consequence of progressive taxation, in which some married couples pay a greater tax in a joint return than if they filed separately, because their joint income places them in a higher tax bracket. Cost: $44.5 billion.

The bulk of the benefits go to the wealthiest families, and the numbers are truly staggering. According to estimates by the Treasury and the Center for Budget and Policy Priorities, and accepted by the congressional Republicans, the House bill would award 33 percent of the cuts, some $264 billion, to the richest one percent, those families making above $350,000 a year.

Nearly all the tax cut, 80 percent, or $634 billion, would go to the top 20 percent, those families and individuals making above $82,000 a year. Another 13 percent of the tax cut, about $103 billion, would go to the second 20 percent, those making between $50,000 and $82,000, while the remaining 60 percent of the people, everyone making less than $50,000 a year, would get 7 percent of the total cut, about $55 billion. This works out to about $300 per person, spread over ten years, for the majority of the American people—less than ten cents a day.

Concealed in the structure of the bill are even greater tax cuts for the wealthy. For example, the phase-out of the inheritance tax in the House bill is calibrated so that the tax only falls to zero in ten years, the end of the period for which an accounting is required under congressional budget rules. The accumulated cost of this provision is $75.2 billion over those ten years. But in the following ten years, when no inheritance tax will be collected at all, the cost to the Treasury balloons to $570 billion—more than half a trillion dollars which the American plutocracy will be able to pass on to its younger generation tax-free.

The Senate version differs in some provisions from the House bill. It eliminates the marriage penalty entirely, instead of reducing it, and makes no cuts in the capital gains tax. Instead of an across-the-board cut in income tax rates, it cuts the lowest bracket only, from 15 percent to

14 percent. Estate taxes are reduced but not eliminated, and the tax breaks for favored industries are smaller. The overall effect is still a bonanza for the wealthy. The Senate bill provides 67 percent of the cuts for the top 20 percent, 21 percent for the second 20 percent, and only 12 percent for the bottom 60 percent—about 17 cents a day.

Corporate lobbyists in Washington have had a field day with the tax legislation. As the *Washington Post* noted, in an analysis of the House bill: “Capitalizing on the new era of government surpluses are multinational corporations, utility companies, railroads, oil and gas operators, timber companies, the steel industry, and small business owners.”

A single tax break, a provision that would allow multinational corporations more favorable treatment of deductions for interest and foreign taxes, will pump $34 billion into corporate coffers. The American Council of Life Insurance won a $5 billion provision to extend for five years a temporary tax deferral on income the insurance and financial industries earn abroad. Another provision gives a $1 billion windfall to utilities involved in certain kinds of mergers.

Parenthetically, a report from the Center on Responsive Politics, issued July 28, notes that $1.42 billion was expended last year to support lobbying by 20,512 registered Washington lobbyists, the vast majority employed by corporate and business interests. This means 38 lobbyists and $2.7 million for each member of the House and Senate.

Congressional Republicans accompanied the tax cut legislation with a torrent of demagogy about returning money from Washington bureaucrats to ordinary citizens. But focusing the tax cut on the income tax, one of the few remnants of progressive social policy in America, ensures that ordinary working people will gain virtually nothing. Three quarters of all taxpayers pay more in payroll taxes, for Social Security, Medicare and disability insurance, than they do in income tax. There is no cut at all in the highly regressive payroll tax.

There is another political motive in the tax bill, besides the crass determination to give as much money as possible to those who already have more than enough. That is to drain the finances of the federal government so that there are no resources available for domestic social spending.

The projection of $3 trillion in budget surpluses over the next two decades—of which $2 trillion is excess Social Security taxes to be reserved to bail out the retirement system in the long-term—is a fraud maintained by both big business parties for their own political purposes. Treasury and Congressional Budget Office estimates assume that the terms of the 1997 budget agreement between Clinton and congressional Republicans will be carried out, including a 20 percent across-the-board cut in discretionary spending—i.e., spending not required by entitlement programs like Social Security and Medicare.

Since both parties support an increase in military spending, the largest discretionary item, the actual cuts in domestic programs required to meet the spending targets would mount to 30 percent or more. This would mean the effective gutting of programs such as pollution control, highways and other infrastructure, air traffic control, veterans' benefits, social services for Native Americans, housing and aid to education.

None of these cuts have yet been spelled out, and most will likely be postponed until after the November 2000 elections. Even without a tax cut, spending cuts of unprecedented dimensions will be required to meet the budget targets.

President Clinton has already pledged to veto the tax bill in either the House or Senate version. More importantly, from the standpoint of big business politics, the bill has already been vetoed by an even more authoritative figure, Federal Reserve Board Chairman Alan Greenspan, who sharply criticized a tax cut of such a magnitude in testimony before House and Senate committees over the past two weeks.

John Feehery, spokesman for House Speaker Dennis Hastert, declared of the tax bill: “This is who we are. This defines us as a party.” In that case, the Republican Party has defined itself as the party that specializes in pandering to the most short-term profit lust of the wealthy.

The Democratic Party defends the wealthy just as fervently, but more cautiously. It advises the moneyed elite to look back over their shoulders at the vast majority of the people who are not profiting from the stock market boom, and throw a crumb or two to avoid a social explosion.

Both Clinton and Greenspan are concerned, moreover, that a huge tax cut now, when the financial markets are already overheated, could lead to an inflationary explosion. They advise holding the tax cut in reserve as a measure to deal with the financial crisis that lies ahead.