# US Congress pushes tax windfalls for the wealthy

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In votes taken throughout the month of July, the Republican-controlled US Congress—with substantial support from Democrats—has approved four major tax measures which together would slash the tax bills of upper income families by more than $700 billion over the next 10 years, while providing little or nothing for the vast majority of working people.

The separate tax bills were drafted by the Republican leadership after last year's unsuccessful effort to push through an overall tax cut, which was vetoed by President Clinton. Instead of one gargantuan tax-cut bill, a series of bills were prepared, rushed through perfunctory committee hearings, then brought to a vote in the House of Representatives on a one-a-week basis. The votes were timed to occur in the month leading up to the Republican National Convention, which opens July 31 in Philadelphia. Two of the bills have also passed the Senate.

The tactic of breaking up the tax bill into several components was originally devised as part of the public relations campaign for the convention. But in the course of legislative wrangling, significant numbers of Democratic congressmen and senators have joined forces in support of one or another of the tax bills.

Two of the bills attracted nearly enough votes in the Senate to enact them into law over a Clinton veto. And one of the bills, which loosens the rules for contributions to individual retirement accounts (IRAs) by wealthy individuals and employers, won near-unanimous backing in the House of Representatives, passing the lower house by a margin of 401 to 25.

The four bills combine to provide nearly as much of a tax windfall to the wealthy, $733 billion, as last year's omnibus measure, which would have cut taxes for the rich and the upper middle class by $792 billion.

The most significant, both in its fiscal effect and in its political and historical import, is the repeal of the estate tax, approved on July 9 by the House and on July 14 by the Senate, where the vote was 59 to 39. The bill would phase out the estate tax over 10 years, if it survives a threatened presidential veto. The tax on inherited wealth was first imposed during the Progressive Era, more than 80 years ago, as one of a series of measures against excessive concentration of wealth, which also included the income tax and the breakup of the Standard Oil trust.

It is a measure of the shift to the right by both the Republicans and Democrats that many senators who spoke in the debate denounced taxation of the wealthy as though it were a criminal act. Senator Phil Gramm of Texas called the estate tax “a cancer.” He continued: “Clinton wants to leave some of it in. We want to take it out.” Gramm admitted that the bill would help the rich, and asked, “What's wrong with being rich in America?”

Gramm's sentiments found support among the Democrats, as nine of the 45 Democratic senators voted for the legislation. This included three from the Pacific Coast, with close ties to the booming computer and hi-tech sector—Dianne Feinstein of California, Ron Wyden of Oregon, and Patty Murray of Washington—as well as Robert Torricelli of New Jersey.

Despite the attempts to portray the repeal as a measure to preserve family farms and small businesses, the estate tax falls almost entirely on the very wealthiest families. The tax is now levied only on estates valued over $675,000, an exemption due to rise under current law to $1 million by 2006. Only two percent of all estates pay any tax at all, and a majority of the tax is paid by the relative handful of estates valued at $5 million or more—some 3,000 in the last year for which figures are available.

The bill is structured as a 10-year phase-out in order to conceal the full dimensions of the bonanza for the super-rich. Congressional rules require estimating the cost of a tax cut or spending program 10 years into the future. The estate tax repeal will cost $105 billion from 2001 to 2010, but will balloon thereafter to $500 billion from 2011 to 2020.

While the Clinton administration opposes the outright elimination of the estate tax, it is backing a measure that would dramatically lower the impact of the tax on many wealthy households. The Democratic proposal would raise the threshold at which the tax takes effect to $2 million for an individual and $4 million for a couple by the year 2009, slashing by two-thirds the number of families facing the tax. It would also cut the top rate for those still subject to the tax to 44 percent from 55 percent.

On July 11 the House voted by 269 to 159 to cut taxes on married couples by $182.3 billion over 10 years. Forty-eight Democrats and a conservative independent joined all 220 Republicans in support of the legislation. A week later, on July 18, the Senate approved a similar bill, cutting taxes by $248 billion. The vote was 61 to 38. Eight Democrats voted for the Republican bill, including Feinstein, Torricelli, Joseph Biden of Delaware, Robert Byrd of West Virginia, Herb Kohl of Wisconsin, Robert Kerrey of Nebraska, Mary Landrieu of Louisiana and Max Cleland of Georgia.

Congressional Republican leaders proposed the measure to eliminate what they called the “marriage penalty,” a mathematical quirk in the tax code under which some married couples pay more tax if they file a joint return than if they earned the same income but filed separate returns as unmarried individuals. This discrepancy is caused by the differing standard deductions for single and married people, and by the different income levels at which they are shifted from the lower 15 percent tax bracket to the higher 28 percent tax bracket.

According to a Treasury Department study last year, the overall effect of the differing tax treatment of single people and married couples is a wash. Some 48 percent of joint filers, or 24.8 million couples, had a “marriage penalty,” paying an average $1,141 more than they would have if filing singly. Another 41 percent of joint filers, or 21 million couples, paid significantly less than they would have if filing singly, with this “marriage bonus” averaging $1,274.

The congressional Republican leadership seized on this anomaly in a demagogic fashion, declaring the income tax code to be anti-marriage, and rallying support from extreme-right and fundamentalist groups, like the Christian Coalition, which made repeal of the “marriage penalty” its number one legislative priority this year.

The proposed legislation would shift millions of upper income families from the 28 percent tax bracket to the 15 percent tax bracket, as well as increasing the standard deduction for couples filing joint returns. This would eliminate the marriage penalty for millions of couples, but it would also cut the taxes of those couples who already pay significantly less than single people in the same income range. Such families, for statistical reasons, tend to be those in which one of the two partners, generally the husband, earns most or all of the income. Hence the support of the fundamentalists, who idealize the traditional family of old in which the wife stays home and is subordinate to the “breadwinner.”

Beyond the blatant effort to use tax policy to reward a church-approved form of family structure, the method chosen to eliminate the “marriage penalty” further undermines what little remains of the progressive income tax. Extending the 15 percent bottom tax bracket upwards cannot, by definition, help anyone who is now paying the 15 percent tax rate—i.e., the vast majority of working families. The ones to benefit will be those upper-middle-class and wealthy families now paying the 28 percent rate, who will have more of their income taxed at the lower 15 percent rate.

According to an analysis of the version of the bill drafted by a House-Senate conference committee July 19, 79 percent of the annual tax cuts will go to couples making more than $75,000 a year, while only 15 percent will go to couples making less than $50,000 a year. The average tax cut for couples making less than $50,000 a year will be under $200, while the average tax cut for those making $200,000 a year or more will be $1,342.

The White House has threatened to veto the marriage tax bill. But at the same time Clinton announced he would agree to a $250 billion tax cut for married couples modeled on the Republican plan in return for concessions by the Republicans on Medicare drug benefits.

The final two tax-cutting bills to pass the House involved retirement savings and income. By a margin of 401 to 25, the House voted to increase the maximum amount of an IRA contribution from $2,000 to $5,000, as well as increasing the maximum annual contribution to an employer-sponsored 401(k) account from $10,500 to $15,000. The tax break amounts to $52 billion over the next 10 years.

Low-income workers will not benefit at all from this measure, since they cannot afford to set aside such large deductions from their income for future retirement needs. Half of all 401(k) participants have less than $10,000 total in their accounts. Moreover, 75 million American workers have no pension coverage, as the number of employer-provided pension plans has fallen from 114,000 in 1987 to 45,000 in 1997.

The bill received overwhelming support because it includes sweetheart provisions for both employers and union-run pension funds, which is why it had the backing of the AFL-CIO bureaucracy. 182 Democrats joined the 218 Republicans in voting for it.

The bill repeals restrictions on “top-heavy” pension plans set up as tax dodges by employers. Such plans provide nominal coverage for the workforce, while the majority of benefits go to a handful of managers. In return for this perk, the rules governing multi-employer pension funds (in industries like trucking, mining and garment) were made more favorable for the unions that participate in their administration.

In its last action before adjourning to the Republican and Democratic conventions, the House of Representatives voted July 28 to repeal a tax increase on higher income retirees. Enacted in 1993 as part of the first Clinton administration budget, this legislation raised from 50 percent to 85 percent the proportion of Social Security payments treated as taxable, for those with retirement income over $42,000 a year, about 20 percent of all retirees. Such an income level is hardly a sign of wealth. Rather, the figure underscores the difficult circumstances in which the vast majority of the elderly pass their retirement years.

The bill was initially passed by the Senate July 13 as an amendment to the estate-tax bill, then withdrawn and resubmitted as a separate bill, passing the House by 265 to 159, with 52 Democrats voting for it. Clinton has threatened to veto this bill as “fiscally irresponsible,” since it would reduce Treasury revenues by $117 billion over 10 years.

The overall effect of the congressional tax legislation would be extraordinarily regressive. A Treasury analysis of the combined effect of the major tax bills passed by the House Ways and Means Committee—some of which have not yet been approved by the full House or the Senate—found that the top one percent of taxpayers would receive a tax cut 84 times as large as that received by the average family: $15,500 compared to under $200. Some 60 percent of the tax cuts would go to the top 10 percent of families.

While such figures are well known in congressional circles, and occasionally cited by the Clinton White House, opposition to the tax cuts for the rich is visibly crumbling among Democratic congressmen. Both parties are increasingly dominated by the immediate pecuniary interests of the wealthiest stratum at the top of American society.