Bush tax cut provides billions for the wealthy

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Microsoft billionaire Bill Gates, the richest man in the world, stands to net $50 million in one year from a single provision of the tax-cutting plan unveiled by President Bush last week. Michael Dell of Dell Computer will reap $6 million if the plan is enacted. John Snow, the CEO of CSX railway, nominated to be secretary of the treasury, will get $600,000.Vice President Cheney will benefit to the tune of over $327,000, while Bush himself will gain $44,500. But working people will receive little or nothing from the administration's proposal.

These figures have been reported by such establishment publications as the *New York Times*, the *Financial Times*, the *Wall Street Journal*, *Businessweek* magazine and Bloomberg News, owned by the billionaire Republican mayor of New York City, Michael Bloomberg.

Perhaps the most grotesque figures appeared in the newspaper *USA Today*, which reported that each of the five children of the late Wal-Mart founder Sam Walton would save $197 million on their taxes under the Bush plan. The combined total comes to $984 million—nearly one billion dollars a year—in new tax breaks for one of the wealthiest families in America, whose fortune is based on the exploitation of low-wage labor. The five Waltons stand to collect far more from the White House proposal than the nearly one million workers who are employed in Wal-Mart stores.

While Bush described the centerpiece of the tax plan as the elimination of all taxes on stock dividend income, the actual provisions proposed by the administration are far more complex, and include special benefits for those companies—largely high-tech computer and software firms—that make large profits but pay no dividends. Microsoft is typical of such companies, never having paid a dividend since it was founded nearly 30 years ago.

The Bush plan allows big stockholders in these firms to re-label a portion of their capital gains—normally taxed at 20 percent—as unpaid or "deemed" dividends, which would then be tax-free. The provision is so complicated—its actual language is not yet finalized—that there is considerable disagreement in the business press as to the actual impact. But one thing is certain: the measure will be worth billions of dollars in reduced capital gains taxes, a windfall that will go overwhelmingly to the rich and the super-rich.

According to an analysis published in the *Financial Times*, Britain's leading business newspaper: "The scale of the windfall would depend on profits. However, using retained earnings over the past three years as a guide, Mr. Gates' 11.6 per cent stake in Microsoft means that he could have accumulated about $270m of capital gains each year tax-free. With capital gains taxed at a flat rate of 20 per cent, that would be equivalent to more than $50m of personal tax relief a year. Similar calculations show a tax shelter worth $6m a year to Michael Dell," the founder and CEO of the personal computer giant.

Of the $674 billion in tax cuts envisioned in the Bush administration plan, as much as 65 percent will go to the top 10 percent of the population, according to figures provided by the Congressional Budget Office, various Washington policy analysts, and Bush's own Department of the Treasury. In the face of such numbers, the Bush administration has pursued a policy of lying on a scale matched only by its propaganda for a US military assault on Iraq. Bush, Cheney and other officials have made declarations that distort or completely falsify the impact of the proposed tax cuts. Here are some cases in point.

Bush on January 9: "You hear a lot of talk in Washington, of course, that this benefits so-and-so or this benefits this, the kind of the class warfare of politics. Let me just give you the facts, that under this plan a family of four with an income of $40,000 will receive a 96 percent reduction in federal income taxes."

This is a gross distortion, because such a family pays a relatively small amount of federal income tax in the first place, barely $1,000. Middle-income working people without children would gain virtually nothing.

By far the heaviest tax burden on families of such modest means, with or without children, comes from the federal payroll tax, which goes toward Social Security and Medicare, and from state sales taxes and other taxes on consumption. None of these will be reduced by so much as a penny, and most states will be increasing their taxes to cover huge budget shortfalls. The 40 million poorest families in America would gain zero from the Bush tax plan.

Cheney on January 10: "The fact is that 54 million Americans own stocks that pay dividends. Moreover, 45 percent of all dividend recipients make under $50,000 a year."

Another huge distortion. The vast majority of the 54 million Americans who own stock own very little of it, and receive only token dividend payments. Likewise, the 45 percent of dividend recipients making under $50,000 a year collect a tiny proportion of total dividends. Some 62 percent of all dividend payments go to the top 5 percent of the population. The top 1 percent of the population collects more dividends than the bottom 50 percent.

Treasury Department on January 7: "More than half of these dividends go to America's seniors." These senior citizens are not struggling pensioners and widows. The bulk of the dividend income flowing to senior citizens goes to a tiny fraction, the top 1 or 2 percent of the elderly. The dividend tax cut provides no benefit for those depending on 401(k) plans, because dividends paid to 401(k) plans are already tax-free. Those elderly who receive distributions from their 401(k) plans, however, will have to pay taxes, unlike the super-rich who receive dividend checks directly from a corporation.

But the biggest lie of all is the claim by the Bush administration that it has proposed this huge tax bonanza for the wealthy in order to stimulate the economy and create jobs. Even Wall Street analysts have pointed out that no such consequences are to be expected. The elimination of taxation on dividends, far from stimulating the economy, provides a financial incentive for corporations to increase their dividend payments to shareholders, thus reducing the retained earnings from which corporate investment is derived.

Rather than stimulating investment and production, the Bush administration is rewarding precisely those sections of the ruling elite who derive the bulk of their income from speculation and stock market swindles. As the *Financial Times*, hardly a voice of anti-capitalist sentiment, commented, the administration's claim that it was proposing an economic stimulus was "dishonest and seems to be designed to prevent a proper discussion of the long-term fiscal costs and benefits."

In at least one significant area, the Bush tax plan will directly undermine the US economy and exacerbate the social crisis. Eliminating the taxation of dividends will have a huge impact on the $1.8 trillion municipal bond market, a principal source of financing for state and local governments. The main attraction of municipal bonds has been the fact that, unlike dividends and corporate bonds, the income they generate is tax-free. Once stock dividends from private firms are no longer taxed, investors will tend to shun the municipal bond market. Some financial experts estimate that municipal bond rates will rise by at least a percentage point, adding billions in interest costs for already deficit-ridden local governments.

The dividend tax cut will also cut state income tax revenues by as much as $4.5 billion, since state income taxes are usually calculated on the basis of the federal levy. Elimination of the dividend tax means that the federal Internal Revenue Service will no longer require such income to be reported, making it impossible for states to continue such taxation, even if they want to.

The White House also reversed a promise to provide $10 billion in aid to state governments—which face a combined deficit of $85 billion—and instead proposed nothing in direct federal aid to the states.