

Giving \$100,000 to every US millionaire

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The Republican-controlled Congress gave final passage May 23 to legislation that will slash tax rates for corporate dividends and capital gains, providing a windfall of close to \$100,000 for every American millionaire.

For working people, however, the tax bill provides something less than a bonanza. Half of all American families will gain less than \$100 in “tax relief,” while middle-income families, those between \$50,000 and \$75,000 a year, will get an average cut of \$703.

Even within the top five percent of the population, in income terms, the tax cuts are heavily skewed to the very wealthiest strata. Those with incomes between \$200,000 and \$500,000 a year will net an average of \$5,515, according to a study by the Urban-Brookings Tax Policy Center. The big winners are those with incomes over \$1 million a year, who will rake in an average of \$93,500 apiece.

The details of the Bush tax bill confirm its vicious class character. The bottom half of all taxpayers, with incomes of \$30,000 a year or less, will receive only 5 percent of the total tax cut, about \$17.5 billion. By contrast, 58 percent of the tax cut total, a whopping \$203 billion, will go to families with incomes of \$100,000 a year or more.

The most costly provisions in the new tax bill are those which slash the existing tax rate on dividends and capital gains. The rate on capital gains will fall from 20 percent to 15 percent. Since vast majority of such income, derived from the sale of stock, goes to the wealthiest Americans, they will reap the benefits.

The cut in taxes on dividends benefits the wealthy twice over. Dividends, like capital gains, are collected largely by the wealthy. On top of this, the wealthy recipients of dividends will get a larger percentage drop in their taxes than their middle-class counterparts, since dividends are currently taxed as ordinary income. The wealthy now pay a 38.6 percent tax on dividends, a

middle-income taxpayer only 27 percent. The rate for both will drop to 15 percent, a much bigger proportionate gain for the upper strata.

A key perk for business interests is a so-called depreciation bonus provision, smuggled into the bill at the last minute without any discussion in either House or Senate. This allows businesses to deduct 50 percent of the cost of new machinery and equipment, rather than the present 30 percent. While the initial cost of the measure is only \$9 billion, because it is set to expire December 31, 2004, the expectation is that Congress will ultimately extend it indefinitely, an action which would pour \$400 billion over the next ten years into the pockets of corporate America.

The other major handout to the wealthy is an acceleration of the tax cuts passed by Congress in 2001, which were to be phased out over the following decade. The new tax bill moves the cuts scheduled for 2006 up to the current year, making them retroactive to January 1, 2003.

Again, the biggest benefit will go to the highest income bracket: their tax rate will be cut from 38.6 percent to 35 percent, a drop of 3.6 percent. The middle income tax brackets will be cut only 2 percent (from 27, 30 and 35 percent to 25, 28 and 33 percent). The lowest income tax brackets, 10 and 15 percent, will not be reduced at all, but only widened slightly (for a married couple, income up to \$14,000 a year will be taxed at the 10 percent rate, as compared to the present \$12,000).

These rate changes will hardly affect the bulk of working class Americans. According to an analysis by the Tax Policy Center, 36 percent of all US households—50 million in all—will receive no tax cut at all in 2003, while a total of 74 million households, 53 percent of the total, will get a tax cut of \$100 or less. Those receiving nothing include the tens of millions of working poor who pay substantial payroll taxes, but no

income tax, as well as families without any children under 17 and those who have no dividend or capital gains income. Even the middle of the social spectrum will gain little—the average tax cut in 2003 for those in the middle fifth of the income distribution, between the 40th and 60th percentile, will see an average cut of only \$217, less than a dollar a day.

According to one analysis, the congressional Republicans accelerated only those provisions of the 2001 tax cut which would benefit upper-middle and upper income taxpayers, while maintaining the gradual phase-in of those provisions which benefit middle and lower income taxpayers.

Middle income families with children will see the per-child tax credit jump from \$600 to \$1,000 immediately, and many will receive checks of \$400 per child this summer. But families whose incomes are so low that they pay little or no income tax cannot collect this credit and will get no check.



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