US Congress passes more tax cuts for the rich

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The US Congress this week passed another round of extraordinary tax cuts for the rich, worth an estimated $70 billion over five years. The bill is part of the relentless redistribution of social resources in the United States, from the vast majority of the population into the hands of a small oligarchy. It will be signed into law by President Bush early next week.

The legislation, which passed the Senate on Thursday and the House of Representatives on Wednesday, will extend cuts on capital gains and dividend taxes, almost exclusively benefiting the wealthy. Another measure will remove restrictions on the ability of high-income Americans to put their money in a certain type of retirement account that does not tax investment gains or withdrawals. A third measure would extend exemptions on the Alternative Minimum Tax (AMT).

Due to special Senate rules, the bill, since its estimated cost was not more than $70 billion, could be passed with a simple majority and could not be filibustered in the Senate. In both houses, it passed without much debate, in votes split largely along party lines.

The top priority of the Bush administration in getting the bill passed was the extension of cuts in capital gains and dividend taxes. The tax rate for these types of investment income is currently set at 15 percent, as a result of legislation passed in 2003. Before then, these gains were taxed as regular income, meaning that top income earners paid 38.6 percent. The reduced rate was set to expire in 2008, since the tax cuts were originally promoted as a temporary measure needed to stimulate the economy. Like the variety of other tax cuts for the rich, however, the measure’s backers never intended for it to actually expire. The new bill will push the date of expiration back to 2010.

The Senate Finance Committee estimates that the cost of this measure in terms of lost federal revenue will be $20 billion over five years and $50 billion over 10 years. The majority of these benefits will go to top income earners. According to the Center on Budget and Policy Priorities, over half of all capital gains and dividend income goes to households with over $1 million in income a year, and 78 percent goes to households with income over $200,000. These households comprise the top 3 percent of the population.

The Tax Policy Center released estimates of the overall impact of the bill and calculated that 80 percent of the tax cuts would go to the top 10 percent of taxpayers. It found that the average taxpayer with an income of $1 million or more would save $42,766 and the average taxpayer earning between $500,000 and $1 million would save $5,656. In contrast, someone earning between $50,000 and $75,000 would save only $112; someone earning between $40,000 and $50,000 would save only $47; and those earning less than $10,000 would get nothing (see Figure 1).

Figure 1. Average tax savings for taxpayers by income. The savings for taxpayers earning between $10,000 and $50,000 appear to be zero because they are negligible relative to savings for wealthy individuals. Source: Tax Policy Center.

In addition to the reduction in capital gains and dividend taxes, the bill also includes a handout to the rich disguised as a measure to raise revenue. Currently, individuals with incomes over $100,000 are prevented from utilizing a special type of investment tool known as a Roth Individual Retirement Account (IRA). Money put into a Roth IRA is taxed up front, after which any investment gains or withdrawals are tax free. This contrasts with the standard IRA, in which money that is deposited into the account can be deducted from taxes, and taxes are imposed on withdrawals. Since investments tend to grow, in the long run more taxes will tend to be paid by individuals using a standard IRA.

By removing the restrictions placed on higher-income earners, the new bill will create tax-free havens for some investment gains. Wealthy individuals will be allowed to place funds into retirement accounts that include various types of investments (such as stocks and bonds). While the initial funds will be taxed, the future gains will not. The measure also appears to provide a mechanism for wealthy individuals to pass on inheritances to their family members tax-free, since Roth IRA's can be transferred to heirs without penalties.

The change in IRA regulations is set to take place in 2010. The Senate Finance Committee estimates that the change will increase government revenues by $6.4 billion in 2011 and 2012, as wealthy individuals shift funds from regular IRAs to Roth IRAs (and pay taxes up front on the transferred funds). However, by 2049 the change will lead to a net loss for the government of $100 billion as these rich investors evade taxation on their earnings.

The more limited benefits accruing to individuals earning more than $100,000, but not falling among the wealthiest sections of the population, will come in large part from an extension of exemptions for the alternative minimum tax. The AMT was enacted in 1969 as a way of ensuring that top earners did not reduce their taxes beyond a certain amount through the use of deductions—it requires that a certain minimum tax be paid in spite of these deductions. While the AMT mainly applies to individuals in the top 10 percent income bracket, because figures used to determine who is subject to this requirement are not indexed to inflation, it is affecting some taxpayers with lower incomes.

The extension of exemptions to the AMT has been pushed primarily by the Democratic Party. The measure is expected to result in a loss of $31 billion in federal revenue over five years.

Several other measures are targeted to benefit particular sections of big business. One would continue an exemption on the taxation of income earned by foreign subsidiaries of US companies engaged in financial and insurance operations. It has been pushed by the major banks and other corporations, such as General Electric, that are involved in substantial financing activity. These companies will save an estimated $5 billion over five years.

Two provisions that would have negatively impacted oil companies, included in the original Senate bill, were ultimately stripped from the final version. One would have prevented oil companies from using an inventory accounting method that allows them to significantly undervalue their assets and reduce their taxes. Another would have removed some incentives for oil and gas exploration. The top energy companies, currently pulling in record profits, will save almost $6 billion as a result.

Most of the tax cuts implemented during the tenure of the Bush administration are now scheduled to expire in 2010. However, it is unlikely that the next administration, whether Democratic or Republican, will allow the bulk of the tax reductions to end. This means that the official estimates for the cost of the tax cuts are many times lower than their real effect.

This massive handout for the rich comes at a time of growing financial instability for most Americans. Gasoline price hikes and rising costs on other basic goods, combined with stagnating wages, are fueling a continued growth of debt. Jobs with relatively high pay and benefits are being eliminated by the tens of thousands, while the government is scaling back spending on social programs and education.

An article in the *Washington Post* on Friday ("Basics, Not Luxuries, Blamed for High Debt") gives a hint of the precarious position facing working people in the US. Citing a study by the Center for American Progress based on data from the Federal Reserve, the newspaper noted, "The debt of the typical American family earning about $45,000 a year rose 33.1 percent from 2001 to 2004, after adjusting for inflation." While real wages have remained flat, "the cost of big-ticket items for which families pay the most rose. In the past five years, the cost of medical care, housing, food, cars and household operations rose 11.2 percent, the study said."

Debt accumulated as a result of rising housing and education prices is particularly striking. "From 1989 to 2004... the median mortgage debt more than doubled, from $46,900 to $96,000," the *Post* reported. "Education debt, meanwhile, rose 127 percent from 1992 to 2004, from $3,427 to $7,800. Health-care costs rose, too, because insurance has become more costly and employers are shifting more of the expense to workers."

The ease with which measures like the recent tax cuts are passed—with the government doling out billions of dollars to the top one percent of the population even as social programs are slashed and the financial conditions for the majority deteriorate—reflects a society in which democratic forms are thoroughly decayed and political institutions are totally subordinated to the drive for profit and personal enrichment of the super-rich.