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President Obama's Tax Plan, Senate Republicans' Tax Plan, and Rhode Island Taxpayers

(National figures and more information available at www.ctj.org/pdf/bushtaxcuts2010.pdf)

The tax cuts enacted during the presidency of George W. Bush, and modifications of those tax cuts included in the economic recovery act enacted last year, expire at the end of 2010. Congress must soon decide which parts of these tax cuts to extend or make permanent and which parts to let expire as scheduled.

President Obama proposes to make the Bush income tax cuts permanent for all but the richest two percent of taxpayers. He also proposes to cut in half the federal tax on the estates of millionaires, but would not make permanent the temporary repeal enacted under Bush. Finally, President Obama proposes to make permanent the modifications of the Bush tax cuts (expansions of the Child Tax Credit and Earned Income Tax Credit) that were included in the recovery act.

Senate Republicans have introduced a bill (S. 3773) to make permanent the income tax cuts enacted during the Bush administration for all taxpayers and to repeal most of the federal tax on the estates of millionaires. This bill would *not* make permanent the expansions of the Child Tax Credit and Earned Income Tax Credit included in the recovery act.

Competing Approaches to the Bush Tax Cuts, Impact in 2011 in Rhode Island						
State Taxpayers		Obama's Plan		Republican Plan		Republican Plan vs. Obama's Plan
		(Permanent Bush income tax cuts for those below \$200k/250k, estate tax cut, permanent EITC and child credit expansion)		(Permanent Bush income tax cuts for everyone, estate tax cut more, no EITC or child credit expansion)		
Income Group	Average Income	Average Tax Cut	Share of Tax Cut	Average Tax Cut	Share of Tax Cut	Average Difference
Lowest 20%	\$ 10,541	\$ -137	1.7%	\$ -48	0.5%	\$ +89
Second 20%	24,982	-572	7.2%	-437	4.7%	+135
Middle 20%	44,867	-802	9.8%	-759	7.9%	+43
Fourth 20%	71,121	-1,365	18.0%	-1,365	15.3%	—
Next 15%	121,337	-3,293	31.4%	-3,301	26.7%	-8
Next 4%	249,381	-6,955	17.7%	-7,330	15.8%	-376
Top 1%	1,064,429	-22,192	14.1%	-53,792	29.1%	-31,601
ALL	\$ 68,510	\$ -1,556	100.0%	\$ -1,833	100.0%	\$ -277
Bottom 60%	\$ 26,590	\$ -500	18.8%	\$ -411	13.1%	+90

Source: Institute on Taxation and Economic Policy (ITEP) Tax Model, September 2010.

Note: Table does not include the Making Work Pay Credit, which President Obama proposes to extend only for one year, through 2011.

- Under the Republican plan, the bottom 60 percent of Rhode Island taxpayers would pay \$90 *more* in 2011, on average, than they would under President Obama's plan.
- Under the Republican plan, the richest one percent of Rhode Island taxpayers would pay \$31,601 *less* in 2011, on average, than they would under President Obama's plan.

President Obama proposes to extend the Bush income tax cuts entirely for taxpayers with adjusted gross income (AGI) below \$250,000 for married couples and below \$200,000 for single taxpayers. Only about 2.1 percent of U.S. taxpayers have AGI above this threshold.

People whose AGI is just above the \$250,000/\$200,000 threshold would not find that their income taxes in 2011 are much different under Obama's plan than they are this year (assuming their income does not change). We estimate that about 80 percent of the revenue savings in the President's approach to the income tax would come from millionaires.

Some have interpreted this to mean that Congress could extend the income tax cuts for AGI up to \$1 million and still obtain about 80 percent of the savings that Obama's plan would produce. This is incorrect. If only income in excess of \$1 million is taxed at the pre-Bush rates, that would mean that millionaires would enjoy reduced tax rates on their income up to \$1 million. This would reduce the revenue savings from millionaires.

The table on this page indicates the percentage of taxpayers in your state (and in your Congressional House district, if your state has more than one district) who have AGI in excess of \$250,000 (if they are married) or \$200,000 (if they are unmarried), meaning they are rich enough to lose some portion of the Bush income tax cuts under President Obama's plan. It also indicates the percentage of taxpayers who are millionaires, the taxpayers who account for most of the revenue savings under Obama's plan.

Rhode Island	AGI>\$250k/\$200k	AGI>\$1 million
state-wide	2.0%	0.2%
House District		
1	2.1%	0.2%
2	1.9%	0.2%

Note: Percentages are extrapolated from IRS data obtained from the Taxpayer Advocate Service.

More figures and information are available at www.ctj.org/pdf/bushtaxcuts2010.pdf.