A Preliminary Analysis of the Impact of President George W. Bush's Tax Cut Proposals on New York State

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Introduction

A new administration in Washington is determined to push through an unprecedented $1.6 trillion tax cut that will have far-reaching effects for years to come on federal programs from Social Security to education and risk returning the nation to an era of chronic budget deficits.

In a manner analogous to the Reagan tax cuts of 1981, the proposed Bush tax cuts, if enacted, would limit the capacity of the federal government to respond to important public needs in health, education, and other areas and, when necessary, to make economy-stimulating infrastructure investments. From a tax policy perspective, at least, President Reagan's 1986 tax reform succeeded in rationalizing the federal tax system and in undoing many of the excesses that had been wrought by the tax changes of the early 1980s. President Bush's plan includes a number of elements that would move the tax system away from the 1986 reforms and many in the Congress are proposing to go much further in this regard.

President Bush's far-reaching proposals are premised on admittedly tenuous forecasts. They are based on 10-year projections of a federal budget surplus that will not materialize should economic conditions or other developments cause federal revenues to falter. These projections also depend on having federal expenditures grow more slowly than federal revenues, thus leaving little or no room for many of the proposed public investments for which there is a broad national consensus.

The Bush tax cuts are remarkable also for two reasons that are especially critical to New Yorkers. First, the benefits of these tax cuts are overwhelmingly concentrated among the very richest taxpayers. Second, primarily because of the operation of the Alternative Minimum Tax and differential state and local tax burdens, the cuts will restructure the federal tax system in a way that is adverse to New York's relatively progressive income tax system. Many taxpayers in states without broad-based income taxes, such as Florida, Wyoming and Texas, will receive much greater benefits than their counterparts in New York at the same income levels. While some observers have thought that New York would benefit from the Bush cuts since they are skewed to high income taxpayers and New York has a large number of rich people, this turns out not to be the case. In fact, as this report documents, New York taxpayers are projected to receive less than 6.9 percent of the federal income tax cuts even though they consistently pay over eight percent of the federal income tax. Thus, the Bush tax plan would actually exacerbate New York's "balance of payments" deficit with Washington, unless by some miracle the concommitant spending cuts were overwhelmingly in programs that do not help New York and programs of particular importance to New York, like mass transit, saw substantial increases rather than the cuts that are being proposed.

This report presents a new state-by-state analysis of the tax cuts proposed by President Bush. In preparing this report, the staff of the Fiscal Policy Institute relied primarily on distributional analyses of the Bush tax plan that were prepared by Citizens for Tax Justice using the Institute for Taxation and Economic Policy (ITEP) model. FPI staff also utilized the most recent data available from the Internal Revenue Service on federal tax collections by state. The ITEP model is a widely-respected microsimulation model of the federal and state tax systems that was developed in substantial part by former staff members of the Joint Committee on Taxation. According to a recent report by the Center on Budget and Policy Priorities, "The distributional analyses that Citizens for Tax Justice has prepared

Table 1: Impact of Bush Tax Plan, When Fully Implemented, on New York State and the United States
(in 2001 dollars, at 2001 income levels)

NEW YORK	Taxpayers			Annual Cost of Tax Cuts, Fully Implemented (in millions)				Average Tax Cut		Percent of Total Tax Cut
Income Range	# (000s)	Percent	Average Income	Income Tax	Estate Tax	Corp. Tax	Total	Income Tax	Total	
Less than $15,000	1,878	21.6%	$8,900	-$73	$0	-$3	-$76	-$39	-$40	0.65%
$15,000 - 27,000	1,636	18.8%	$20,300	-$377	$0	-$7	-$384	-$230	-$235	3.27%
$27,000 - 44,000	1,650	19.0%	$34,300	-$817	$0	-$14	-$830	-$495	-$503	7.08%
$44,000 - 72,000	1,579	18.1%	$56,200	-$1,234	$0	-$22	-$1,255	-$781	-$795	10.70%
$72,000 - 147,000	1,344	15.4%	$97,600	-$1,357	$0	-$38	-$1,395	-$1,010	-$1,038	11.89%
$147,000 - 373,000	391	4.5%	$214,100	-$273	-$245	-$81	-$599	-$697	-$1,531	5.11%
$373,000 or more	98	1.1%	$1,554,200	-$3,786	-$3,256	-$149	-$7,191	-$38,824	-$73,746	61.30%
ALL	8,700	100.0%	$64,600	-$7,917	-$3,501	-$314	-$11,730	-$910	-$1,348	100.0%
MEDIAN			$33,800					-$487	-$495	

UNITED STATES	Taxpayers			Annual Cost of Tax Cuts, Fully Implemented (in billions)				Average Tax Cut		Percent of Total Tax Cut
Income Range	# (000s)	Percent	Average Income	Income Tax	Estate Tax	Corp. Tax	Total	Income Tax	Total	
Less than $15,000	26,018	20%	$9,300	-$1.3	$0.0	$0.0	-$1.3	-$50	-$51	0.83%
$15,000 - 27,000	26,019	20%	$20,600	-$6.2	$0.0	-$0.1	-$6.3	-$239	-$243	4.00%
$27,000 - 44,000	26,018	20%	$34,400	-$14.2	$0.0	-$0.2	-$14.4	-$544	-$552	9.15%
$44,000 - 72,000	26,020	20%	$56,400	-$23.7	$0.0	-$0.4	-$24.1	-$913	-$926	15.31%
$72,000 - 147,000	19,516	15%	$97,400	-$29.4	$0.0	-$0.5	-$30.0	-$1,509	-$1,536	19.06%
$147,000 - 373,000	5,204	4%	$210,000	-$6.8	-$3.1	-$0.6	-$10.5	-$1,302	-$2,017	6.67%
$373,000 or more	1,301	1%	$1,117,000	-$37.2	-$31.8	-$1.8	-$70.8	-$28,608	-$54,400	44.98%
ALL	131,066	100%	$57,800	-$118.8	-$34.9	-$3.6	-$157.4	-$907	-$1,201	100.0%
MEDIAN			$34,400					-$544	-$552	

NOTE: All monetary amounts are in 2001 dollars. Income ranges and average incomes are at 2001 levels.

using the ITEP model have been validated over the years by the close congruence of the results of these analyses with the results of analyses that the highly respected career staff at the Treasury Department has produced."

For this report, ITEP estimated the impact of the Bush plan, when fully implemented, on taxpayers in each of the 50 states and the District of Columbia, in aggregate and by each of seven income ranges. The taxpayers covered by the study include all couples and all singles except those singles (primarily teenagers and college students) who can be claimed as dependents on another taxpayer's return. The income ranges for the study were determined by dividing the set of taxpayers being studied into five equal categories, with the top quintile being divided into three parts (the top 1%, the next 4%, and the next 15%). The figures presented in this report are annual figures - not 10 or 11 year cumulative totals - for a year when all of the proposed tax cuts are fully implemented. The impact of the tax cuts is shown in 2001 dollars, using 2001 income levels.

OVERALL COST

If the tax plan proposed by President Bush were already fully implemented, it would reduce this year's federal tax revenues by over 11%. The ITEP analysis estimates that if the President's tax plan was already fully in place, it would reduce federal tax revenues this year (2001) by an estimated $157.4 billion. (See Table 1.) By comparing this estimate to the federal government's latest estimate of its projected receipts ($1,388.2 billion) for 2001 from all taxes other than payroll taxes, the Fiscal Policy Institute has determined that the President's plan would represent a reduction of over 11% in the tax revenues that go to supporting all federal programs except Social Security and Medicare. The service cuts that would be necessary to accommodate such a revenue reduction this year would make the cuts proposed by the President in his April 9, 2001, budget submission, pale by comparison.

CONCENTRATION OF BENEFITS

The benefits of President Bush's tax plan would go overwhelmingly to a relatively small number of the nation's wealthiest households, with most New Yorkers receiving little or nothing in tax relief.

"Average" Tax Cuts vs. the Average Taxpayer's Tax Cut

! The difference between **the "average" tax cut** (the total tax cut divided by the total number of taxpayers) and **the tax cut going to the average taxpayer** (the tax cut going to the taxpayer in the exact middle of the income distribution or **the median tax cut**) is substantial nationally, and even greater in New York.

! Nationally, the "average" annual tax cut (in 2001 dollars) under the President's plan, when it is fully implemented, is estimated to be $1,201. This is more than double the equivalent median tax cut of $552. (See Tables 1 and 2.) This means that if the overall tax cut was somehow

Table 2: Bush Plan's Average and Median Tax Cuts, by State

	Median Tax Cut (Tax Cut of Average Taxpayer)		"Average" Tax Cut (Total Tax Cut Divided by Total Number of Taxpayers)		Ratio of Average Tax Cut to Median Tax Cut	
	Amount	Rank	Amount	Rank	Ratio	Rank
United States	**552**		**1201**		**2.18**	
Florida	448	**49**	1422	6	3.17	1
DC	545	**30**	1631	2	2.99	2
Connecticut	640	**9**	1855	1	2.90	3
Nevada	544	**31**	1552	3	2.85	4
New York	495	**44**	1348	9	2.72	5
Illinois	574	**23**	1415	7	2.47	6
New Jersey	610	**12**	1476	5	2.42	7
Massachusetts	533	**35**	1269	14	2.38	8
Texas	578	**22**	1340	10	2.32	9
California	580	**21**	1315	12	2.27	10
Arizona	539	**32**	1193	18	2.21	11
Wyoming	684	**4**	1489	4	2.18	12
Pennsylvania	514	**38**	1076	25	2.09	13
Virginia	601	**15**	1246	15	2.07	14
Louisiana	510	**40**	1057	28	2.07	15
Tennessee	559	**26**	1143	21	2.04	16
Alabama	476	**46**	973	33	2.04	17
Delaware	557	**27**	1137	22	2.04	18
Washington	686	**3**	1380	8	2.01	19
Missouri	525	**36**	1052	29	2.00	20
Michigan	556	**28**	1105	23	1.99	21
Colorado	627	**11**	1231	16	1.96	22
New Hampshire	675	**5**	1321	11	1.96	23
Georgia	552	**29**	1070	26	1.94	24
Minnesota	598	**17**	1159	19	1.94	25
Maryland	609	**13**	1159	19	1.90	26
Rhode Island	512	**39**	964	36	1.88	27
Arkansas	459	**47**	855	47	1.86	28
Ohio	510	**40**	950	38	1.86	28
Indiana	589	**19**	1081	24	1.84	30
Nebraska	524	**37**	961	37	1.83	31
Mississippi	409	**51**	750	49	1.83	32
Iowa	537	**33**	972	34	1.81	33
South Carolina	491	**45**	882	46	1.80	34
Maine	506	**42**	908	44	1.79	35
Kentucky	506	**42**	898	45	1.77	36
South Dakota	562	**25**	981	32	1.75	37
Wisconsin	598	**17**	1037	31	1.73	38
Vermont	602	**14**	1040	30	1.73	39
Oklahoma	536	**34**	921	42	1.72	40
Utah	711	**2**	1205	17	1.69	41
Montana	447	**50**	749	50	1.68	42
Kansas	639	**10**	1067	27	1.67	43
North Carolina	583	**20**	968	35	1.66	44
Alaska	796	**1**	1308	13	1.64	45
Oregon	600	**16**	940	41	1.57	46
West Virginia	455	**48**	708	51	1.56	47
Idaho	648	**8**	941	40	1.45	48
New Mexico	565	**24**	811	48	1.44	49
Hawaii	671	**6**	944	39	1.41	50
North Dakota	664	**7**	920	43	1.39	51

divvied up equally among all the taxpayers, they would each receive approximately $1,201. But the average taxpayer, someone right in the middle of the overall national income distribution, would receive $552, only about 46% of that theoretical "average."

! The same distinction between the "average" benefit and the benefit to the average taxpayer also exists within New York State, but it is even more pronounced. For New York State, the "average" annual tax cut is estimated to be $1,348, about 12.2% **above** the national "average." At the same time, New York's median tax cut under the Bush plan is an estimated $495, about 10.5% **below** the national median. (See Tables 1 and 2.) This means that the benefits on the President's tax plan are distributed even more unequally in New York State than they are nationally. This is in part due to New York's underlying income distribution which is much more unequal than that of the nation as a whole. But, it is also the result of the policy choices that are reflected in the President's plan, beginning with the decision to eliminate the estate tax and to cut the federal government's second most progressive revenue source, the individual income tax, in ways that provide the greatest benefit to high-income taxpayers. For an explanation of how the policy choices embedded in the President's proposal disadvantage middle and lower income taxpayers, see Endnote 1 to this report. [1]

! New Yorkers' "average" tax cut (from the full Bush plan, including the estate tax) ranks 9th highest among the 50 states and the District of Columbia, but it's "median" tax cut (the benefit to the average taxpayer) ranks 44th - above only Alabama, Arkansas, Florida, Mississippi, Montana and West Virginia. (See Table 2.)

<u>Estate tax repeal affects the "average" tax cut *but not* the average taxpayer's tax cut.</u>

! Using the concept of an "average" tax cut in explaining the impact of the President's tax plan is particularly misleading since one of the major components of his proposal is the elimination of the federal estate tax which affects an extremely small percentage of all taxpayers. Moreover, most estates for which estate tax returns are required to be filed end up not being subject to any tax. [2] In fact, for1997, the most recent year for which such data has been published, only 42,901 estates in the entire country were subject to federal estate taxation. Thus, dividing the cost of eliminating the estate tax among all taxpayers and saying that it is part of their "average" tax cut provide a truly misleading picture of the benefits going to average or typical taxpayers.

! Nationally, according to the ITEP analysis, fully 22% (or $34.9 billion on an annual, fully implemented basis) of the President's tax reduction plan is attributable to the elimination of the estate tax. (See Table 1.) But, over 99% of this $34.9 billion goes to the top 5% of the income distribution (taxpayers with incomes over $147,000 per year) and $31.8 billion, or 91% of this total, goes to those in the top 1% (taxpayers with incomes over $373,000 per year). Thus, the estate tax supposedly accounts for $266 or 22% of the "average" tax cut that is going to all taxpayers, but this is not a tax cut in which the average taxpayer actually shares. In fact, the median estate tax cut is zero, meaning that the typical taxpayer receives absolutely no benefit from this tax cut.

Table 3: Bush Plan's Average and Median Income Tax Cuts, by State

	Median Income Tax Cut (Tax Cut of Average Taxpayer)		"Average" Income Tax Cut (Total Tax Cut Divided by Total Number of Taxpayers)		Ratio of Average Tax Cut to Median Tax Cut	
	Amount	Rank	Amount	Rank	Ratio	Rank
United States	**544**		**907**		**1.67**	
Florida	440	49	964	11	2.19	1
Nevada	535	31	1, 161	4	2.17	2
Connecticut	629	10	1, 307	1	2.08	3
Texas	570	22	1, 071	7	1.88	4
New York	487	44	910	18	1.87	5
Illinois	564	23	1, 050	8	1.86	6
New Jersey	600	12	1, 097	5	1.83	7
Wyoming	676	4	1, 200	2	1.78	8
District of Columbia	536	30	944	14	1.76	9
Massachusetts	523	35	912	17	1.74	10
Arizona	531	32	923	16	1.74	11
Tennessee	551	26	936	15	1.70	12
Alabama	469	46	784	33	1.67	13
Michigan	547	39	890	28	1.63	14
Louisiana	503	27	820	20	1.63	15
Pennsylvania	505	15	820	12	1.62	16
Virginia	593	38	963	28	1.62	17
Washington	677	3	1, 096	6	1.62	18
California	571	21	910	18	1.59	19
Colorado	617	11	960	13	1.56	20
Delaware	547	27	849	24	1.55	21
Mississippi	404	51	623	49	1.54	22
Missouri	517	36	795	31	1.54	23
Georgia	545	29	833	25	1.53	24
New Hampshire	665	5	1, 016	9	1.53	25
Indiana	580	19	882	21	1.52	26
South Dakota	554	25	832	26	1.50	27
Arkansas	453	47	679	46	1.50	28
Iowa	528	17	787	22	1.49	29
Minnesota	589	34	880	32	1.49	30
South Carolina	484	1	714	3	1.48	31
Alaska	785	45	1, 162	41	1.48	32
Rhode Island	503	39	732	38	1.46	33
Ohio	501	41	726	39	1.45	34
Kentucky	499	42	720	40	1.44	35
Maryland	599	13	861	23	1.44	36
Nebraska	516	37	739	37	1.43	37
Utah	702	2	997	10	1.42	38
Wisconsin	589	17	815	30	1.38	39
Maine	498	43	678	47	1.36	40
Montana	440	49	598	50	1.36	41
Oklahoma	529	33	704	45	1.33	42
North Carolina	575	20	757	36	1.32	43
Kansas	630	9	828	27	1.31	44
West Virginia	448	48	581	51	1.30	45
Idaho	639	8	770	35	1.21	46
Vermont	594	16	712	43	1.20	47
Oregon	591	14	711	42	1.20	48
North Dakota	656	7	783	34	1.19	49
New Mexico	558	24	651	48	1.17	50
Hawaii	662	6	706	44	1.07	51

! For New York State, the elimination of the estate tax accounts for an even greater share of New York's total and "average" tax cuts. The ITEP model estimates that of the full annual $157.4 billion value (in 2001 dollars) of the President's tax plan, about $11.7 billion would go to New York State residents. But $3.5 billion, or about 30% of the $11.7 billion, is attributable to the elimination of the estate tax. (See Table 1.) Over 99% of this component of the President's plan goes to taxpayers with incomes over $147,000, and $3.26 billion (or 93%) goes to those with incomes above $373,000 per year.

The proposed changes in the income tax are also geared to benefit those at the top.

! While most of the difference between the "average"and the median tax cuts, at both the national and the New York levels, is attributable to the nature of the estate tax and the narrow distribution of the benefits from its repeal, the "average" income tax cuts are also much higher than the median income tax cuts. This is extremely important since the income tax cuts account for the bulk of the cost of the President's tax cut program when it is fully implemented - $118.9 billion out of the total $157.4 billion (in 2001 dollars).

! Nationally, the "average" income tax cut is $907 and the median is $544. For New York State, the comparable figures are $910 and $487. This means that the "average" income tax cut in New York State is 1.87 times the income tax cut that would go to the average taxpayer. In only four other states (Florida, Nevada, Connecticut and Texas) is there a greater divergence between the supposed "average" benefit of the income tax cut and the relief that will actually be going to the average taxpayer. New Yorkers' "average" income tax cut ranks 18th highest among the 50 states and the District of Columbia, but it's "median" tax cut (the benefit to the average taxpayer) ranks 44th - above only Alabama, Arkansas, Florida, Mississippi, Montana and West Virginia. (See Table 3.)

! There is a substantial difference between this $487 figure and the constantly repeated claim that the average family would receive an annual tax cut of $1,600 under the President's plan. Several factors explain the difference. Most importantly, the $1,600 is the Administration's estimate of the savings that would go to a particular type of middle income family (one with two children and with a high enough income to fully benefit from the proposed increase, from $500 to $1,000, in the per child credit) ***not*** to all middle income families. Families with less than two children, single taxpayers and non-married heads of households and those with lower incomes would all receive a lesser benefit. And a large percentage of middle income families in New York State fall into these categories. In addition, even for the Administration's selected family, the $1,600 figure is the estimate of the benefits that would be received in 2006. Adjusted for inflation, this figure in 2001 dollars is about $1,400.

! Nationally, the 1% of taxpayers with 2001 incomes above $373,000 would receive an average income tax cut of $26,608, while the 1.1% of New York taxpayers above that income level would see their federal income taxes reduced by an average of $38,824. The difference between the benefits estimated for U.S. and New York taxpayers in this income range is primarily attributable to the fact that the New Yorkers in this category have higher average incomes ($1,554,200) than do their counterparts in the nation as a whole ($1,117,000).

Table 4: Federal Individual Income Tax Returns, by State: 1997

	Number of Returns in Thousands	Adjusted Gross Income in Millions	Income Tax: Total in Millions of Dollars	Per Capita Amount	Per Capita Rank	Effective Tax Rate Amount	Effective Tax Rate Rank	Per Return Amount	Per Return Rank
U S	**122,422**	**4,969,950**	**731,321**	**2,733**		**14.7%**		**5,974**	
Alabama	1,938	62,572	8,090	1,873	41	12.9%	37	4,174	42
Alaska	324	10,089	1,479	2,429	26	14.7%	14	4,565	36
Arizona	2,001	78,158	11,263	2,473	23	14.4%	18	5,629	21
Arkansas	1,108	34,146	4,266	1,691	45	12.5%	42	3,850	47
California	14,028	613,757	91,148	2,825	15	14.9%	13	6,498	11
Colorado	1,858	82,028	12,018	3,087	13	14.7%	15	6,468	12
Connecticut	1,594	90,892	16,358	5,002	1	18.0%	1	10,262	1
Delaware	421	17,001	2,385	3,258	8	14.0%	26	5,665	20
D. C.	304	14,075	2,286	4,321	2	16.2%	4	7,520	5
Florida	6,882	272,678	42,307	2,887	14	15.5%	9	6,147	15
Georgia	3,405	133,139	18,318	2,447	24	13.8%	31	5,380	24
Hawaii	550	18,648	2,327	1,960	38	12.5%	43	4,231	40
Idaho	519	16,152	2,007	1,659	46	12.4%	45	3,867	45
Illinois	5,440	241,458	38,251	3,215	9	15.8%	6	7,031	7
Indiana	2,516	99,127	13,915	2,373	31	14.0%	25	5,531	23
Iowa	1,354	46,437	5,778	2,026	36	12.4%	44	4,267	39
Kansas	1,210	45,593	6,303	2,429	26	13.8%	29	5,209	27
Kentucky	1,656	58,681	7,776	1,990	37	13.3%	33	4,696	35
Louisiana	1,664	58,509	8,354	1,920	40	14.3%	21	5,020	31
Maine	527	17,681	2,191	1,764	44	12.4%	47	4,157	43
Maryland	2,531	112,014	15,992	3,139	10	14.3%	22	6,318	13
Massachusetts	3,031	146,298	23,160	3,786	4	15.8%	7	7,641	4
Michigan	4,529	181,296	26,524	2,714	19	14.6%	16	5,856	18
Minnesota	2,376	101,464	14,609	3,118	12	14.4%	19	6,149	14
Mississippi	1,044	32,112	3,747	1,372	51	11.7%	51	3,589	50
Missouri	2,381	91,067	12,630	2,338	32	13.9%	28	5,304	25
Montana	388	11,082	1,360	1,547	49	12.3%	48	3,505	51
Nebraska	820	29,688	4,016	2,424	28	13.5%	32	4,898	32
Nevada	816	36,531	5,757	3,433	6	15.8%	8	7,055	6
New Hampshire	591	25,557	3,875	3,304	7	15.2%	11	6,557	9
New Jersey	3,670	197,745	32,921	4,088	3	16.6%	2	8,970	2
New Mexico	745	23,063	2,761	1,596	48	12.0%	50	3,706	48
NewYork	8,097	381,907	62,316	3,436	5	16.3%	3	7,696	3
North Carolina	3,455	126,772	16,783	2,260	34	13.2%	34	4,858	33
North Dakota	245	8,057	1,060	1,654	47	13.2%	36	4,327	38
Ohio	5,310	192,154	26,695	2,386	30	13.9%	27	5,027	30
Oklahoma	1,498	47,298	6,034	1,819	43	12.8%	39	4,028	44
Oregon	1,529	59,705	7,896	2,435	25	13.2%	35	5,164	28
Pennsylvania	5,436	208,798	30,164	2,509	22	14.4%	17	5,549	22
Rhode Island	485	19,236	2,757	2,793	16	14.3%	20	5,685	19
South Carolina	1,747	57,529	7,298	1,941	39	12.7%	40	4,177	41
South Dakota	354	10,620	1,367	1,852	42	12.9%	38	3,862	46
Tennessee	2,523	91,363	13,000	2,422	29	14.2%	23	5,153	29
Texas	8,482	325,363	50,094	2,577	20	15.4%	10	5,906	17
Utah	898	34,357	4,266	2,072	35	12.4%	46	4,751	34
Vermont	308	10,690	1,354	2,299	33	12.7%	41	4,396	37
Virginia	3,051	131,693	18,594	2,761	18	14.1%	24	6,094	16
Washington	2,693	116,689	17,575	3,133	11	15.1%	12	6,526	10
WestVirginia	705	21,378	2,561	1,410	50	12.0%	49	3,633	49
Wisconsin	2,550	96,636	13,312	2,575	21	13.8%	30	5,220	26
Wyoming	198	8,257	1,331	2,773	17	16.1%	5	6,722	8

Source: Table 552, Statistical Abstract of the United States: 2000. Effective tax rates and per return amounts calculated by Fiscal Policy Institute

- Nationally, the wealthiest 1 % of taxpayers (those with incomes above $373,000) would receive 31.3% of the total income tax cut. In New York, the 1.1% of taxpayers with incomes above that same level would receive almost half (47.82%) of the benefits of the income tax cut going to all New York residents.

- While New York taxpayers with incomes below $72,000 represent about 79% of the state's taxpayers, they would receive only 32% of the benefits of the income tax cuts that would go to all New Yorkers under the President's plan. Nationally, taxpayers with incomes below $72,000 account for 80% of all taxpayers and are estimated to receive over 38% of the income tax cuts.

IMPACT OF ON NEW YORK'S FEDERAL "BALANCE OF PAYMENTS" DEFICIT

Many state officials had assumed that New York would do very well under the President's plan because of our state's high concentration of wealthy taxpayers. But, for a variety of reasons, this turns out not to be true.

Each year, New York State residents pay well over 8% of the total amount that the U. S. government collects in individual income taxes. Table 4, for example, presents the data on "Federal Income Tax Returns by State" from the most recent edition of the Statistical Abstract of the United States. It shows that New York residents accounted for $62.3 billion (or 8.55%) of the $728.6 billion collected from residents of the 50 states and the District of Columbia for that year. An additional $2.7 billion was collected from U.S. citizens living abroad and from residents of Puerto Rico with income earned as U.S. Government employees or income from sources outside Puerto Rico.

The ITEP analyses prepared for this report estimate that New Yorkers are likely to receive less than 6.9% of the cuts in the federal individual income tax that will go to the residents of the 50 states and the District of Columbia if President Bush's plan were to be adopted and fully implemented. Given the magnitude of the President's proposed cut in the income tax, the dollar implications for New York of such a discrepancy between its share of federal income tax payments and its share of federal income tax cuts would be substantial. In fact, if a large income tax cut in the range that is currently being discussed is actually enacted into law and implemented, and if it is structured like the President's proposal, the result would inevitably be a substantial increase in New York State's so-called "balance of payments" deficit with the federal treasury.

Arithmetically, New York's relatively low share of the President's income tax cut is driven by (a) the very high percentage of New York taxpayers who will receive no benefits from the President's plan, and (b) the fact that, in every income category except the top 1%, the average taxpayer in New York will receive a lower average tax cut than taxpayers in the rest of the nation in that same income category. There are, in turn, several underlying causes for each of these two arithmetical realities:

A. The high percentage of New Yorkers receiving no benefit from the President's tax cuts is related to two factors, one of which has been the subject of previous documentation while the other was discussed at the House Ways and Means Committee hearing on H. R. 3 (the bill implementing the

Table 5: Taxpayers with Zero Income Tax Cut Under President Bush's Plan, by State

	Total Number of Taxpayers (in thousands)	Number of Taxpayers with No Cut (in thousands)	Percent of Taxpayers with No Cut	Rank
Mississippi	1,296	434	33.5%	1
West Virginia	842	263	31.2%	2
Louisiana	1,981	597	30.1%	3
New York	8,700	2,526	29.0%	4
Oklahoma	1,483	431	29.0%	5
Alabama	2,057	594	28.9%	6
Kentucky	1,884	520	27.6%	7
Montana	421	115	27.3%	8
Arkansas	1,217	329	27.0%	9
Florida	7,645	1,999	26.1%	10
New Mexico	768	197	25.7%	11
South Carolina	1,858	477	25.7%	12
Pennsylvania	5,833	1,479	25.4%	13
Tennessee	2,686	668	24.9%	14
Rhode Island	486	121	24.8%	15
South Dakota	340	84	24.7%	16
Maine	611	150	24.6%	17
Missouri	2,631	643	24.4%	18
Michigan	4,600	1,116	24.3%	19
California	14,398	3,458	24.0%	20
Georgia	3,756	883	23.5%	21
Oregon	1,623	376	23.2%	22
Iowa	1,389	319	23.0%	23
Massachusetts	3,092	711	23.0%	24
North Carolina	3,778	859	22.7%	25
Illinois	5,730	1,295	22.6%	26
Nebraska	803	180	22.4%	27
Kansas	1,244	277	22.3%	28
Texas	8,922	1,972	22.1%	29
North Dakota	293	64	21.9%	30
Ohio	5,630	1,219	21.7%	31
Idaho	565	120	21.3%	32
Maryland	2,494	522	20.9%	33
Wyoming	229	47	20.8%	34
Arizona	2,112	435	20.6%	35
New Jersey	3,909	802	20.5%	36
Connecticut	1,595	325	20.4%	37
Wisconsin	2,517	509	20.2%	38
Virginia	3,318	670	20.2%	39
Vermont	287	58	20.1%	40
Minnesota	2,307	462	20.0%	41
District of Columbia	256	50	19.7%	42
Indiana	2,821	555	19.7%	43
Hawaii	567	110	19.4%	44
Washington	2,799	537	19.2%	45
Colorado	2,024	378	18.7%	46
Delaware	371	66	17.8%	47
Utah	896	158	17.7%	48
Nevada	934	163	17.5%	49
Alaska	282	47	16.6%	50
New Hampshire	589	94	16.0%	51

income tax rate reductions portions of President Bush's tax plan) but had not been carefully modeled prior to the completion of the new ITEP analyses on which this report is based. **First**, many low and moderate income working families with children currently have no federal income tax liability. Therefore, they will not benefit from any of the tax changes being proposed by the President. **Second**, taxpayers currently subject to the Alternate Minimum Tax (AMT) will not benefit from the President's proposals. [3]

B. The lower than average tax cuts going to New York residents compared to taxpayers in the rest of the country is the result of several factors, some of which affect a good number of other states as well. **First**, an increasing number of taxpayers are becoming subject to the AMT each year and this will be greatly accelerated if the President's plan is adopted as proposed, and New York is among the states that will be most affected by this situation. A taxpayer who moves from paying under the regular tax to paying under the AMT will receive a smaller benefit than a similarly situated taxpayer with the same income who is not affected by the AMT. **Second**, many of the benefits of the President's plan are directed to married couples. Particularly in the middle and upper-middle income ranges, New York has a substantially smaller than average percentage of its tax returns coming from joint filers and a higher than average percentage coming from singles and heads of households.[4] **Third**, New York has a slightly lower than average number of children relative to its number of returns. This means that the President's proposal to double the per child credit will have the effect of increasing New York's share of federal income tax payments. **Fourth**, a greater than average percentage of New York's children live in households whose income is such that they will not be able to realize the full benefit of the increase in the per child credit from $500 to $1,000.

<u>29% of all New York taxpayers and 36% of New York families with children are left out.</u>

! Overall, 2.5 million New York taxpayers (not including teenagers and college students who can be claimed as dependents on their parents' or guardians' tax returns) would receive absolutely no benefit from President Bush's proposed income tax reductions. This represents 29% of the total number of couples and non-dependent singles in New York State. New York ranks **4th** among the 50 states, behind only Mississippi, West Virginia and Louisiana, in terms of the portion of its taxpayers who would receive no benefit from the President's plan. (See Table 5.)

! It has already been well documented, and the ITEP analysis confirms, that many low and moderate income taxpayers would receive little or no benefit under the Bush plan. A March 6, 2001, report by the Center on Budget and Policy Priorities, for example, documented that an incredible 36% of the families with children in New York State (an estimated 922,000 families) would not receive any benefit from the Bush tax plan. In only ten other states and the District of Columbia were there a higher percentage of families who would receive no assistance from the Bush tax plan.

! The ITEP analysis shows, for the first time, that many middle, upper-middle and upper income taxpayers would also be left out of the Bush tax cut because of the interaction of the Bush plan and the Alternative Minimum Tax. [5] (See Table 6.)

Table 6: New York Taxpayers with No Tax Cut, by Income Range

Income Range	Total number of filing units (in thousands)	Number with no tax reduction (in thousands)	Percent
$1,000 - 15,000	1,878	1,426	76 %
$15,000 - 27,000	1,636	530	32 %
$27,000 - 44,000	1,650	166	10 %
$44,000 - 72,000	1,579	99	6 %
$72,000 - 147,000	1,344	99	7 %
$147,000 - 373,000	391	55	14 %
$373,000 or more	98	25	26 %
Total	**8,700**	**2,526**	**29 %**

The interaction of the Alternative Minimum Tax and the Bush Tax Cut Plan has a particularly negative effect on New York State.

Under the Bush tax plan, taxpayers in the top fifth of the income scale, except the top one percent, would see their apparent tax cuts sharply reduced because the President's tax cut plan would push millions of these taxpayers into the Alternative Minimum Tax.

The "AMT," as the name implies, is an alternative income tax that taxpayers must pay if the AMT exceeds their regular income tax. The AMT was originally intended to curb upper-income tax sheltering, but because its brackets have not been adjusted for inflation, it threatens to affect many taxpayers without shelters over the upcoming decade.

According to the congressional Joint Committee on Taxation, by 2006, Bush's tax cuts would double the number of taxpayers affected by the AMT, from fewer than 9 million to almost 19 million. That occurs because the Bush plan reduces the 28 percent and 31 percent regular income tax rates to 25 percent, but keeps the tax rates for the AMT at 26-28 percent. (For the best-off one percent, the AMT effects are not very significant, because their top regular income tax rate would be reduced to 33 percent, down from 39.6 percent.)

A key part of the AMT calculation involves disallowing itemized deductions for state and local taxes, with state income taxes being the primary state tax paid by upper-income taxpayers in most states. In effect, the Bush tax cut wipes out federal tax deductions for state and local taxes for a large portion of itemizers in most states. Better-off taxpayers in the handful of states that have no state income tax are much less likely to be affected by the AMT than taxpayers in "normal" states. As a result, these taxpayers in states without an income tax get larger federal tax cuts under the Bush plan than do taxpayers with similar incomes in other states. To illustrate the magnitude of this AMT issue, the ten states with the largest average tax cuts under the Bush plan include five of the eight states with no broad-based state income tax: Nevada, Wyoming, Florida, Washington and Texas. The states ranking 11th and 13th in average tax cuts under the Bush plan—New Hampshire and Alaska—also have no state income tax.

In all income categories, except the very highest, the average income tax cut for New Yorkers, under the President's plan would be well below the average for the rest of the country. These differences are particularly pronounced in the upper middle income ranges. In the $44,000 to $72,000 range, the average New Yorker's tax cut ($ 781) is 17.7% below the average for rest of the U.S ($919). In the $72,000 to $147,000 range, the average tax cut for New York residents ($1,010) is 52.8% lower than the national average ($1,543). For other relatively high-tax states like New York's neighbors, Massachusetts and Connecticut, the comparable figures are $1,149 and $1,186 respectively, while for Texas and Florida, the average income tax savings for people in this income range is estimated at $1,805 and $1,700 respectively.

Table 7: Bush Tax Plan's Average Income Tax Cut, by Income Categories, New York State and Rest of United States

	Average Income Tax Cut			
	New York	Rest of U. S.	Dollar Difference	Percent Difference
Income Range				
$1,000 - 15,000	$39	$51	($12)	-30.3 %
$15,000 - 27,000	$230	$239	($9)	-3.8 %
$27,000 - 44,000	$495	$549	($54)	-11.0 %
$44,000 - 72,000	$781	$919	($138)	-17.7 %
$72,000 - 147,000	$1,010	$1,543	($533)	-52.8 %
$147,000 - 373,000	$697	$1,356	($659)	-94.6 %
$373,000 or more	$38,824	$27,776	$11,048	28.5 %
A L L	$910	$906	$4	0.4 %

Conclusion

The analysis presented in this report clearly demonstrates that not all tax cuts will have the same impact on all states and that superficial conclusions about the impact of a particular tax cut on a particular state can be substantially off target.

Even if the overall magnitude of President Bush's proposed income tax cut was appropriate, which it clearly is not, the particular tax plan that he has advanced would make New York's "balance of payments" deficit with the federal treasury worse rather than better.

Based on the budget submitted by the President on April 9, 2001, it appears that budget cuts will be necessary if the President's tax plan and spending priorities are to be accommodated. The overall impact of the President's fiscal policies on New York will also depend on which federal programs, if any, are cut, which federal programs grow faster than average and which grow slower than average.

ENDNOTES

1. The impact of these policy choices is laid out very clearly by Isaac Shapiro and Robert Greenstein of the Center for Budget and Policy Priorities in their February, 14, 2001 paper, "Those $1,600 Tax Cut Checks." In the concluding section of this paper, they wrote as follows:

> The new 10 percent bracket and the expansion in the child tax credit would provide significant benefits to middle-class taxpayers. The cost of these two provisions, however, makes up only about one-third of the cost of the total tax package. When the tax plan is phased in fully, two other provisions — repeal of the tax on large estates and the reductions in tax rates in the higher tax brackets (i.e., the brackets above the 15 percent bracket) — would account for the majority of the tax cuts. These two provisions would confer the lion's share of their tax-cut benefits on people higher up on the income scale. Estate tax repeal would affect only the largest two percent of estates; all other estates already are exempt from taxation. In addition, only one-quarter of families owing income taxes are in a tax bracket higher than the 15 percent bracket, and the biggest tax cuts from the proposed rate reductions in these brackets would go to those on the upper rungs of the income scale.
>
> Even the proposed child tax credit expansion would be of the greatest benefit to higher-income taxpayers. Among families with two children, the current child credit is limited to families below $130,000. The Bush plan would raise that figure to $300,000 and provide the largest increases in the child credit to those with incomes between $110,000 and $250,000, even while failing to extend the benefits of the child credit to low-income working families that do not benefit from the credit. Furthermore, all families with income tax liabilities would receive a tax reduction from the proposal to establish a new 10 percent bracket, since part of the income of all such families would be taxed at a 10 percent rather than a 15 percent rate.
>
> Thus, the two principal provisions that would assist middle-income families with children would benefit many high-income families as well. By contrast, the two provisions that ultimately would account for the majority of the tax cuts in the package and are of greater benefit to those at the top of the income scale — estate tax repeal and rate reductions in the higher tax brackets — would not affect the bottom 75 percent of the population.
>
> This is not meant to suggest that everything in the package except the new 10 percent bracket and the child tax credit expansion be discarded. Nor is it meant to imply an endorsement of those two provisions of the Bush plan. (For example, the child credit proposal is subject to significant criticism; it provides the largest increases in the child credit to families with incomes between $110,000 and $250,000 but fails to assist 24 million children living in poor and near-poor families, 80 percent of which are families with earnings). What this analysis does indicate is that it is possible to design a tax package that, as compared to the Bush plan, provides similar-size tax reductions to middle-class families and more adequate relief to lower-income working families — and does so at a much lower cost.

2. For example, 47,105 (or 52%) of the estates for which tax returns were filed in 1997, owed no tax even though they had an average value of $1.37 million. It is also little known that the tax rate for all except the largest taxable estates is much lower that the frequently-cited top bracket rate of 55%. Of the 42,901 estates that actually owed an estate tax in 1997, the average effective tax rate was 17.04%. For the 3,399 taxable estates with a value of $5 million or more, the average effective tax rate was 18.97%.

3. Except for AMT payers with dependent children since the President is proposing to allow the child credit to be taken against the AMT.

4. New York has an unusually ***small*** percentage of its federal tax returns filed by married couples. Thus, New York and New Yorkers will not be helped as much, on average, as the rest of the country by the proposed elimination of the marriage penalty or by the doubling of the child credit from $500 to $1,000. Overall, 35 % of all of the federal tax returns filed by New Yorkers come from married couples. For the rest of the country, the figure is 40 %. In middle income ranges, this disparity is even greater. For example, 62.7% of the New York returns in the $50,000 to $75,000 range are from married couples. For the rest of the country the figure is 75.4%.

5. In addition, as discussed later in this report, many such taxpayers would receive a smaller tax cut than what has been advertised because of the interaction of the Bush plan and the Alternative Minimum Tax. The Bush tax plan would accelerate the current growth in the number of upper and upper-middle income taxpayers who are being affected by the Alternative Minimum Tax (AMT) and greatly reduce the average tax cut of upper middle income New Yorkers.