

AMERICAN TAX REALITY

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The House and Senate have agreed in principal to a tax package that would increase the exemption for the alternative minimum tax in 2006. The exemption would increase to \$62,550 and \$42,500 for joint and individual filers respectively. The AMT exemption was \$58,000 for joint filers and \$40,250 for individual in 2005.

Charles Grassley R-Iowa stated that half of the tax relief in the package, \$34 billion, "goes to keeping more than 15 million taxpaying families out of the AMT."

Negotiators have also agreed in principle to extending the capital gains and dividend tax relief for an additional two years to 2010. The tax package also contains charitable giving tax incentives and reforms.

Democrats took out their playbook and once again refuse to let facts get in the way of their income redistribution template and charged that the tax breaks are for the rich and are on the backs of the nations poor. Senate Minority Leader Harry Reid stated that the Bush tax plan "offers next to nothing to average Americans while giving away the store to multi-millionaires." Unfortunately, reality is a foreign concept to the mommy party.

Stephen Moore, member of the Wall Street Journal editorial board has compiled some interesting statistics from the Internal Revenue Service.

In the aftermath of the Bush investment tax cuts, the federal income tax burden has substantially shifted onto the backs of the wealthy. Between 2002 and 2004, tax payments by those with adjusted gross incomes (AGI) of more than \$200,000 a year, which is roughly 3% of taxpayers, increased by 19.4% -- more than double the 9.3% increase for all other taxpayers.

Between 2001 and 2004 (the most recent data), the percentage of federal income taxes paid by those with \$200,000 incomes and above has risen to 46.6% from 40.5%. In other words, out of every 100 Americans, the wealthiest three are now paying close to the same amount in taxes as the other 97 combined. The richest income group pays a larger share of the tax burden than at anytime in the last 30 years with the exception of the late 1990s -- right before the artificially inflated high tech bubble burst.

Millionaires paid more, too. The tax share paid by Americans with an income above \$1 million a year rose to 17.8% in 2003 from 16.9% in 2002, the year before the capital gains and dividend tax cuts.

The most astounding result from the IRS data is the deluge of revenues from the very taxes that were cut in 2003: capital gains and dividends. As shown in the nearby chart, capital gains receipts from 2002-04 have climbed by 79% after the reduction in the tax rate from 20% to 15%. Dividend tax receipts are up 35% from 2002 to 2004, even though the taxable rate fell from 39.6% to 15%. This is as clear evidence of a Laffer Curve effect as one will find: Lower rates produced increased revenues.

What explains this surge in tax revenues, especially at the high end of the income scale? The main factor at play here is the robust economic expansion, which has led to real income gains for most tax filers. Higher incomes mean higher tax payments. Between 2001 and 2004, the percentage of Americans with an income of more than \$200,000 rose from 12.0% to 14.2%. The percentage of Americans earning more than \$50,000 a year rose from

40.8% to 44.2% -- and that's just in two years. While these statistics are not inflation-adjusted by the IRS, price rises were relatively modest during these years, so adjusting wouldn't alter much.

We can already hear the left objecting that the rich are paying more taxes simply because they have hoarded all the income gains, while the middle class and poor wallow in economic quicksand. But, again, the IRS data tell a more upbeat story of widespread financial gains for American families. The slice of the total income pie captured by the richest 1%, 5% and 10% of Americans is lower today than in the last years of the Clinton administration.

So how can the media contort these statistics to conclude that the Bush tax cuts only benefited the affluent? The New York Times claims that the richest 0.1% got 5,000 times the tax benefit than those with less than \$50,000 of income. That figure can only be true if one assumes that there were no economic benefits from the tax cuts whatsoever; and that lower taxes on income, capital gains and dividends resulted in no changes in the real economy -- not the value of stocks, not business spending, not employment, not capital flows into the U.S., not corporate dividend payments, not venture capital funding -- nothing. The underlying assumption of this static analysis is that tax cuts don't work and that incentives don't matter.

Of course, in the real world, financial incentives through tax policy changes matter a great deal in altering economic behavior. And we now have the evidence to confirm that the latest round of tax cuts worked -- five million new jobs, a 25% increase in business spending, 4% real economic growth for three years and a \$4 trillion gain in net wealth. So now the very class-warfare groups who, three years ago, swore that the tax cuts would tank the economy rather than revive it, pretend that this robust expansion would have happened without the investment tax cuts. Many Democrats on Capitol Hill recite this fairy tale over and over.

One final footnote to this story: Just last week, the Department of the Treasury released its tax receipt data for March 2006. Tax collections for the past 12 months have exploded by 14.4%. We are now on course for a two-year increase in tax revenues of at least \$500 billion, the largest two-year increase in tax revenue collections after adjusting for inflation ever recorded. So why are the leftists complaining so much? George Bush's tax rate cuts have been among the most successful policies to soak the rich in American history.