

Tax and Budget Policy in America

Budget and tax policy is a statement of America's priorities. Through their budgets, the federal government and state and local governments outline each year what their priorities are and how much money these priorities will receive. Tax policies are also a statement of government priorities as they detail what individuals or business the government decides to provide tax relief for and how much relief. Similarly, when governments cut taxes they make a statement that they prefer cutting taxes to making investments in items such as housing, health care, and education. Citizens impact budget and tax policy when they advocate for or against spending on programs such as pushing to increase funding for child care and when they advocate for or against tax relief such as pushing for cuts to property taxes.

On the federal level, the federal budget is a statement both of the priorities of the President and Congress and a statement of what they want for America's future. It details what the federal government will spend its revenue on and how much it will spend. Similarly, federal tax policy outlines what individuals and/or businesses the President and Congress decide to provide tax relief for and how much relief. Since 2001 programs that are funded through the federal budget and serve moderate-low income women, girls and families have faced reductions in funding. In comparison, every year since 2001 at least one tax cut bill has also been passed by Congress and signed into law, with high income individuals and families receiving the most benefits from these tax cuts. Taken together federal budget and tax policy over the recent years has benefited high income individuals and families while leaving other individuals and families behind. Given these trends it is not surprising that federal budget and tax policy is expected to be an important issue in Congress this year.

BACKGROUND

Since 2001 programs serving moderate-low income individuals and families have faced reductions in funding. Programs that have received funding cuts include job training programs for adults and youth, maternal and child health programs, child care and nutrition programs.ⁱ The cuts have impacted moderate-low income individuals and families, abused and neglected children, the elderly, and the disabled.

In addition to the budget cuts, every year since 2001 at least one tax cut bill has also been passed by Congress and signed into law by the President. These tax cuts, in addition to taking money away from investments in national priorities such as Social Security and health care, have disproportionately benefited high income individuals and their families –widening the gap between rich and poor. According to estimates by the Urban Institute-Brookings Institution Tax Policy Center, of the tax cuts passed since 2001 nearly 25 percent of the value of the tax cuts in 2005 went to the top 1 percent of households, 68.1 percent the top 20 percent, 10.4 percent to the middle 20 percent and only 0.3 percent to the bottom 20 percent. The average tax cut for millionaires was about \$103,000, for households in the top 1percent about \$35,000, and for households in the bottom quintile about \$20.ⁱⁱ

Most recently, in 2006 Congress passed and the President signed into law multiple bills cutting programs and taxes. Two of the bills which received the most attention in congress and the public last year included a budget reconciliation bill to cut federal spending by \$40 billion dollars and a tax cut reconciliation bill to cut federal taxes by \$70 billion.ⁱⁱⁱ

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The budget reconciliation bill, the Deficit Reduction Act of 2006 (S. 1932) cut nearly \$40 billion dollars from programs and services that help abused and neglected children, college students, women, girls and families, the elderly and the disabled. The tax cut reconciliation bill, the Tax Increase Prevention and Reconciliation Act of 2005 (H.R. 4297) cut nearly \$70 billion dollars in taxes primarily from high income individuals and families. H.R. 4297 provided families that have over \$1.6 million in income an average tax cut of \$84,000 and families with \$1 million in income an average tax cut of \$43,000. In comparison, families with incomes below \$75,000 a year, or 77percent of all households in the United States, received an average tax cut of \$30.^{iv}

Taken as a whole, since 2001 the federal budget and tax policy has left middle-and lower income individuals and families behind while high income individuals and families have benefited. The pattern of tax cuts and programs cuts is cause for concern. The budgetary policies of cutting programs and services that assist women, girls and families mean that individuals and families may not receive the assistance they need. Similarly, issues such as the rising costs of inflation and the aging population mean that more people are competing for fewer dollars –again resulting in more people having to forgo needed services and programs. The cut backs in services and programs are especially troubling as poverty has increased nearly every year in the United States since 2001, and Hurricanes Katrina and Rita left many people in need of rebuilding their lives.

The pattern of tax cuts is troubling as well. In addition to the fact that the tax cuts have disproportionately benefited high income earners, the budget and tax policies together have resulted in a controversial policy of taking from some via cuts to programs and services to pay for tax cuts for others. Finally, as the tax cuts have increased the deficit, they will eventually have to be paid for by increasing taxes or cutting spending on services and programs that benefit middle-lower income women, girls and families-the same people who received little-no benefit from the tax cuts.

Positions

There are two major arguments surrounding tax policy in the United States. On the one side of the debate are those that argue taxes play an important role in our nation. These advocates point out that the money people pay in taxes is not wasted money but funds critical programs on the federal, state and local level; programs such as education, healthcare, defense, and road construction. And because tax payers benefit from government programs tax payers receive a benefit from paying taxes.

In addition, some advocates also believe that tax policy should not be regressive or tilted in favor of wealthy individuals. These individuals argue tax policy should be fundamentally fair and that when state and federal officials pass tax cuts that primarily benefit the wealthy, in addition to taking money away from investments in national priorities such as Social Security and health care, they widen the gap between rich and poor. Advocates point out that that federal tax policy specifically over the past seven years has primarily benefited high income individuals yet little has been done for middle and low-income individuals and families.

These individuals are often advocates for increased investment in programs. They point out the United States is competing in a global economy and it is important to invest in critical programs to ensure that the United States remains competitive; this means investing in critical priorities including education, workers, and energy resources. Advocates also point out that since 2001 programs that help improve the lives of individuals and families have suffered from lack of investment and in some cases, funding cuts.

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On the other side of the debate, there are those who argue individuals and businesses in the United States pay too much in taxes. These individuals argue that the government should not be in the role of spending people's money, even if it would fund national investments that benefit everyone such as investments in education and energy. Some of these individuals also believe that people should be allowed to keep their money-regardless of whether the money was gained through inheritance, passing it down within the family, stocks, workers pay checks- and that tax policy should not be used to redistribute money from the wealthy to middle-low income individuals and families. These advocates argue that the tax cuts passed since 2001 by Congress have primarily benefited the wealthy, because the wealthy are paying most of the taxes in the United States.

These individuals are often opponents of increasing funding on critical programs. They argue that the government already too big and spending too much of taxpayers' money. They also argue that there is a limited amount of money in state and federal budgets and therefore decisions must be made on prioritizing funding. Finally, some opponents believe that the defense and security of the United States is a proper function of government and government money, however, and funding for non-defense items should be decided on a case-by-case basis only.

YWCA POSITION

The YWCA believes that budgets and tax policies are statements of priorities. The YWCA supports investments in programs that help improve the lives of women and girls and tax policies such as the Child Tax Credit and the Earned Income Tax Credit which help women and families.

FACTS:

- The Congressional Joint Committee on Taxation, or JCT, estimates that the combined cost of the tax bills enacted since 2001 was \$204 billion in 2006 alone, or about \$250 billion including interest. From 2001 through 2006, JCT estimates that the combined cost of the tax cuts was about \$1 trillion. Including the cost of additional interest on the debt would add more than \$100 billion to that total.
- When the tax cuts enacted since 2001 are fully in effect in 2010, their cost will equal the cost of all the programs in the Department of Agriculture, Labor, Education, Veterans Affairs, Transportation, Justice, Interior, Energy, State, Housing and Urban Development, and the Environmental Protection Agency combined.^v
- The majority of benefits of the tax cuts enacted since 2001 have been received by high income individuals and families.
- The majority of benefits of the 2006 tax cut reconciliation bill went to high income individuals and families. Fifty-five percent of the benefits, of H.R 4297, went to households with incomes above \$200,000 a year and 22 percent of the benefits went to household with incomes above \$1 million.^{vi}

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- The \$70 billion dollars in tax breaks in the 2006 reconciliation bill H.R 4297 -including extending the capital gains and dividend tax cuts, Roth IRA account changes and AMT relief- benefit high income individuals, not women and families making under \$100,000 a year.
 - Nearly 45 percent of the benefit of extending the capital gains and dividend tax cuts is expected to go to households with incomes over more than \$1 million a year.
 - Nearly 75 percent of the benefits of the Roth IRA provisions will go to households with incomes over \$200,000 a year and nearly 35 percent of the benefits will go to households with incomes of over \$1 million a year.
 - Primary beneficiaries of the Alternative Minimum Tax provisions are expected to be households with incomes between \$100,000 and \$500,000 a year.^{vii}
- Members of Congress have expressed their support for considering this year a repeal or reduction of the estate tax, a tax which affects approximately one-half of one percent of estates (only 12,600 estates in 2006) and changes to the Alternative Minimum Income Tax.
- The Labor, Health and Human Services and Education (Labor-HHS) appropriations bill funds a variety of programs important to the YWCA, YWCA clients, women and families, and elderly and disabled individuals.

ⁱ Coalition on Human Needs (October 2006) Summary of Human Needs Cuts since 2002. <http://www.chn.org/pdf/HumanNeedsCutsSummary.PDF>

ⁱⁱ Isacc Shapiro and Joel Friedman (January 2006) *New CBO Data Indicate Growth in Long-Term Income Inequality Continues*. Center on Budget and Policy Priorities. <http://www.cbpp.org/1-29-06tax.pdf>

ⁱⁱⁱ Under the continuing resolutions the amount appropriated for FY07 would be the lowest of the House passed or Senate passed amount or FY06 level. (PL109-289, PL109-369, and PL109-383)

^{iv} Joel Friedman (May, 2006) *Reconciliation Tax Cuts Would Average \$43,000 for Households With Income Over \$1 Million, But Only \$20 for Middle-Income Household*. Center on Budget and Policy Priorities. And Joel Friedman and Aviva Aron-Dine (May, 2006) *Tax Reconciliation Agreement Distorted by Obsession with Capitol Gains and Dividend Tax Cuts*. Center on Budget and Policy Priorities.

^v Joel Friedman and Aviva Aron-Dine (February, 2006) *Extending Expiring Tax Cuts and AMT Relief Would Cost \$3.3 Trillion Through 2016*. Center on Budget and Policy Priorities. <http://www.cbpp.org/2-6-06tax.pdf>

^{vi} Joel Friedman and Aviva Aron-Dine (May, 2006) *Tax Reconciliation Agreement Distorted by Obsession with Capitol Gains and Dividend Tax Cuts*. Center on Budget and Policy Priorities.

^{vii} Joel Friedman (May, 2006) *Reconciliation Tax Cuts Would Average \$43,000 for Households With Income Over \$1 Million, But Only \$20 for Middle-Income Household*. Center on Budget and Policy Priorities