



UNDERSTANDING THE TAX CUT DEBATE

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The economy has seen better days. Uncertainty over a postwar Iraq, a jittery stock market and high unemployment have slowed economic growth. So what do we do to help the economy recover? How do we create jobs, restore confidence in the stock market and stabilize a growing deficit?

These are questions before Congress as it debates President Bush's latest economic stimulus plan, which focuses on cutting taxes.

How would cutting taxes help the economy?

President Bush argues that it is better for the economy if individuals and small businesses have more money to spend and invest. A tax cut would allow people and businesses to keep money that is given over to the federal government in taxes under the current system.

With Republicans in control of both the House and the Senate it is likely a tax cut will pass, but there is a fierce debate between lawmakers and the White House on how big the cut should be.

Initially, the president's plan called for a \$726 billion tax reduction. The House has negotiated a \$550 billion limit to the cut, but the Senate supports only a \$350 billion reduction.

This would not be President Bush's first tax cut. In 2001, he pushed Congress to pass the Economic Growth and Tax Relief Reconciliation Act, which reduced income tax rates and called for the elimination of the estate tax over a 10-year period.

What are the details of the president's tax plan?

The president's plan calls for 1) The elimination of most taxes on stock dividends; 2) A speeding up of tax rate reductions Congress passed in 2001; and 3) An immediate end to the estate tax.

Dividends

When someone owns a share of stock in a company, they receive a portion of the company's profit in the form of a dividend. Currently, investors who own stock must include the money they receive from dividends as part of their taxable income. The business also pays a tax on that profit. President Bush has asked Congress to end that process, which he calls "the unfair double taxation of dividends."

Most Democrats contend that to eliminate taxes on dividends would unfairly benefit the wealthy and do little good to heal the ailing economy.

"A dividend tax cut to the wealthiest 1 percent; it doesn't produce jobs... We need a tax cut focused on middle class families... making sure they have the health care they need," Democratic Rep. Rahm Emanuel of Chicago said.

Even some Republican lawmakers are hesitant to offer their support for the dividend cut and are looking at ways to re-calculate the costs.

Income Tax

The 2001 tax cuts called for a gradual lowering of the nation's tax brackets. A person who used to pay 15 percent of his income to the government, would pay 10 percent. The 28 percent bracket would go down to 25 percent, and the highest bracket, almost 40 percent, would drop down to 35 percent. The amount of money families could subtract for the cost of raising children would also increase to \$1,000. By enacting the cuts immediately, President Bush says a family of four that made \$40,000 and paid \$1,178 in 2002 would pay \$45 with the new tax cut.

Estate Taxes

An estate consists of the money and property a person leaves behind when they die. As it stands, the first \$1 million is not taxed. That limit is set to rise in stages, reaching \$3.5 million in 2009 and eventually repealed in 2010. However, it will return in 2011 when the act expires.

If the president's current plan passes without alteration, the estate tax will be repealed immediately. Critics argue that this would allow the wealthy to pass on their assets to future generations tax-free. Supporters claim it encourages people to invest and save.

What are the risks of tax cuts?

Democrats, who recently came out with their own economic plan, say the president's plan will create a huge deficit (the money the government must borrow when it spends more than it collects in taxes).

Depending on the cost of the war in Iraq and if the tax cut passes without significant changes, this year's deficit could climb to \$400 billion, according to The New York Times. Some predictions foresee the deficit at \$1.1 trillion in five years.

Speaking before the Tax Relief Coalition, a group that supports the White House tax plan, President Bush said that while the deficit was worrisome, the concerns of the unemployed were foremost in his mind.

"I'm concerned about the deficit, but not as concerned about the deficit as I am about people trying to find work," he said. "And, therefore, we've got a plan that is robust and strong, that encourages economic vitality and growth, so our fellow citizen can get to work and get to work soon."

However, two senators in the president's own party have urged the Senate to consider a more modest plan. Sen. George Voinovich of Ohio and Sen. Olympia Snowe of Maine say a big tax cut is unwise in the face of the widening deficit, which could cause interest rates to rise and harm the economy in the long run.

The president continues to argue that when it comes to tax cuts, bigger is better. If he is successful, the cut will be closer to House's \$550 billion proposal. If not, it will settle near the Senate's \$350 billion limit.

-- By Michael Melia, Online NewsHour