TIME TO PAY THEIR FAIR SHARE:

Maryland Can't Afford to Extend the Bush-era Tax Cuts for the Wealthy Few

JULY 2012

CTJ Citizens for Tax Justice

AMERICANS FOR TaxFairness

NATIONAL WOMEN'S LAW CENTER
EXPANDING THE POSSIBILITIES

ACKNOWLEDGMENTS

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AMERICANS FOR TAX FAIRNESS, www.AmericansForTaxFairness.org

Americans for Tax Fairness is a diverse campaign of more than 150 national, state and local organizations united in support of a tax system that works for all Americans. It has come together based on the belief that the country needs comprehensive, progressive tax reform that results in greater revenue to meet our growing needs. This starts by ending the Bush-era tax breaks for the richest two percent and by making critical investments that create and sustain jobs while taking a balanced approach to addressing America's fiscal challenges.

CITIZENS FOR TAX JUSTICE, www.ctj.org

Citizens for Tax Justice, founded in 1979, is a 501 (c)(4) public interest research and advocacy organization focusing on federal, state and local tax policies and their impact upon our nation. CTJ's mission is to give ordinary people a greater voice in the development of tax laws. CTJ fights for fair taxes for middle and low-income families; requiring the wealthy to pay their fair share; closing corporate tax loopholes; adequately funding important government services; reducing the federal debt; and taxation that minimizes distortion of economic markets.

NATIONAL WOMEN'S LAW CENTER, www.nwlc.org

The National Women's Law Center is a nonprofit organization working since 1972 to expand opportunities and eliminate barriers for women, with a major emphasis on family economic security, education and employment opportunities, and women's health and reproductive rights.

TIME TO PAY THEIR FAIR SHARE:

Maryland Can't Afford to Extend the Bush-era Tax Cuts for the Wealthy Few

AT THE END OF 2012, tax cuts signed into law by President George W. Bush that disproportionately benefit the wealthiest Americans will expire. At the same time, improvements in the Earned Income Tax Credit (EITC) and Child Tax Credit (CTC) for working families that were enacted as part of the 2009 American Recovery and Reinvestment Act also will expire.

Congress must decide whether to begin to restore basic fairness to our tax system by ending the Bush-era tax cuts for the richest two percent—households with income above $250,000 a year—while extending the tax cuts for 98 percent of Americans.

President Obama would extend the Bush-era income tax cuts on household income up to $250,000 ($200,000 for an individual), and would extend the 2009 improvements in the EITC and CTC. This approach would give the 98 percent of Americans with incomes below those levels their full tax cuts in 2013. The richest two percent also would receive a tax cut on their first $250,000 in income; but the tax cuts would end on income above those high levels.

Republicans in Congress want to extend the Bush-era tax cuts on all income, including income above $250,000—but end the improvements in the EITC and CTC that benefit lower-income working families. *In effect, they would pay for big tax cuts for the wealthy by making low-income working families pay more in taxes, cutting priorities that strengthen the economy and the middle class, and borrowing even more.*

Ending the Bush-era tax cuts for the richest two percent is simply asking them to pay their fair share. If unaffordable tax breaks for the wealthy are continued, we won't be able to address national priorities, such as repairing our crumbling infrastructure, improving education, helping vulnerable children and seniors, and reducing the deficit.

Extending the tax cuts for the richest two percent would cost the federal government about $1 trillion over the next 10 years, including added interest on the debt.[1]

Next year alone, the Republican plan to extend the Bush-era tax cuts for the richest two percent would cost $68 billion more than the Obama plan, not including additional interest costs on the debt.[2] That's about the amount the federal government will spend this year to repair highways, improve K-12 education, expand opportunities for low-income children with Head Start and school breakfast, ensure clean drinking water, and deliver meals at home to frail seniors.

This report compares the effects on Maryland residents of President Obama's proposal to extend the Bush-era tax cuts for all but the richest two percent with the Republican proposal to extend those tax cuts for all Americans, including for the richest two percent, and end the 2009 Recovery Act tax cuts for lower-income working families. This report also shows what the $68 billion that would be saved by ending the Bush tax cuts for the richest two percent means for Maryland residents.

FEW MARYLAND RESIDENTS WOULD BE AFFECTED BY ENDING THE BUSH-ERA TAX CUTS FOR THE RICHEST TWO PERCENT

President Obama's proposal to end the Bush-era tax cuts on income over $250,000 affects fewer than 4 out of 100 Maryland taxpayers. That means 96 out of 100 taxpayers get the same tax cut as before, by and large. [Figure 1]

But, the difference in wealth between these two income groups is huge—3.9 percent of the state's taxpayers have an average income of $642,000, whereas the other 96 percent make about $66,000 on average.

Under both the Obama and Republican plans, all Maryland taxpayers get a tax cut up to the first $250,000 they earn. Above that amount, the tax cuts would end under the Obama plan, which is why Maryland's wealthiest citizens get a much larger average tax cut under the Republican plan.

For those making more than $250,000, the average tax cut in 2013 under the Republican plan would be nearly $27,000 compared with about $12,000 under Obama's plan. [Figure 2]

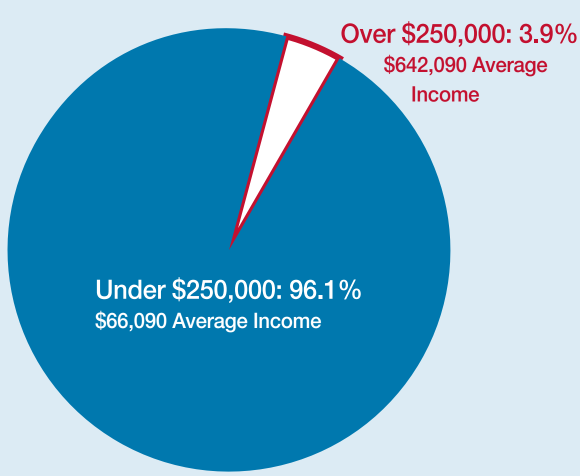
At the $500,000 income level and beyond the differences are even starker—the tax cut under the Republican plan would be more than four times larger, nearly $79,000 compared with about $18,000. [Figure 3]

For those with incomes under $250,000 a year the tax cuts under both plans are generally similar. However, President Obama would give residents making less than $25,000 a year a tax cut 75 percent larger than what they would receive under the Republican plan—$230 from Obama, on average, compared with $130 from Republicans. That's because President Obama's plan would extend improvements in the EITC and CTC for lower-income working families while the Republican plan would end them.

Middle-class residents making between $50,000 and $100,000 a year would receive a tax cut of an equal amount under the Obama and Republican proposals—$1,310 on average.

FIGURE 1

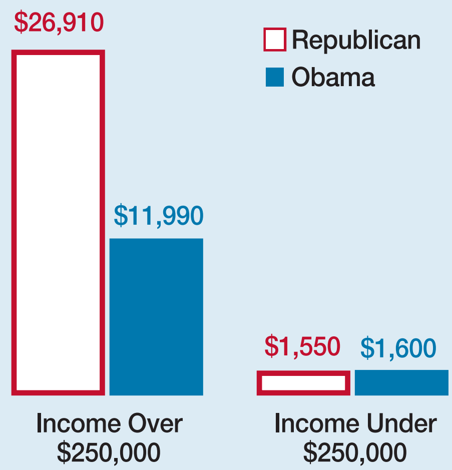
Share of Maryland Taxpayers Earning Under $250,000 and Over $250,000



Source: Institute on Taxation and Economic Policy (ITEP) tax microsimulation model, July 2012

FIGURE 2

Average Tax Cut in Maryland, 2013 Republican Plan vs. Obama Plan



Source: Institute on Taxation and Economic Policy (ITEP) tax microsimulation model, July 2012.

The share of the tax cuts received by the wealthiest four percent of residents is hugely disproportionate under the Republican plan. For example, 41.6 percent of the total tax cuts would go to those making more than $250,000 in 2013, compared with 23.5 percent under the Obama plan.

The difference for taxpayers with income above $500,000 is even more dramatic. Under the Republican plan, these taxpayers—which represent just 0.9 percent of Maryland taxpayers—would get 29.2 percent of the tax benefits, compared with about 8.5 percent under the Obama plan. [Figure 4]

FIGURE 3

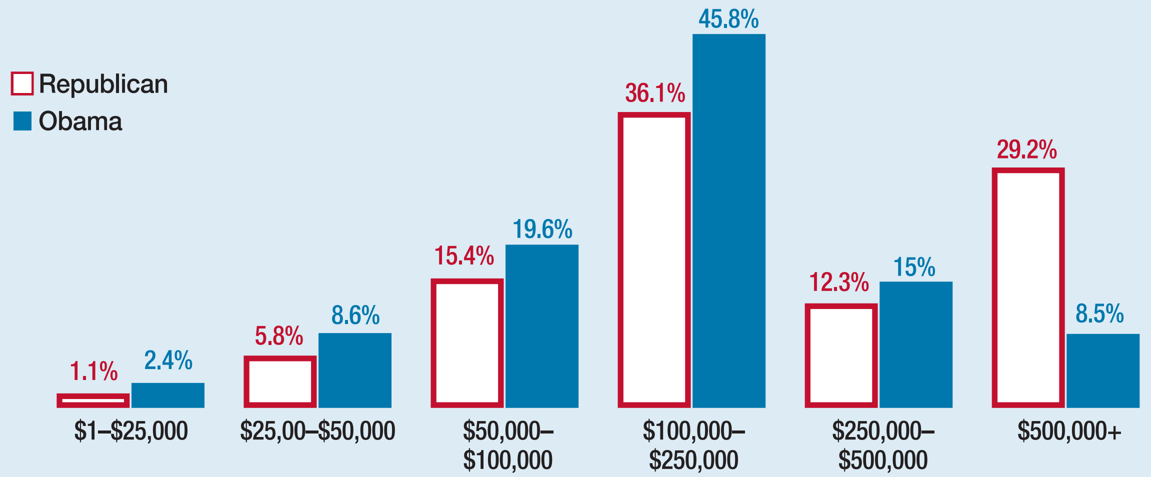
Competing Approaches to the Bush Tax Cuts, Impact in 2013 in Maryland

STATE TAXPAYERS			REPUBLICAN PLAN (Permanent Bush income tax cuts for all income, estate tax cut more, no EITC or child credit expansion from Recovery Act)		OBAMA'S PLAN (Extend Bush income tax cuts for first $200k/250k, estate tax cut, extend EITC and child credit expansion from Recovery Act)		REPUBLICAN vs. OBAMA PLAN
Income Group	% in Group	Average Income	Average Tax Cut	Share of Tax Cut	Average Tax Cut	Share of Tax Cut	Average Difference*
$1—$25,000	21.1%	$14,050	$ –130	1.1%	$ –230	2.4%	$+100
$25,000—$50,000	23.2%	36,820	–640	5.8%	–750	8.6%	+110
$50,000—$100,000	30.0%	71,810	–1,310	15.4%	–1,310	19.6%	—
$100,000—$250,000	20.7%	147,130	–4,460	36.1%	–4,450	45.8%	–10
$250,000—$500,000	3.0%	346,120	–10,500	12.3%	–10,040	15.0%	–460
Over $500,000	0.9%	1,580,810	–78,990	29.2%	–18,160	8.5%	–60,830
ALL	100.0%	$88,780	$–2,550	100.0%	$–2,010	100.0%	$ –540
Under $250,000	96.1%	$66,090	$ –1,550	58.4%	$ –1,600	76.5%	$+50
Over $250,000	3.9%	$642,090	$–26,910	41.6%	$–11,990	23.5%	$ –14,920

***Average Difference:** A positive number indicates a taxpayer pays more under the Republican plan than under the Obama plan. A negative number indicates a taxpayer pays less under the Republican plan than under the Obama plan.
Source: Institute on Taxation and Economic Policy (ITEP) tax microsimulation model, July 2012

FIGURE 4

Share of Tax Cuts Going to Each Maryland Income Group, 2013 Republican Plan vs. Obama Plan



Source: Institute on Taxation and Economic Policy (ITEP) tax microsimulation model, July 2012

MARYLAND CAN'T AFFORD TO KEEP GIVING TAX CUTS TO THE RICHEST TWO PERCENT

Republicans want to spend $1 trillion over the next 10 years to give more tax cuts to the richest two percent. Next year alone, their tax plan would cost $68 billion more than President Obama's plan. But residents can't afford to keep giving away huge sums of money to the people who need it least.

How much is $68 billion? A lot! The $68 billion that the federal government would spend in 2013 by extending the Bush-era tax cuts for the richest two percent equals the amount the federal government will spend in 2012 for all of the following programs combined:

- Highway planning and construction—$39.9 billion
- Title 1, K-12 education—$14.5 billion
- Head Start—$8.0 billion
- School breakfast—$3.3 billion
- Clean Water funds—$2.4 billion
- Meals for homebound seniors—$0.2 billion

These programs, financed by federal tax dollars, help maintain Maryland's highways, improve Maryland's schools, expand opportunities for Maryland's most vulnerable children, provide a nutritious breakfast for children from low-income families, ensure clean drinking water for residents, and provide meals for frail Maryland seniors.

THIS IS WHAT MARYLAND'S SHARE OF THE FUNDING FOR THESE PROGRAMS MEANS FOR RESIDENTS:

$541 Million for Highway Planning and Construction

Maryland will receive $541 million in federal funds in FY 2012 to help it plan, build, and repair highways and bridges and support other transportation improvements. These investments in infrastructure help all residents travel more safely and efficiently and promote economic growth and job creation.

$189.7 Million for K-12 Education

Maryland will receive $189.7 million in FY 2012 in Title I funds for K-12 education, which are granted to local school districts serving disadvantaged children. In the 2009-2010 school year, 409 Maryland schools serving more than 178,000 Maryland children were eligible for Title I funding to support K-12 education.

$89.7 Million for Head Start

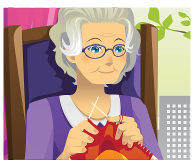
Maryland will receive $89.7 million in federal funds in FY 2012 for Head Start, which helps preschool-age children in low-income families build the skills they need to succeed in school. Head Start and Early Head Start preschool programs served 10,328 children in low-income Maryland families in 2009.

$42.7 Million for School Breakfast

Maryland will receive $42.7 million in federal funds in FY 2012 for the school breakfast program, which provides free or reduced price breakfasts to children from low- and moderate-income families. A nutritious breakfast improves children's health and helps them start the day ready to learn. In 2011, the program served an average of 169,000 Maryland children each day.

$48.7 Million to Make Drinking Water Safer

Maryland will receive $48.7 million in federal funds in FY 2012 to construct water treatment facilities and ensure clean drinking water.



$3.7 Million to Provide Meals to Homebound Seniors

Maryland will receive $3.7 million in federal funds in FY 2012 to provide home-delivered meals to frail seniors. About 7,071 Maryland residents received meals through this program in 2010.

It's not just common sense—and common decency—that tells us that these investments are more valuable than giving more tax cuts to the richest two percent. They're also more effective at boosting the economy. Noted economist Mark Zandi estimates that every $1 invested in infrastructure generates $1.44 in economic growth and every $1 invested in aid to states generates $1.34 in economic growth. In contrast, spending $1 to extend the Bush income tax cuts doesn't even break even; it generates only 35 cents in economic growth.[3]

CONCLUSION

Giving costly tax breaks for those who need them the least—the richest two percent—is exactly the kind of special-interest giveaways Washington needs to stop.

We admire financial success in America. But when the rich get tax breaks they don't need and the country can't afford, the middle class has to make up the difference—and that's not right.

To strengthen our economy, we need to improve our crumbling infrastructure. We need to support our schools and make sure all children are healthy and ready to learn. We need safe drinking water. We need to provide for the elderly and other vulnerable people.

The wealthiest Americans need to pay their fair share. It's time to end the Bush tax cuts for the richest two percent.

METHODOLOGY

Estimates of the tax breaks provided under President Obama's plan and the Republican plan include estimates of proposed income tax breaks and proposed estate tax breaks in 2013 compared to current law (compared to what will happen if Congress simply does nothing).

The income tax cuts under both plans are estimated using the Institute on Taxation and Economic Policy (ITEP) microsimulation tax model. http://itep.org/about/ITEP_tax_model_simple.php

The estate tax cuts under both plans are estimated based on revenue estimates from the Congressional Budget Office and calculations by ITEP. President Obama would extend part of the Bush-era cut in the estate tax, which almost exclusively affects taxpayers with incomes above $250,000 (and much higher). The Republican plan would extend a much larger cut in the estate tax for these high-income families.

For a more detailed description of the provisions included in the President's plan and the Republicans' plan, see Citizens for Tax Justice, "U.S. Taxpayers and the Bush Tax Cuts: Obama's Approach vs. Congressional GOP's Approach," June 20, 2012. http://www.ctj.org/bushtaxcuts2012/us.pdf.

The tax provisions characterized as President Obama's plan are included in President Obama's Budget for Fiscal Year 2013. The tax provisions characterized as the Republican plan are included in the congressional budget resolution for Fiscal Year 2013, introduced by Rep. Paul Ryan (R-WI), which passed the House by a vote of 228 to 181; no House Democrats voted for the Ryan budget and 10 Republicans voted no. The Ryan budget, H.Con. Res. 112, came up in the Senate on a motion to proceed; 41 Republicans and no Democrats voted yes, and 53 Democrats and 5 Republicans voted no. The Ryan budget also proposes large additional cuts in tax rates for high-income individuals and corporations that are not included in this analysis.

Estimates of total federal spending and each state's share of federal spending on various programs in FY 2012 come from Office of Management and Budget, *Budget of the United States, Fiscal Year 2013, Analytical Perspectives,* "Special Topics, Aid to State and Local Governments," http://www.whitehouse.gov/sites/default/files/omb/budget/fy2013/assets/topics.pdf, except for the estimate on spending for home delivered meals: http://www.aoa.gov/AoA_programs/OAA/Aging_Network/State_Allocations/docs/T3_2012.pdf

Estimates of numbers of people served come from various agencies:

- Title I K-12: http://nces.ed.gov/pubs2011/pesschools09/tables/table_02.asp (number of schools in each state receiving assistance), http://nces.ed.gov/pubs2011/pesschools09/tables/table_03.asp (number of students in each state receiving assistance)
- Head Start: http://eclkc.ohs.acf.hhs.gov/hslc/mr/factsheets/fHeadStartProgr.htm
- Meals for seniors: http://www.aoa.gov/AoARoot/Program_Results/SPR/2010/Index.aspx (National & State Figures, Table 1)

ENDNOTES

[1] Center on Budget and Policy Priorities,"Joint Tax Committee: Raising Threshold for Bush Tax Cuts from $250,000 to $1 Million Would Lose $366 Billion—Nearly Half the Revenue" (May 30, 2012) http://www.cbpp.org/cms/index.cfm?fa=view&id=3785
[2] Citizens for Tax Justice, "Proposals for Extending Bush Tax Cuts for Another Year Would Cost Upwards of $240 Billion (July 9, 2012) http://ctj.org/ctjreports/2012/07/fact_sheet_proposals_for_extending_bush_tax_cuts_for_another_year_would_cost_upwards_of_240_billion.php
[3] Mark Zandi, Testimony Before Congress' Joint Economic Committee, "Bolstering the Economy: Helping American Families by Reauthorizing the Payroll Tax Cut and UI Benefits" (February 7, 2012) http://www.jec.senate.gov/public//index.cfm?a=Files.Serve&File_id=df8f2728-94fa-4339-992a-a9b8d2505fc2