July 21, 1995

A GUIDE TO CRAFTING A TAX PACKAGE FOR THE FISCAL 1996 BUDGET

INTRODUCTION

Later this month, members of the House Ways and Means Committee and Senate Finance Committee will begin filling in the details of the $245 billion package of tax relief approved in the FY 1996 budget resolution. In addition to finding the savings needed to balance the federal budget by fiscal 2002, the budget resolution requires an additional $75 billion in savings, which combined with the estimated $170 billion "fiscal dividend" produced by the balanced budget plan, is sufficient to finance a substantial package of tax relief to help families with children and to stimulate economic growth.

Congress must now determine how to allocate a limited pool of $245 billion in tax relief. The committees should begin this process by using the $354 billion House plan as a menu from which to craft a tax relief package. Because the House plan contains roughly $110 billion more tax relief than is now available under the conference agreement, the committees must use some criteria for narrowing their choices. While each of the tax relief proposals in the House-passed plan addresses particular inequities in the tax code or specific weaknesses in the economy, some of the proposals have additional qualities that should make them top priorities for inclusion in the final package.

The cornerstones of the House-passed plan, which also should form the cornerstones of the new tax relief package, are:

- ✔ **A $500 per child tax credit,**
- ✔ **A reduction of the capital gains tax, and**
- ✔ **An IRA-Plus plan.**

These tax relief proposals have been the core of the House plan because they provide direct tax relief to American families and they would do most to spur economic growth. The other tax cuts in the House plan are far more targeted in their impact on various taxpayers or far more limited in their impact on the economy. To be sure, these other tax cuts are important, but their inclusion in the final tax cut package will rest on the relative merits of each proposal.

In the final analysis, however, the answer involves an important and fundamental decision by Congress about who should control spending—the government or taxpayers. That is why both tax and spending reductions are needed to effectively move control of spending out of Washington and into the hands of ordinary citizens. By including tax relief in this year's budget, Congress is allowing American taxpayers, rather than the government, to keep and spend more of the money they earn.

Relief for Families. Most important, American families must share in the savings from reduced government spending. Families also are more likely to support such reductions, for example, if they know they can keep $500 for each dependent child. This is especially true as Congress is considering substantial reforms in welfare. For working families earning between $17,000 and $24,000 per year, the $500 per child tax credit (giving a family of four a $1,000 tax cut) will eliminate their entire income tax burden. Indeed, these families would need less government assistance if they did not have to send so much of the money they earn to Washington in taxes.

These overtaxed families can also be turned into a powerful constituency for smaller government if Congress directly links the benefits of balancing the budget to family tax relief. The families of 52 million children, or 35 million working families, would be eligible for the $500 per child tax credit. Taking money away from wasteful government programs and placing it in the pockets of working families gives these taxpayers a stake in the budget process and the incentive to stand up to the advocates of big government.

Overall, the House-passed plan is very "family-friendly," since some 65 percent of all tax relief will go to families or seniors. About 35 percent of the tax relief will benefit the business or investment communities, contributing to economic growth through job creation. Some of the tax relief targeted to "business," such as reductions in estate and gift taxes, also will benefit owners of family businesses and farms. As they craft a new tax relief plan, the House and Senate committees would be wise to maintain the "family-friendly" nature of the House plan by keeping the relative ratio of tax relief targeted to families and to economic growth and businesses.

Other tax relief proposals contained in the House-passed plan would improve the fairness of the tax system for senior citizens and businesses, too. For instance, seniors will be more likely to accept Medicare reforms if they no longer have to pay today's surtax on their Social Security benefits; and businesses will be more likely to accept losses in corporate welfare programs if they know the tax code will not punish them for capital investments and risk-taking.

Relieving the Pressure on Spending. Members should also keep in mind that certain tax relief can change the behavior of some taxpaying groups in ways that ultimately reduce federal outlays for specific programs. Two examples in the House-passed plan are the tax credits for adoption and the improved tax treatment of long-term health care expenditures. Studies show that in many states, putting one child in foster care can cost taxpayers $10,000 to $30,000 per year. This cost could be reduced substantially to the extent that the adoption credit encourages more families to adopt foster children. Similarly, Medicaid's nursing home costs are exploding as many seniors are "divesting" themselves of their assets in order to become eligible for this taxpayer financed program. These public costs could be substantially reduced by the improved tax treatment of long-term care insurance and out-of-pocket expenses.

Members of Congress should understand how different elements of tax relief benefit their states. Many Members opposing tax relief choose to look only at the impact of reduced federal spending on their states or districts. They forget that if Washington does not spend the money, families will have more to buy necessities for their children, seniors will have more to pay for their own medical services, and businesses will have more to invest in their workers. While this private spending is not as politically visible as unveiling a new pork-barrel project, it does far more to improve the lives of citizens back home.

The Heritage Foundation has estimated the benefits of some of these tax relief proposals—in some cases, as much as $10 billion to $20 billion over seven years—for each state (see Appendix). Taxpayers do not need more government spending or new social programs to improve their well-being. Shifting the resources from Washington bureaucrats to families, seniors, and businesses should be viewed as a prudent way to reduce future government spending and encourage work saving and investment.

As Members negotiate over how to allocate the $245 billion in agreed-upon tax relief, they must remember the importance of putting families first. Working families have borne the largest burden for the rampant growth of government spending and stand to feel the greatest pinch as the rate of spending declines. Furthermore, family incomes have been declining since 1989 thanks to large tax increases imposed on them in 1990 and 1993.

FAMILY TAX RELIEF

The House-passed balanced budget plan contains a substantial package of "family-friendly" tax cuts, including a $500 per child tax credit, expanded Individual Retirement Accounts, and tax credits for families who adopt and those caring for elderly relatives. Over seven years, these family tax cut provisions total $184 billion, comprising 50 percent of the overall tax cut plan. Families, especially families with children, will benefit more than any other group of taxpayers from cutting more wasteful government spending.

#1) $500 per Child Tax Credit

The centerpiece of the Republican Contract with America and the centerpiece of the House-passed plan is a $500 per child tax credit benefiting 35 million working families raising some 52 million children. Such tax relief for working families is long overdue. In 1948, the average American family with two children paid only 3 percent of its income to the federal government in taxes. Today the same family pays 24.5 percent. The family income lost in taxes over the past 45 years exceeds the annual mortgage payment on the average family home. Giving the typical family of four a $500 per child tax credit is equivalent to giving them one month's mortgage payment.

The House plan's $500 per child credit is "non-refundable," meaning the total value of the credit may not exceed a family's income tax bill. But it does provide uniform tax relief to all families with up to $200,000 per year in income, thereby reducing a low-income family's tax burden by a much greater proportion than an upper-income family's.

Example: A $500 per child tax credit would eliminate the entire federal income tax liability for families of four earning between $17,000 and $24,000 per year; cut by 50 percent the income tax burden of a family earning $30,000 per year; and cut by 30 percent the income tax burden of a family earning $40,000 per year. Meanwhile, the same credit would reduce the income tax burden of a family earning $100,000 per year by only 6.8 percent and the income tax burden of a family earning $200,000 per year by just 2.6 percent.

Based on Census Bureau data, Heritage Foundation analysts have calculated that the typical congressional district has some 117,000 children in families eligible for a $500 credit. This means families in the typical district would receive $59 million per year in tax relief. The Appendix shows the amount of family tax relief by state. It is difficult to imagine that any single federal spending project of similar magnitude could benefit as many constituents at the same time. Thus, the political advantages of family tax relief would more than outweigh the political disadvantages of cutting the federal spending needed to pay for it.

#2) Tax Credit to Reduce the Marriage Penalty

Under current law, dual-income married couples who file a joint return can end up paying more taxes than two single taxpayers filing individually. The House-passed bill takes a small step toward reducing this "marriage penalty" by giving these working couples a tax credit with a maximum value of $145 per year. The size of this credit would be determined by Treasury Department tax tables comparing the tax liability of a married couple filing jointly with their liability if they filed as unmarried workers. While the size of this tax credit is relatively small, it is a first step toward removing the tax code's bias against marriage and intact families.

#3) New Individual Retirement Accounts

Individual Retirement Accounts (IRAs) reduce the tax bias against savings by deferring taxes on income (up to $2,000 per year) placed into these special accounts. However, this income and the interest generated by these savings are taxed when retirees begin to withdraw their money.

The House-passed plan offers another way for taxpayers to avoid punishing taxes on retirement savings by creating a new IRA called the "American Dream Savings Account" ("ADS account"). Contributions to this account would be made from post-tax income, but the interest from such savings would not be taxed upon withdrawal if the contributions remain in the account for at least five years and the retiree has reached age 591/2. This new form of IRA would give workers the incentive to save taxed income today in order to reap tax savings in retirement. That is why the ADS account is sometimes known as a "back-ended" IRA.

Initially, contributions to the new ADS account would be limited to $2,000 per taxpayer per year ($4,000 for a married couple), but this amount would be indexed to the rate of inflation in subsequent years. The plan also allows penalty-free withdrawals for a first-time home purchase or to pay certain educational or medical expenses.

The House-passed plan also modifies current restrictions on the amount married spouses may contribute jointly to an IRA. Under current law, and subject to certain restrictions on workers with other retirement plans, individuals may place up to $2,000 into an IRA. However, spouses filing jointly are allowed to contribute only a combined $2,250 to their IRA, not $2,000 for each spouse. The new ADS account allows this same couple to contribute $2,000 for each spouse for a full $4,000, even if one spouse is not working. This provision would greatly assist the retirement plans of families in which one parent chose to stay home with the children. This change also would encourage lower-income taxpayers to save more for their retirement and rely less on Social Security.

#4) Tax Credit for Adoption

The estimated two million families ready to adopt children face huge expenses during the adoption process, but current tax law does not allow them to deduct adoption costs from their tax bill. The House-passed plan makes a substantial commitment to encouraging adoption by giving adoptive families a tax credit of $5,000 to offset such expenses as adoption fees, court costs, attorneys' fees, and other related expenses. This credit is available in full to families earning up to $60,000 per year and gradually phased out for families earning up to $100,000 per year.

This credit could go a long way toward encouraging families who want to adopt less fortunate children but are prevented from doing so by the enormous cost. By encouraging more adoptions by solid middle-class families, this credit could lead to a long-term reduction in the cost of taxpayer-supported social service and foster care programs at both the federal and state levels. According to the American Public Welfare Association, close to 500,000 children were in the foster care system in 1992. Studies show that taxpayers pay an average of $10,000 per child per year for foster care programs and as much as $30,000 per child per year for more intensive shelter care programs.[1] And while many couples want to adopt, they often are discouraged by the initial costs of the adoption process, especially if they have only a modest income. Thus, to the extent that the credit encourages additional parents to adopt, reductions in state and federal outlays to maintain these children in foster care or institutions would offset the revenue cost.

#5) Tax Credit for Dependent Parents

The current tax code provides little relief to families who choose to care for an elderly parent or grandparent. The standard personal exemption of $2,500 is available for these families, but, as with the dependent child exemption, the value of the credit is greater for middle- and upper-income families than for modest-income families in the 15 percent income bracket. For example, while the standard deduction of $2,500 allows a family in

1 Patrick F. Fagan, "Why Serious Welfare Reform Must Include Adoption Reform," Heritage Foundation *Backgrounder* No. 1045, July 25, 1995.

the 15 percent bracket to lower their income tax by $375, the same deduction allows a family in the 28 percent bracket to lower their tax by $700.

The House plan offers additional—and more equitable—tax relief to families who care for their parents and grandparents in the form of a uniform $500 tax credit. Such a credit could help many families who prefer to care for their elderly relatives at home but cannot afford the expense. To avoid burdening their children and grandchildren with this expense, many seniors are divesting themselves of their wealth in order to become eligible for the long-term program funded by Medicaid. This program, which pays for nursing home care for seniors, is quickly becoming the fastest growing program in the federal budget. The $500 tax credit could help reduce this cost by encouraging more families to take an active role in caring for their elderly relatives.

TAX RELIEF FOR SENIORS

The House budget proposal contains provisions that are especially important to many retired or terminally ill Americans with particular financial needs. It repeals the "elderly surtax" provisions of President Clinton's 1993 tax increase, which imposed a high tax rate on income from savings, investments, and pensions.[2] In addition, it provides tax incentives for the purchase of private long-term care insurance, allows terminally and chronically ill people to receive insurance benefits before their death without an income tax penalty, and increases the amount individuals between age 65 and 69 may continue to earn from employment without losing their Social Security benefits.

#6) Repeal of the Tax Increase on Social Security Benefits

Over four million retired Americans were shocked to discover a severe penalty in their 1994 federal taxes, imposed by the 1993 tax bill on their income from savings for retirement. The penalty imposed by Section 86 of the Internal Revenue Code creates a higher marginal tax rate for all Americans over age 65 who supplemented their Social Security pensions with personal savings and pensions earned during their working years. Withdrawals from IRA savings accounts are particularly hard hit, and these withdrawals are mandatory after age 701/2. Retired people above that age cannot avoid turning over significant portions of their retirement savings to the tax collectors.

The House plan gradually repeals the 1993 increase in this tax on savings over a five-year period but does not eliminate it entirely. It cuts the maximum tax to 75 percent in 1996, 65 percent in 1997, 60 percent in 1998, 55 percent in 1999, and 50 percent in 2000 and later years. The complete elimination of this highly complex section of the tax code should be a top priority in Congress, since it is a direct attack on responsible individuals' ability to prepare for retirement by saving. House Speaker Newt Gingrich (R-GA) has identified this tax as a priority for repeal: "punishing people who work and save all their life...is not only morally wrong, it is bad social policy."[3]

2 P.L. 103-66 amended Section 86 of the Internal Revenue Code to require the double-taxation of income from savings up to an amount equal to 85 percent of any Social Security benefits received by a taxpayer. See Joe Cobb and Scott A. Hodge, "The Clinton Surtax on the Elderly's Savings," Heritage Foundation *F.Y.I.* No. 4, August 18, 1993.

3 "Meet the Press," NBC News broadcast, May 7, 1995.

All Social Security recipients must fill out a complicated worksheet just to calculate whether they are subject to the higher tax rate, which adds to the complexity of the tax code for these senior citizens. The tax computation also obscures the higher rates, since the method of figuring whether it is due has been made extremely confusing and depends on how much income anyone receives from savings. For most Social Security recipients, the additional complicated paperwork this April 15 was simply bothersome, because their calculations placed them below an exempt threshold. But the higher rates hit hard those taxpayers with retirement income greater than $25,000 ($32,000 for married taxpayers) from private pensions, withdrawals from an IRA or 401(k) savings plan, and dividends or interest from investments. Although incomes below the exemption are not subject to the higher rates, the tax threshold amounts are not indexed for inflation, so in a few years most if not all retired Americans with income from savings will be penalized.

The elderly surtax has two brackets. The first increases the taxpayer's marginal rate by 50 percent (for example, from 15 to 22.5 percent); the second, by 85 percent (from 28 to 51.8 percent). The second bracket applies to individuals with incomes above $34,000 and married taxpayers above $44,000. As the table on the following page illustrates, for taxpayers in the top income tax bracket of 39.6 percent, the elderly surtax imposes an effective marginal tax rate of 73 percent on any funds they withdraw from IRA savings. These high rates begin to wipe out mandatory IRA withdrawals at age 701/2.

The low savings rate for retirement among middle-income Americans in the prime of life is one of the most serious policy concerns in Congress today. Yet the surtax on savings for Social Security recipients, of which many seniors often are unaware until they start withdrawing their IRA savings, makes a mockery of the incentives to save. It is a cruel joke because the tax rates are higher, not lower as most savers were promised. Repealing this vicious surtax on the savings of elderly Americans is not just good social policy. It is the right thing to do.

#7) Modify the Social Security Earnings Test

Approximately two million Americans over age 65 supplement their Social Security benefits with income earned through part-time jobs. For many elderly people, retirement is out of the question because it would mean economic hardship. They simply have inadequate savings or no private pension benefits. The Social Security law has cut benefits severely for retirees who continue to work and earn more than $11,280. This limitation applies to those between the ages of 65 and 70 and is indexed annually for inflation. Those who earn more lose $1 in Social Security benefits for every $3 of wages earned. The House of Representatives budget proposal would raise the annual earnings limit to $30,000. The increases would be phased in over five years: from $15,000 in 1996 to $19,000 in 1997; $23,000 in 1998; $27,000 in 1999; and $30,000 in the year 2000. The earnings limit thereafter would be indexed for inflation.

The earnings limit requires the Social Security Administration (SSA) to recalculate pension benefits and attempt to collect amounts paid to retired people who earned more than the law permits. Retirees must forecast their year's earnings in advance and have their Social Security cut, but if their estimated income is too low, they must fill out application forms to recover their lost benefits. The SSA estimates that 60 percent of all overpayments and 45 percent of all underpayments occur because of the earnings limit. This

MARGINAL TAX RATES FOR YOUNG AND OLD TAXPAYERS Married Couple Filing a Joint Return		
INCOME	RATES FOR YOUNG TAXPAYERS	RATES FOR OLD TAXPAYERS WITH SURTAX
$0 to $39,000	15%	22.5%
$39,000 to $94,250*	28%	51.5%
$94,250 to $143,600	31%	57.4%
$143,600 to $256,200	36%	66.6%
above $256,200	40%	73%

* Higher rate for retired, married taxpayer begins at $44,000. Between $39,000 and $44,000, the retired taxpayers would face a 42% rate.

limit costs over $200 million per year in administrative paperwork, most of which would be saved by expanding the earnings limit as proposed in the House budget resolution.

In the next few decades, the generation approaching retirement generally will have inadequate savings to enjoy leisure without supplemental earnings. In addition, the lower birthrate in the past two decades will have tightened the labor market, so many elderly workers may find their experience and skills still very much in demand. The U.S. economy will enjoy higher economic growth and semi-retired workers will have a more adequate standard of living with the proposed modification in the Social Security earnings test.

#8) Provide an Incentive for Private Long-Term Care

As the health of elderly Americans improves and more people live to very old age, the financial burden of providing care for this increasingly dependent group has become a challenge for public policy. Increasingly, middle-class Americans discover later in life that despite the prudent decisions they have made to cover their income and health care needs during retirement, they face unanticipated and staggering costs for nursing home care. Many see the savings and other assets assembled during their working lives disappear rapidly when they become chronically sick or frail and need institutional care. One response to this threat has been for elderly Americans to transfer assets to their children so that they can qualify for nursing home assistance under the Medicaid program. States and the federal government are concerned about the rising cost of the long-term portion of Medicaid, partly because of this "gaming" of Medicaid.

In an attempt to control future budget outlays for health and welfare benefits, people should be given effective incentives to provide for their own long-term care. The House budget resolution provides several new tax provisions to encourage individuals and employers to provide long-term care insurance. Starting in 1996, long-term care insurance generally would be treated the same as accident and health insurance, and employers would be allowed to provide their employees with tax-free long-term care insurance just as they now often provide medical benefits. Individuals would be allowed to exchange existing life insurance policies or annuity contracts for long-term care policies without incurring any income tax liability. They also would be permitted to withdraw funds from IRAs and other tax-sheltered retirement plans to purchase long-term care insurance.

Although medical expenses are deductible from federal taxes when they exceed a certain percentage of income, long-term care expenses today generally are not tax-deductible. Under the House budget resolution, eligible long-term care premiums and expenses for qualified long-term care services would be treated the same as other medical expenses, and benefits received under a long-term care insurance policy would be tax-free (up to $200 per day).

Placing long-term care benefits on the same basis as health care and financing them under tax provisions similar to those for medical insurance makes good sense, especially in view of the growing elderly population. Delaying the incentives to prepare for an easily foreseen future problem would be shortsighted, making more likely even heavier state and federal spending on nursing home care.

#9) Accelerated Payment of Life Insurance Benefits for the Terminally Ill

Under current law, life insurance benefits are not taxed, but insured individuals and their families have no way to obtain benefits prior to death without a severe income tax liability—even though many insurance companies are willing to offer such "accelerated benefits." In the case of lingering illness with no prospect of recovery, an elderly person could exhaust all his savings and apply for Medicaid, unable to claim potentially huge life insurance benefits. And if the elderly person no longer has the means to make premium payments, his policies may be allowed to lapse.

The House budget includes a provision to facilitate the practice by which some insurance providers pay benefits prior to death if the insured person is terminally or chronically ill. Such payments would be excluded from a taxpayer's gross income, just as payments to a surviving beneficiary now are. In addition, similar tax-exempt treatment is allowed for amounts received from the sale or assignment of a life insurance contract to a qualified settlement provider. In these cases, the insured would receive a payment comparable to the value of insurance benefits, and the settlement provider eventually would collect the insurance. As in the case of long-term care benefits, the tax-exempt amount for someone who is chronically but not terminally ill would be subject to the $200 per day exclusion limit.

The tragedy of terminal illness and the financial burden of chronic illness ought to be sufficient misery for anyone, but the federal tax code adds a degree of bureaucratic hostility. Life insurance is offered with benefits payable under these circumstances, and older policies can be sold or converted to obtain benefits before death. The income tax code should be made more consistent with this humane and increasingly common practice.

TAX RELIEF TO PROMOTE JOBS AND ECONOMIC GROWTH

In addition to family tax relief provisions, the House-passed budget resolution includes a number of reforms designed to reduce the tax burden on savings and investment. Included in this category are:

#10) Reduction in Capital Gains Tax

The U.S. tax code unfairly and unwisely punishes capital investment by taxing investment income more than once: twice through the corporate and individual income taxes and again by taxing capital gains. The current maximum tax rate on capital gains is 28 percent, and these gains are not indexed to the inflation rate. By contrast, most of America's major economic competitors, such as Japan or Germany, exempt capital gains from taxation entirely or tax them at a greatly reduced rate while often indexing the basis of the gains to inflation.

The House bill lessens this penalty in two ways. First, it lowers the maximum capital gains rate to slightly below 20 percent. Second, it permits individuals to index the value of assets to ensure that they are not being taxed on purely inflationary gains. This rewards new investment and risk-taking. As the Appendix illustrates, this provision will reduce the tax burden on investment by an estimated $63.2 billion between 1995 and 2002.[4] It is a positive, albeit limited, step toward the goal of eliminating capital gains taxes.

#11) Neutral Cost Recovery

Under current law, businesses must write off capital investments from their tax liability over a number of years. This is different from all other business expenses that can be deducted in the year of purchase, or "fully expensed." However, the value of a long-term write-off is less than the original cost of the investment because the amounts deducted in later years lose their value.

The House plan corrects these penalties in the tax code by indexing the depreciation schedules for business investments to inflation and the time value of money. The House bill adjusts depreciation schedules (which determine how fast businesses can deduct the cost of new investments) to protect investors from inflation and otherwise remove biases against investment, particularly for long-term projects. The provision is designed to approximate the ideal tax policy of immediate expensing of capital investment (as found in the flat tax). By correcting this flaw in the tax code, Congress would help encourage businesses to invest more heavily in America's future economic growth.

#12) Alternative Minimum Tax

The House bill repeals the Corporate Alternative Minimum Tax and modifies the individual AMT. These provisions impose some of the heaviest compliance costs and raise limited revenues. Combined with the Neutral Cost Recovery provision, AMT relief would ease the tax burden on American business by about $42 billion over seven years (see Appendix for state totals).

#13) Expensing for Small Business

In addition to neutral cost recovery, the House bill increases the amount of investment which can be immediately expensed. Along with other modest reforms, small business will realize $11.4 billion of tax relief (see Appendix for state totals).

The House tax provisions are a positive first step on the road to pro-growth tax reform. Adoption would boost incentives to save and invest, thereby ensuring faster growth for the economy and higher incomes for American workers.

4 All revenue figures are based on assumptions that the economy's performance remains unchanged. More accurate estimates, of course, would show some degree of revenue feedback as a result of the higher levels of economic growth.

CONCLUSION

The dilemma facing the House Ways and Means Committee and the Senate Finance Committee is how to allocate among families, businesses, and seniors the $245 billion in tax relief provided in the fiscal 1996 budget resolution. The priorities established in the $354 billion House-passed tax relief package are the place to start. Family tax relief, capital gains cuts, and expanded IRAs should be the centerpiece of the new package, as they were for the House-passed plan, because of their widespread benefits to taxpayers and the economy. In particular, the $500 per child tax credit will benefit some 35 million working families, more taxpayers than any other measure. Further, the halving of the capital gains tax and the expansion of IRAs will generate more investment and savings than any of the more targeted measures in the House plan. And as Members add other elements to the new plan, they should also keep in mind the impact that certain tax relief proposals may have on federal outlays. Tax relief that returns money to Americans, and gives them an incentive to make provision for such things as nursing home care for their parents or themselves, also can reduce the cost of federal and state programs.

Prepared by the staff of the
Roe Institute for Economic Policy Studies

Angela Antonelli
Deputy Director of Economic Policy Studies

John Barry
Research Assistant

Bill Beach
Visiting Fellow in Tax Analysis

Joe Cobb
John M. Olin Senior Fellow in Political Economy

Scott Hodge
Grover M. Hermann Fellow in Federal Budgetary Affairs

Daniel J. Mitchell
McKenna Senior Fellow in Political Economy

Tax Relief in the House-Passed Budget Resolution

Millions of Dollars	7 year total tax relief from $500 per child tax credit	7 year total tax relief from reduction in capital gains tax rate	7 year total tax relief from NCRS and AMT reforms	7 year total tax relief from Estate/Gift Tax Credits	7 year total tax relief from Small Business tax provisions	Total 7 Year Tax Relief from Major Provisions in the House-Passed Budget Resolution
United States	$162,200	$63,200	$42,000	$12,300	$11,400	$291,100
Alabama	$2,602	$683	$382	$155	$144	$3,966
Alaska	$420	$107	$64	$36	$33	$661
Arizona	$2,316	$804	$609	$154	$142	$4,026
Arkansas	$1,631	$384	$255	$78	$72	$2,421
California	$20,609	$8,828	$5,023	$1,479	$1,370	$37,309
Colorado	$2,294	$1,156	$567	$180	$167	$4,363
Connecticut	$2,251	$1,185	$930	$246	$228	$4,840
Delaware	$535	$161	$202	$38	$35	$970
District of Columbia	$253	$238	$182	$36	$33	$743
Florida	$6,947	$5,612	$3,830	$657	$609	$17,656
Georgia	$3,814	$1,330	$775	$296	$274	$6,489
Hawaii	$919	$296	$175	$62	$58	$1,509
Idaho	$821	$335	$123	$40	$37	$1,356
Illinois	$7,782	$3,486	$2,241	$642	$595	$14,746
Indiana	$3,456	$868	$652	$257	$238	$5,470
Iowa	$1,994	$579	$361	$115	$107	$3,156
Kansas	$2,026	$496	$367	$113	$105	$3,107
Kentucky	$2,016	$543	$381	$135	$125	$3,201
Louisiana	$2,702	$522	$381	$149	$138	$3,892
Maine	$695	$223	$188	$48	$44	$1,199
Maryland	$3,230	$1,081	$857	$283	$263	$5,714
Massachusetts	$3,454	$1,902	$1,181	$351	$325	$7,213
Michigan	$5,808	$1,575	$1,360	$451	$418	$9,612
Minnesota	$2,945	$1,342	$704	$227	$210	$5,427
Mississippi	$1,681	$343	$174	$74	$68	$2,340
Missouri	$3,052	$1,065	$835	$225	$209	$5,386
Montana	$616	$242	$118	$29	$27	$1,032
Nebraska	$1,331	$385	$222	$67	$63	$2,067
Nevada	$771	$636	$253	$79	$73	$1,813
New Hampshire	$766	$402	$240	$62	$58	$1,528
New Jersey	$4,737	$1,858	$1,737	$524	$486	$9,343
New Mexico	$1,001	$267	$171	$55	$51	$1,545

Tax Relief in the House-Passed Budget Resolution

Millions of Dollars	7 year total tax relief from $500 per child tax credit	7 year total tax relief from reduction in capital gains tax rate	7 year total tax relief from NCRS and AMT reforms	7 year total tax relief from Estate/Gift Tax Credits	7 year total tax relief from Small Business tax provisions	Total 7 Year Tax Relief from Major Provisions in the House-Passed Budget Resolution
New York	$11,122	$5,589	$4,021	$1,004	$931	$22,667
North Carolina	$4,228	$1,287	$848	$285	$264	$6,911
North Dakota	$457	$111	$57	$24	$22	$670
Ohio	$7,442	$1,735	$1,657	$501	$465	$11,799
Oklahoma	$2,006	$465	$334	$115	$107	$3,027
Oregon	$1,890	$966	$425	$129	$119	$3,529
Pennsylvania	$7,800	$2,290	$2,242	$580	$537	$13,449
Rhode Island	$496	$191	$169	$47	$44	$947
South Carolina	$2,420	$571	$373	$131	$122	$3,617
South Dakota	$492	$231	$81	$27	$25	$857
Tennessee	$2,581	$967	$466	$214	$198	$4,427
Texas	$11,287	$3,722	$2,204	$785	$728	$18,727
Utah	$1,473	$309	$176	$65	$60	$2,083
Vermont	$361	$131	$116	$24	$23	$655
Virginia	$4,001	$1,568	$1,024	$333	$309	$7,235
Washington	$3,551	$2,007	$836	$289	$268	$6,950
West Virginia	$1,078	$172	$182	$59	$55	$1,546
Wisconsin	$3,657	$1,237	$765	$234	$217	$6,110
Wyoming	$382	$169	$95	$22	$20	$688
Other Areas		$545	$388	$88	$81	$1,102

*The figures presented here represent the tax relief provided by HR1215 as passed by the House of Representatives and included in the House Budget Committee's "Chairman's Mark."

Sources: Heritage Foundation calculations based on statistics from Joint Committee on Taxation, U.S. Bureau of the Census, and the Internal Revenue Service.