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**TAX CUTS PROPOSED BY PRESIDENT BUSH WOULD PROVIDE FEW  
BENEFITS FOR TAXPAYERS IN OHIO**

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**Tax Cuts Proposed by President Bush Would Provide Few Benefits for Taxpayers in Ohio**

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## EXECUTIVE SUMMARY

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On January 7, 2003, President Bush proposed a \$725 billion dollar tax cut. The major element of the President's proposal is the elimination of taxes on income from corporate dividends. The plan also includes the acceleration of future tax cuts, as well as new tax reductions for businesses.

The fate of the President's tax cut proposal in Congress is unclear. Although budget legislation passed by the House and Senate contained less money for tax cuts than requested by President Bush, the President is continuing to push for his full proposal.

This report analyzes the impact of President Bush's proposal on taxpayers in Ohio. It finds:

- **The elimination of taxes on dividends would provide minimal benefits to taxpayers in Ohio.** Almost 90% of taxpayers in the state have incomes of less than \$100,000. These taxpayers would receive an average tax savings of only \$54 from the dividend tax cut. In fact, an estimated three of every four taxpayers in the state would receive no benefit at all from the dividend proposal.
- **The full tax cut package is heavily skewed towards wealthy taxpayers.** In Ohio, only 2% of taxpayers have incomes above \$200,000. Under the President's plan, this top 2% of taxpayers would receive an estimated average tax cut of \$11,500, receiving in the aggregate 23% of the total tax savings realized in the state. In contrast, 56% of taxpayers in the state have incomes below \$50,000. These taxpayers would receive an average tax cut of only \$224, receiving in the aggregate just 12% of the total tax savings realized in the state.
- **Additional tax cuts proposed by President Bush could harm working families in Ohio.** President Bush has also proposed major changes in the treatment of earnings from retirement and other savings accounts. These changes would primarily benefit the wealthiest taxpayers, while potentially making it less likely that employers in Ohio would offer retirement plans for their workers.

## BACKGROUND

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### President Bush's Tax Proposals

On January 7, 2003, President Bush unveiled a new tax cut proposal. This proposal has an estimated cost over the next ten years of \$725 billion.<sup>1</sup>

The largest tax cut in the plan would eliminate taxes on dividends paid by corporations. Under this proposal, which would cost \$395 billion, taxpayers would pay no taxes on dividends paid by corporations if the corporations paid federal taxes on the profits used to pay out these dividends. If corporations chose to reinvest profits rather than paying dividends, shareholders would instead receive favorable capital gains treatment on these "deemed dividends."

The second part of President Bush's proposal, which would cost an estimated \$330 billion, would accelerate tax cuts scheduled to go into effect between 2006 and 2010. These tax cuts include reductions in individual income tax rates, the expansion of the 10% tax bracket, and the increase in the child tax credit. The tax cut proposal would also provide additional tax benefits for small businesses and would provide temporary relief from the alternative minimum tax for some taxpayers.

Another tax proposal, announced by President Bush on January 31, 2003, would create major changes in the way earnings from retirement and other savings accounts are taxed. These changes would create new Lifetime Savings Accounts that would allow families to save up to \$7,500 per family member annually with no tax on earnings, change numerous rules affecting employer-based pension plans, and allow wealthy families to make larger contributions to Roth IRAs.<sup>2</sup>

The fate of the President's tax cut proposal in Congress remains unclear. Budget legislation approved by the House in March 2003 contained \$550 billion for tax cuts, less than the President's request, while Senate budget legislation contained

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<sup>1</sup> Joint Committee on Taxation, *Estimated Budget Effects of the Revenue Provisions Contained in the President's Fiscal Year 2004 Budget Proposal* (Mar. 4, 2003).

<sup>2</sup> Currently, households with incomes above \$160,000 cannot make contributions to Roth IRAs. The Administration proposal would abolish this limit and increase the amount that can be contributed to these accounts.

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\$350 billion. Despite these reductions, Administration officials have indicated that they will continue to seek the passage of the entire \$725 billion tax cut package.<sup>3</sup>

### **OBJECTIVE AND METHODOLOGY**

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To conduct this analysis, the report utilizes two sets of data. First, in order to determine income distributions for taxpayers in Ohio, the report uses data from the 2000 Census on household income in 1999.<sup>4</sup> This data, adjusted to reflect estimated changes in income between 1999 and 2003, is analyzed to determine the percentage of households in the state that fall within a given income level.<sup>5</sup> Second, the report combines the Census data with data on the average savings that would accrue to each income group under President Bush's tax plan,<sup>6</sup> as well as

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<sup>3</sup> Recently, Administration officials have indicated that the Administration may use approaches such as phasing in the dividend tax cut in order to fit all parts of the tax cut package into the budget legislation. *White House Eases Stand on Dividend Taxes*, Washington Post (Apr. 22, 2003).

<sup>4</sup> U.S. Census Bureau, *Census 2000 Summary File 3 Data: Household Income in 1999* (2003).

<sup>5</sup> Because a household for Census purposes can have more than one taxpaying unit — for example, two single taxpayers who file separate tax returns — the Census data on average household income could overestimate the average income level in the state. To the extent this occurs, the actual tax cuts received by taxpayers in Ohio would be smaller than estimated in this report.

<sup>6</sup> Urban-Brookings Tax Policy Center, *Administration Stimulus Proposal: Distribution of Income Tax Changes by AGI Class, 2003* (Jan. 2003). Urban-Brookings Tax Policy Center, *Administration Dividend Exclusion Proposal: Distribution of Income Tax Changes by AGI Class, 2003* (Jan. 2003). Estimates of the distribution of income are based on the U.S. Census Bureau definition of money income, while the breakdown of estimated tax savings for each income group is based upon IRS Adjusted Gross Income (AGI). Although there are some differences between these two measures (for example, AGI includes deductions for items such as IRAs, interest on student loans, and self-employment taxes), these differences are minor. The analysis also assumes that taxpayers in Ohio within a given income group would receive the same average tax cut as the national average for all taxpayers within that income group. While there may be some differences between the Ohio taxpayer and the average taxpayer (for example, Ohio taxpayers in a given income level might be more or less likely to have dividend income, or might be more or less likely to be married and have children), these differences are likely to be relatively small and thus would be unlikely to impact the overall findings of

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IRS data that indicates the likelihood that individuals in Ohio will pay taxes on dividends.<sup>7</sup> The combined data is used to estimate the per-household tax breaks that would be received in 2003 by residents of Ohio under President Bush's proposal.

### FINDINGS

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#### Impact of President Bush's Dividend Tax Cut Proposal on Taxpayers in Ohio

The central part of President Bush's tax cut proposal is a plan to eliminate taxes on stock dividends. This provision would provide little benefit to the typical taxpayer in Ohio.

Census data shows that 88% of households in Ohio have incomes below \$100,000. In 2003, these taxpayers would receive an average tax cut of only \$54 under the dividend proposal. Many taxpayers in the state would receive even smaller dividend tax cuts. In fact, almost three of every four taxpayers in the state (74%) would receive no tax savings at all under the dividend proposal.

The dividend proposal would provide significant benefits to the very wealthiest taxpayers in Ohio, however. The households in the state with incomes above \$200,000 annually would receive an estimated average tax cut of over \$3,500 in 2003 under President Bush's dividend tax cut plan.<sup>8</sup>

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this analysis.

<sup>7</sup> Internal Revenue Service, *Tax Year 2000: Selected Income and Items for Individual Tax Returns, Forms 1040, 1040A, and 1040EZ, by Size of Adjusted Gross Income, Ohio* (2003).

<sup>8</sup> Census data includes as a group all households with incomes above \$200,000, while IRS data differentiates these taxpayers into three groups (those with incomes between \$200,000 and \$500,000; those with incomes between \$500,000 and \$1,000,000; and those with incomes above \$1,000,000).

## **Distribution of Tax Cut Benefits in Ohio**

President Bush's tax cut plan includes a number of other tax breaks in addition to the dividend proposal. For example, the plan would accelerate many of the income tax cuts enacted in 2001 and scheduled to go into effect in future years. The White House estimates that the average American household would receive a tax break of \$1,083 under the plan.<sup>9</sup>

The average figures used by the White House are misleading, however. The benefits of the tax plan are heavily skewed toward the wealthy. In Ohio, a household with the estimated median income of \$45,000 would receive an estimated average tax cut of only \$470 in 2003 — almost 60% smaller than the White House estimate of average tax relief.

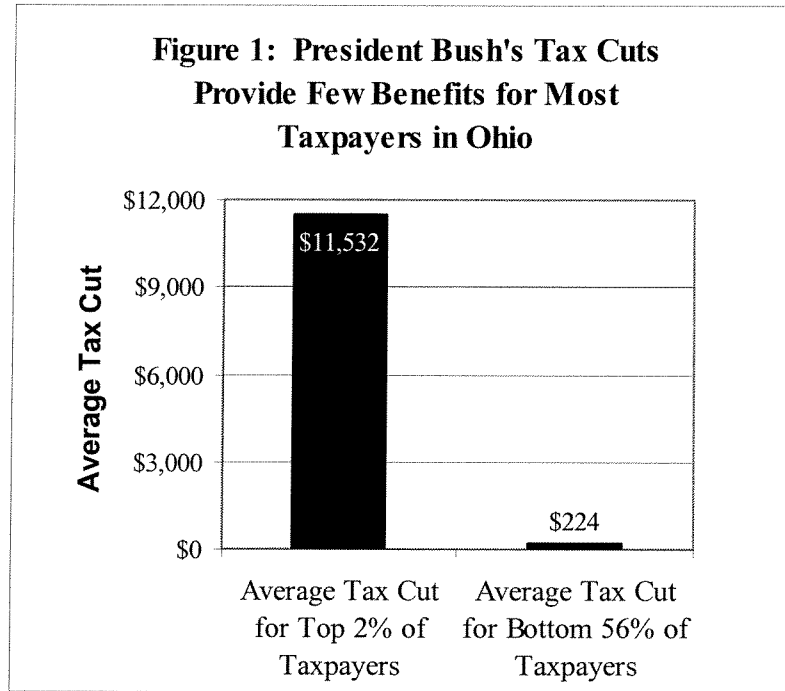
In aggregate, the 2003 tax savings for taxpayers in Ohio are estimated to be approximately \$4.6 billion. The distribution of these benefits overwhelmingly favors the wealthy. Approximately 2% of the households in the state (90,000 households) have incomes over \$200,000. These households will receive an estimated \$1 billion in tax savings, an average of over \$11,500 per household. This is equal to 23% of the total tax savings. The 12% of households with the highest incomes will receive 45% of the total tax savings.

In contrast, 56% of the households in the state (2.5 million households) have incomes below \$50,000. These taxpayers will receive a total tax cut of \$570 million in 2003, just \$224 per household. This is just 12% of the total tax benefits. Figure 1.

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<sup>9</sup> The White House, *Taking Action to Strengthen America's Economy* (Jan. 2003) (online at [www.whitehouse.gov/infocus/economy](http://www.whitehouse.gov/infocus/economy)). The tax savings estimates by the White House and the other estimates in this section include the tax savings due to the dividend tax cut and to the acceleration of income tax cuts. These estimates do not include tax savings from President Bush's proposal to create tax-free savings accounts, which are discussed below.

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### Impact of President Bush's Proposals for Retirement Accounts

The President's proposals for changes to retirement accounts would also affect working families in Ohio. Like other tax cuts proposed by President Bush, the benefits of these proposals would go overwhelmingly to wealthy taxpayers who have large quantities of disposable income that could be contributed to these new accounts.<sup>10</sup> Average working families who have little savings beyond their contributions to an employer-based retirement fund would see few benefits. Moreover, although the proposal is designed to have small costs to the federal government over the next five years, the costs will balloon in the future, dramatically increasing the long-term federal deficit and posing additional risks to

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<sup>10</sup> Center on Budget and Policy Priorities, *Proposed Savings Incentive Would Cause Revenue Hemorrhage in Future Decades* (Feb. 5, 2003).



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the economy.<sup>11</sup>

In addition, the proposal could have a significant adverse impact on many working families who save for retirement through employer-sponsored retirement plans. Currently, federal law provides an incentive for business owners to create employer-sponsored retirement plans by requiring that employees be provided with a retirement savings plan if the business owner is to benefit from tax-advantaged retirement savings. President Bush's proposal would loosen these restrictions. The end result, according to experts, is that "if you're a small-business employee, what this could potentially mean is that your employer will no longer offer a program for you. . . . [T]he rank and file . . . are going to lose out of the opportunity to get a matching contribution [from their employer]."<sup>12</sup>

### CONCLUSION

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This report analyzes the impact of President Bush's proposed tax cuts on taxpayers in Ohio. It finds that most taxpayers in the state would receive no tax savings from the proposal to eliminate taxes on dividends. It also finds that President Bush's tax cut proposal is heavily tilted towards the most well-off taxpayers, with the 2% of taxpayers with the highest incomes in the state receiving 23% of the total benefits. Additional tax proposals regarding savings accounts would provide few benefits for workers in Ohio, while potentially reducing the opportunities for working families to take part in employer-based retirement savings programs.

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<sup>11</sup> *Id.*

<sup>12</sup> *Details Given on New Plan to Aid Savings*, New York Times (Feb. 1, 2003).