CONNECTICUT VOICES FOR CHILDREN

Where's the Relief? A Summary of H.R. 4297: The Tax Relief Extension Reconciliation Act of 2005

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The U.S. House passed H.R. 4297, the Tax Relief Extension Reconciliation Act of 2005, on Thursday, December 8, 2005, at a cost of $56.2 billion in lost revenues from 2006 through 2010. Representatives DeLauro and Larson voted no; Representatives Shays, Johnson and Simmons voted yes. H.R. 4297 is labeled as a tax "relief" package; its major provisions, however, primarily benefit the high-income earners who have overwhelmingly benefited from the Bush tax cuts enacted since 2001 and not middle and lower income families.[1]

40.1% of the *total* tax cuts in H.R. 4297 will go to households earning over $1 million a year (Table 2). The bill is skewed towards these households because it includes an extension of the capital gains and dividends tax cut, which is not set to expire until 2008. Households with incomes of more than $1 million per year receive 45% of the benefit from the capital gains and dividends tax cut.[2]

Although reconciliation is a fast track process that was originally designed to facilitate making hard choices needed for *deficit reduction*, this reconciliation tax package actually *increases* the federal deficit. In recent years, the reconciliation process has been used to accomplish just what it was intended to *prevent*, easier passage of tax cuts and resulting *deficit increases*.[3] The reconciliation tax cuts exceed the amount of reconciliation spending cuts.[4]

The poorest Americans are paying for the tax provisions in H.R. 4297, which disproportionately benefit the wealthiest taxpayers. Not all of the tax cuts benefit only the wealthiest taxpayers, but it is the poorest amongst us who are paying the bill today, and our children and grandchildren who will continue to pay it in the future.[5] On their face, the reconciliation bills - spending and tax - have cuts to the neediest offsetting tax reductions that disproportionately benefit the wealthiest.

The Senate reconciliation tax bill, S.2020, which passed on November 18, 2005, is less extreme. The Senate has passed $57.6 billion in tax cuts. Unlike the House, which passed a *separate* bill to

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[1] According to the Tax Policy Center of the Urban Institute and the Brookings Institution, more than 70 percent of the benefits of the President's tax cuts enacted in 2001 and 2003 go to the 20 percent of taxpayers with the highest incomes, and more than 25 percent of the tax-cut benefits go to the top one percent.

[2] Friedman, Joel. *Senate and House Reconciliation Tax-Cut Packages Flawed.* The Center on Budget and Policy Priorities, November 29, 2005.

[3] Both the House and Senate FY 06 reconciliation spending bills have been drafted and voted on independently of the reconciliation tax bills, and both the Senate and House versions would increase the federal deficit.

[4] For more detailed information about the reconciliation process, please see: *A Summary of November's Budget Developments*, CT Voices for Children at: http://www.ctkidslink.org/pub_detail_264.html

[5] The reconciliation spending cuts include reductions in funding for child support enforcement, Medicaid, Food Stamps, and other programs.

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temporarily "fix" the Alternative Minimum Tax (AMT) at a cost of $31 billion, the Senate includes a one-year AMT "fix" in its reconciliation bill.[6] The Senate's AMT provision would also cost $31 billion (more than half the cost of the Senate's full package). The Senate reconciliation tax bill does not include an extension of the capital gains and dividends tax cut, as the House reconciliation tax bill does. The Senate reconciliation tax bill is less skewed to benefit the very wealthy than is the House reconciliation tax bill in part because it includes the AMT provision (Tables 1 and 2).

Table 1: Comparison of Major Provisions of the House and Senate Reconciliation Tax Bills (In billions of dollars)[7]		
	Senate version, S. 2020	**House version, HR.4297**
Tax Cuts:		
Capital gains and dividends	$0	-$20.6
AMT exemption level	-$30.5	$0
Katrina-related relief	-$7	$0
R&E credit	-$9.9	-$9.9
Charitable giving	-$0.5	$0
Other	-$28.5	-$25.7
Subtotal, tax cuts	-$76.4	-$56.1
Revenue-raising offsets	+$18.8	----
Total (net)	-$57.6	-$56.2

Table 2: Distribution of Major Provisions in House and Senate Reconciliation Tax Packages[8]		
	% Distribution of Tax Cut Benefits	
	S.2020	**H.R. 4297**
Less than 100,000	23%	21.3%
$100,000-$200,000	41%	16.3%
$200,000-$500,000	25.5%	13.9%
$500,000 to $1 million	2.4%	8.1%
Over $1 million	8%	40.1%
Total	100.0	100.0

The U.S. House also passed several tax-cutting bills *outside* of the reconciliation process. Several portions of these tax cutting bills were included as provisions *within* the Senate's version of its tax reconciliation bill, S. 2020. These bills and their titles are:

- H.R. 4096: Stealth Tax Relief Act of 2005 (AMT tax bill)
- H.R. 4440: Gulf Opportunity Zone Act of 2005
- H.R. 4388: Tax Revision Act of 2005

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[6] The separate House bill that addresses the AMT exemption level is H.R. 4096.

[7] This chart was provided by the Center on Budget on Policy Priorities. The chart can be found on page 2 of Joel Friedman's publication, *Senate and House Reconciliation Tax-Cut Packages Flawed.* Center on Budget and Policy Priorities, November 29, 2005.

[8] Friedman, Joel. *Senate and House Reconciliation Tax-Cut Packages Flawed.* The Center on Budget and Policy Priorities, November 29, 2005.

In addition to the $56 billion price tag for the House reconciliation tax bill, H.R. 4297, the other three bills--H.R. 4096, H.R. 4440 and H.R. 4388--are estimated to cost a total of $39 billion.[9] Almost $31of the $39 billion would be used to pay for the Alternative Minimum Tax bill, H.R. 4096, and close to $7 billion would be used to fund the tax credits in H.R. 4440, the Gulf Opportunity Zone Act. The remaining $1 billion would be used to extend a series of expiring credits in H.R. 4388. **The total cost of all the House tax-cutting bills is $95 billion over five years.**

[9] Andrews, Edmund L. "House Completes Vote on Tax Cuts for $95 Billion." *The New York Times*, December 9, 2005.