



U.S. SENATE COMMITTEE ON

# Finance

SENATOR CHUCK GRASSLEY, OF IOWA - CHAIRMAN

<http://finance.senate.gov>

## MEMORANDUM

To: Reporters and Editors  
Re: Partisan criticism of tax relief agreement  
Da: Wednesday, May 3, 2006

Sen. Chuck Grassley, chairman of the Committee on Finance, is the lead Senate negotiator in Senate-House talks on tax relief. Negotiators have agreed in principle to a package containing two years of continued capital gains and dividends relief. Grassley made the following comment on partisan criticism of the agreement in principle.

“Many of those on the other side of the aisle oppose extending the lower rates on dividends and capital gains on the grounds that the relief benefits only rich taxpayers. But statistics from the Joint Committee on Taxation, analyzed by my Finance Committee staff, show that lower income taxpayers have proportionately more at risk if these rates expire at the end of 2008 than higher income taxpayers. The findings show that the tax policy enacted by Congress in 2003 to lower taxes on dividends and capital gains has given meaningful benefits to taxpayers across the income spectrum, not just the rich. In fact, lower income taxpayers will save more than higher income taxpayers when measured as a percentage of total tax liability. The stakes are even higher for seniors. These lower rates have allowed millions of taxpayers to keep more money in their pockets to spend in the economy or add to their savings through reinvestment, rather than give it to the federal government to spend.”

Two charts reflecting the Finance Committee analysis are attached. The charts are based on 2005 estimates of aggregate tax savings and aggregate total tax liability, by income category, of those who benefit from the lower rates on dividends and capital gains. The effect of the elimination of taxes on dividends and capital gains in 2008 for these taxpayers in the lowest two tax brackets is also shown, assuming the same facts are present in 2008. According to this data, taxpayers with under \$50,000 of adjusted gross income will receive a 7.6 percent reduction in their total tax bill as a result of the lower rates on dividends. The tax savings from lower dividend tax rates for seniors with under \$50,000 of AGI will be 17.1 percent. Those with AGI of \$200,000 or more, however, will receive only a 5.7 percent reduction. The data are similar with respect to capital gains. Those with AGI of \$50,000 and under will receive a 10.2 percent reduction in their total tax bill as a result of the lower rates on capital gains, about the same amount as those with AGI of \$200,000 or more, while lower income seniors will save 13.2 percent.