United States Senate

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Statement of
Senator Chuck Grassley of Iowa, Chairman of the Senate Committee on Finance
Senator Don Nickles of Oklahoma, Chairman of the Senate Budget Committee
Senator Robert Bennett of Utah, Chairman of the Joint Economic Committee
regarding A Congressional Budget Office Paper
Effective Federal Tax Rates Under Current Law, 2001 to 2014"
Friday, August 13, 2004

Taken together, the tax cuts of 2001, 2002 and 2003 made the income tax system more progressive, so wealthy taxpayers pay a higher share of federal income taxes. The income tax burden on middle-income Americans was dramatically reduced with the changes made to the child tax credit, marriage penalty and marginal rates. Thanks to this legislation, middle-income families pay a lot less income tax, and an additional 15 million low-income taxpayers will owe no income tax at all. That's a record 44 million low-income taxpayers in 2004, up from 29 million in 2000.

Today's *Washington Post* story about the new Congressional Budget Office paper fails to describe a key fact that affects tax data in 2004. As a result, readers are misled about how the 2001, 2002 and 2003 tax cuts shifted the tax burden. Here's why. The 2002 tax cut included accelerated bonus depreciation provisions to help small businesses invest in capital and create new jobs. These provisions were included in bipartisan legislation passed when Democrats controlled the Senate. They were aimed at stimulating the sluggish economy, especially in 2003 and 2004. The Congressional Budget Office allocates the bonus depreciation provisions to high-income taxpayers under the assumption that they will in effect receive the benefit. By focusing only on the 2004 tax burden, when these bonus depreciation provisions are ramped up for maximum help to the economy, the *Post* report ignores the real picture of the tax burden spelled out by the Congressional Budget Office. The real picture is this. High-income taxpayers had a comparable reduction in tax burden to middle-income taxpayers due to the Bush tax cuts. And, wealthy taxpayers generally are paying a greater percentage of all federal income taxes than they were before the 2001, 2002 and 2003 tax cuts. This change makes the income tax system more progressive.

Income taxes were too high when President Bush took office. Since World War II, taxes as a percent of the economy averaged around 18 percent of the gross domestic product. In 1992, taxes were about 17 percent of the gross domestic product. By 2000, federal taxes had exploded to 20.8 percent of the gross domestic product. What's worse, this historically high tax burden was shouldered by individual taxpayers. And, today's paper by the Congressional Budget Office confirms that taxes would have gone up on all taxpayers, including low-income and middle-income, by significant amounts if Congress had not passed tax relief measures. Effective tax rates would have gone up across the board by one to two percent. By delivering significant tax relief for individual taxpayers and containing the effects of bracket creep and other tax system biases, the tax legislation of 2001, 2002 and 2003 is helping the economy recover. Federal Reserve Chairman Alan Greenspan testified that the tax cuts helped ensure that the 2001 recession was mild and brief and provided stimulus to keep the current rebound on track. The legislation put more money in family budgets and helped small businesses grow and create jobs.