

## Legacy of the Bush Tax Cuts

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**For Democrats to allow the Bush tax cuts to expire ignores a very large reality – the tax cuts worked, as usual!** The tax cuts had helped the economy continue to grow, despite huge negative factors like rebuilding after hurricane Katrina, the war in Iraq, interest rate increases and record crude oil prices.

The Tax Foundation recently released a report showing additional benefits of the tax cuts, including a finding that government benefits received by low-income households far outweigh any taxes that they pay. The Tax Foundation study, entitled “**Who Pays America's Tax Burden, and Who Gets the Most Government Spending?**” lays bare the claims that tax cuts favored only the very wealthy. In fact, this study shows that the current tax code actually redistributes trillions of dollars from wealthy taxpayers to low-income homes. *[Apartment owners are considered wealthy!]*

According to a Tax Foundation press release, an analysis of federal, state and local taxes and government spending showed that the lowest-earning 20% of households received roughly \$8.21 in government spending for each dollar of taxes paid in 2004. Middle-income households receive approximately \$1.30 per tax dollar, while the wealthiest households get back only 40 cents on the dollar. Dear readers, this is called wealth redistribution. *[Like rent control and relocation fees!]*

Using 2004 income tax data, the latest available, the study points out that about 44 million Americans pay no income taxes at all, while the top 5% paid 57.13% of the total. IRS data for 2004 further reveal that the top 50% of taxpayers paid **96.7%** of all income taxes, while the bottom 50% paid only **3.3%**. This is a larger share for the top 50% than when I last wrote about it back in 2003 when the 2000 income tax data showed the bottom 50% of taxpayers paid 4% of all income taxes.

**It's even more telling when you delve deeper into the IRS data and compare 2004 with 1986, when the top 50% paid 93.54% of taxes and the bottom 50% paid 6.46%. Thus, over an 18-year period, the share of income taxes paid by those in the bottom half of earned income has been cut almost in half.**

The significance of the Tax Foundation study is obvious. Liberals have constantly complained that tax cuts favor only the rich. The study shows that low-income households receive far more in benefits than they pay in tax dollars – by a factor of 8 to 1. And since many lower income households pay no income tax at all, their return is even greater. This study shows that tax cuts, when properly designed, can help the economy and low-income households.

Now the Democrats want to reverse that trend by eliminating the bulk of the Bush tax cuts. I noted above that the Dems want us to believe that simply allowing tax cuts to expire is not the same as raising taxes, which is just another Democrat talking point – and wrong. Estimates I have seen indicate that as many as 15 million lower-income Americans have been taken off of the tax rolls by the Bush tax cuts. Allowing all of the cuts to expire would actually put many of them back on. If they weren't paying taxes, and now they are, is that not a tax increase? You bet it is!

### **Republicans Go On the Attack**

Predictably, Republicans have seized upon the Democrats' budget resolution and are playing the tax increase card. Republican Representative Paul Ryan of Wisconsin was quick to take the Democrats to task. He criticized their plan as one that would raise taxes "on every federal income taxpayer," and called the House budget resolution the largest tax increase in American history.

The Heritage Foundation, a conservative think tank, estimates that the Senate budget resolution will result in a \$2,641 tax increase per American household per year over the next decade. The report also notes that the Senate budget contains 22 "reserve funds" that would give Congress almost unlimited authority to raise taxes, resulting in as much as a projected \$4 trillion in tax increases over the next 10 years.

While the jury is still out as to whether the Republicans will be successful in their attempts to unseat Democrats who voted for this budget resolution, **it remains a fact that the entire situation is one of the Republicans' own making**. Upon hearing the Republican attacks, some Democrats commented that, if the tax cuts were so important, why didn't the Republicans make them permanent when they controlled both houses of Congress and the White House?

That's a very good question, especially as we continue to see the positive effects of the tax cuts spread across the economy. I have made no secret of the fact that I am very disappointed in the Bush administration and the Republican-controlled Congress for not moving forward with more items from the conservative agenda, including making the tax cuts permanent.

### **The 800 Pound Gorilla**

While both Republican and Democrat rhetoric should be taken with a grain of salt, the fact remains that neither party has addressed the 800-pound gorilla in the room, and that's the upcoming retirement of 78 million Baby Boomers and the resulting budgetary strain from a massive increase in entitlement spending. The Senate and House budget resolutions, as well as the Republican response, have all completely ignored the significance of **January 1, 2008**.

That's the date when the oldest of the Baby Boomer generation reach early retirement age under Social Security. Only three years later, this first wave will reach normal Social

Security retirement age, as well as the age for Medicare eligibility. After that, each year will see more and more Baby Boomers become eligible for benefits, and the “entitlement strain” will begin.

The total cost of Medicare, Medicaid and Social Security is projected to increase from 8.7% of GDP in 2006 to 19.0% of GDP by 2050, an increase of 10.3% of GDP. Without reform, the Heritage Foundation estimates that the money needed to pay for these programs will require a tax hike of \$11,651 per household to fund the benefits, or the elimination of every other government program. Wow!

Democratic Senator Kent Conrad actually acknowledged this crisis in a recent “60 Minutes” interview on CBS. He said, *“They know in large measure here, Republicans and Democrats, that we are on a course that doesn’t add up”* but that Congress does not address the issue *“[b]ecause it’s always easier not to. [I]t’s always easier to defer, to kick the can down the road to avoid making choices. You know, you get in trouble in politics when you make choices.”*

Well, Senator Conrad, you get in deeper trouble when you stick your head in the sand and refuse to deal with a problem. On the same “60 Minutes” program, David Walker, comptroller general of the United States, made the following chilling comment: *“I would argue that the most serious threat to the United States is not someone hiding in a cave in Afghanistan or Pakistan, but our own fiscal irresponsibility.”*

These comments were made in regard to the upcoming “tsunami of spending” related to Baby Boomers entering the Social Security and Medicare programs. This is pretty tough talk, but it echoes comments made by Alan Greenspan and Ben Bernanke. The problem is that no one on Capitol Hill is listening, so Walker states: *“Any politician who tells you that we can solve our problem without reforming Social Security, Medicare and Medicaid is not telling you the truth.”*

## **Conclusions**

Let’s cut to the chase. Whether you are a conservative or a liberal, there are a few basic points that really aren’t debatable; they’re just facts.

- 1. The top 50% of taxpayers paid almost 97% of all income taxes in the 2004 tax year (latest official data available from the IRS).**
- 2. Another fact is that many lower-income Americans not only pay no income taxes, but may actually qualify for tax credits that mean they get a refund over and above their tax savings.**
- 3. Considering that the bottom 50% paid only 3.3% of all income taxes, and of that group, many paid no taxes at all, it is virtually impossible for the Democrats to engineer any kind of tax reform that will not result in a significant tax increase across the board.**

I wouldn't, however, look for any monumental solutions for the entitlement crisis to come out of Washington anytime soon – from either party. The Democrats may just be laying low, waiting to see if Hillary, Obama, or a yet-to-be-named candidate is elected to the presidency. If that happens, the Dems may suddenly recognize the severity of the problems created by runaway entitlement programs, and increase taxes accordingly. **The Republicans had their chance to make the tax cuts permanent and address the entitlement programs and blew it.**

Whatever happens in the next few years (tax cuts or tax increases), the retirement of the Baby Boomer is upon us, beginning next year and increasing significantly each year thereafter. Entitlement spending will increase exponentially in the years ahead, yet virtually no one in Congress or the White House is willing to take any meaningful actions to address this looming crisis.

We should enjoy this great economy we have, save as much as we can and make the most of our investments. We're all going to need it a few years down the road.