



Congress Debates Expiration of Tax Cuts Competing Approaches Would Have Very Different Impacts on Kentuckians

Tax cuts enacted in 2001 and 2003 during President George W. Bush's administration are set to expire at the end of this year, sparking debate in Congress over different approaches to federal tax policy. The competing approaches include reauthorizing the entire tax cut package enacted in the early 2000s versus reauthorizing only some of the tax cuts while allowing the cuts on the wealthiest 1 percent of Americans to expire as planned and retaining some of the key tax cut provisions in the American Recovery and Reinvestment Act. The Washington, D.C.-based Citizens for Tax Justice analyzed the two different approaches being debated and found significant differences in how each approach would impact Kentuckians.

While President Obama and congressional members agree that most tax cuts enacted under President Bush should be made permanent, the approach proposed by the Obama administration decreases the amount of federal taxes owed for the majority of working class Kentuckians. Alternatively, maintaining the previous tax cut package in its entirety benefits wealthy Kentuckians most.

According to the study, 95 percent of Kentucky taxpayers would pay less in federal taxes under the new proposal. Middle-income Kentuckians making an average of \$38,667 annually would pay \$91 less under the new plan than under the previous one. Lower-income individuals making an average of \$23,198 annually would pay \$139 less in federal taxes under the new approach.

Competing Approaches to the Tax Cuts Enacted in 2001 and 2003, Impact in 2011 in Kentucky						
State Taxpayers		New Approach (Permanent Bush income tax cuts for those below \$200K/250k, estate tax cut, permanent EITC and child credit expansion)		Extending Old Approach (Permanent Bush income tax cuts for everyone, state tax repealed, no EITC or child credit expansion)		New vs. Old
		Average Cut	Share of Cut	Average Cut	Share of Cut	
Income Group	Average Income					
Lowest 20%	\$ 9,665	\$ -137	1.9%	\$ -40	0.5%	\$ +96
Second 20%	23,198	-578	8.3%	-440	5.4%	+139
Middle 20%	38,667	-849	12.1%	-759	9.3%	+91
Fourth 20%	61,774	-1,264	18.1%	-1,248	15.4%	+17
Next 15%	100,025	-2,701	28.9%	-2,676	24.6%	+25
Next 4%	198,419	-5,919	16.9%	-6,109	15.0%	-190
Top 1%	817,173	-19,221	13.7%	-48,529	29.8%	-29,308
All	\$ 57,114	\$ -1,384	100.0%	\$ -1,610	100.0%	\$ -226
Bottom 60%	\$ 23,839	\$ -521	22.3%	\$ -413	15.2%	+109

Note: Table does not include the Making Work Pay Credit, which President Obama proposes to extend only for one year, through 2011.

Source: [Citizens for Tax Justice: Bush Tax Cuts 2010; KY](#)

In contrast, the one percent of Kentuckians making an average of \$817,173 annually would get \$48,529 in tax cuts under the Republican approach and \$19,221 in tax cuts under the new approach – a difference of \$29,308.

Key differences in the different approaches include: extending the Bush income tax cuts for low- and middle-income Americans and allowing those for high-income households — those with \$250,000 or more in income — to expire at the end of 2010 as scheduled; setting the estate tax at a modest level rather than allowing it to revert to Clinton-era level as planned; maintaining the increases made in the Recovery Act to the Earned Income Tax Credit (EITC) and Child Tax Credit.

[Kentucky Youth Advocates](#) is the home of Kentucky's Tax and Budget Initiative, a member of the nationwide State Fiscal Analysis Initiative.