

FOR RELEASE 11 A.M. CDT TUESDAY, MAY 13, 2008

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Comfort for the Comfortable

Analysis: Capital Gains, Dividends Tax Cuts Go to Wealthiest

IOWA CITY, Iowa (Tuesday, May 13, 2008) — Capital-gains and dividend tax cuts heavily benefit the wealthiest Iowans, according to a new report that shows middle-income Iowa taxpayers couldn't buy a tank of gas for what they would receive.

The new report from Citizens for Tax Justice (CTJ) shows the tax cuts do not deliver for middle-income Iowans. In fact, in Iowa, the report projects an average tax cut of \$12,179 for the highest-income 1 percent in 2009 — \$891,200 income — compared with a \$19 average cut for the bottom 60 percent of Iowans by income, averaging \$27,500.

“CTJ’s report exposes these tax cuts for what they are: tax breaks for people who don’t need the help, particularly when lower-income Iowans have trouble meeting basic bills for food, home energy and transportation,” said David Osterberg, executive director of the nonpartisan Iowa Policy Project (IPP).

“Even in the middle 20 percent — families making \$45,200 — the average tax cut would be \$50. It wouldn’t buy a tank of gas.”

The analysis is in a 50-state report available at <http://www.ctj.org/pdf/capgainsdivtaxcuts.pdf>.

Bush Tax Cuts for Capital Gains and Dividends in Iowa				
Income Group	Avg 2009 Income	Avg Tax Cuts 2009	% of Tax Cut 2009	
Lowest 20%	\$10,100	\$0	0.0%	
Second 20%	\$26,900	-\$6	0.5%	
Middle 20%	\$45,200	-\$50	4.5%	
Fourth 20%	\$67,600	-\$98	8.8%	
Next 15%	\$105,300	-\$198	13.5%	
Next 4%	\$202,400	-\$976	17.6%	
Top 1%	\$891,200	-\$12,179	55.0%	
All	\$62,300	-\$220	100.0%	
Addendum: Bottom 60%	\$27,500	-\$19	5.1%	

The capital gains and dividends tax cuts don't help middle- and lower-income families with investments because their stock or investments are typically in 401(k) plans, Individual Retirement Accounts (IRAs) or other similar retirement savings vehicles, CTJ reported. CTJ noted taxes on such investments are deferred until retirement and then treated as “ordinary income,” which means capital-gains and dividend tax cuts don't affect them.

“These cuts have nothing to do with the average family’s retirement savings, and everything to do with reducing taxes for wealthy investors,” said CTJ Director Bob McIntyre.

In 2003 under President Bush, taxes on dividends and capital gains dropped to 15 percent. Dividends previously were taxed as ordinary income (a top marginal rate of 39.6 percent for the wealthiest), while the top rate for capital gains already had been dropped from 28 percent to 20 percent. The 15 percent capital-gains rate is less than half the top rate for wealthy individuals' ordinary income.

The Bush tax cuts for capital gains and dividends are scheduled to expire after 2010.

“There should be no question that the primary result of these tax cuts is to shower our nation’s wealthiest residents with immense tax benefits,” McIntyre said. “Lower- and middle-income families will see very little benefit from continuing these cuts, though they will be forced to deal with the mounting deficit that irresponsible policies such as these have helped create.”

Citizens for Tax Justice is a nonpartisan, nonprofit research and advocacy organization dedicated to fair taxation at the federal, state and local levels. CTJ is based in Washington and is on the web at <http://www.ctj.org>.

The Iowa Policy Project is a nonpartisan, nonprofit research and policy analysis organization based in Mount Vernon. IPP reports on job and income trends, budget and tax issues, and energy and environmental policy are available at <http://www.iowapolicyproject.org>.

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