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**Staff Report on the Tax Increases in the FY 2009
Budget Resolution (H Con. Res. 312)**

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The Majority's Budget

Major Tax Increase for all New Yorkers

Message from Congressman Fossella:

The House passed H Con. Res. 312, The Concurrent Resolution on the Budget for 2009 on March 12. This legislation sets the federal budget for the 2009 Fiscal Year. Over the past nearly 4 decades New York State has ranked no lower than 3rd in the nation in overall tax burdens. In fact in more than half of those years New Yorkers bore the highest tax burden in the nation. Currently we rank 2nd in overall tax burden when State, Local and Federal taxes are considered together, trailing only residents of Connecticut¹. As I did last year, I directed my staff to analyze the budget resolution to determine its impact on an average taxpayer in Staten Island and Brooklyn. This report provides details on the budget proposal and highlights why it has once again been described as “The Largest Tax Increase in American History.”

Background:

In 2001 and 2003, the President proposed, and the Congress approved, more than 30 different tax relief measures to provide significant savings for every American taxpayer, including changes to the AMT, increasing the child tax credit, reducing the marriage penalty, abolishing the death tax, and lowering marginal tax rates. As a result, the average American family is saving more than \$2,000 a year while our nation has experienced steady economic growth and produced 8.1 million² new jobs during this time. To ensure long-term fiscal responsibility, the legislation that authorized these tax relief measures also included sunset provisions, which would require Congress to reexamine and reauthorize the specific reductions or else they would expire by 2009. Every budget passed by the Republican-controlled Congress between 2001 and 2006 took into account the economic benefit of these tax cuts and assumed their re-authorization in its calculations.

The Majority's Tax Hiking Budget:

The Budget fails to extend many of the popular tax relief provisions that were enacted in 2001 and 2003. The result would be a massive tax increase on all taxpayers, adding nearly 5 million families back onto the tax rolls³, and slowing economic growth for our nation at a time when Congress and the President passed an economic stimulus package into law that has not yet had a chance to take effect. The following report examines the impact of the Majority's budget on residents of the 13th Congressional District.

¹ The Tax Foundation, Tax Data, April 4, 2007, <http://www.taxfoundation.org/taxdata/show/471.html>

² The White House, <http://www.whitehouse.gov/infocus/economy/>

³ U.S Treasury, “Treasury Releases New Data On The Benefits Of The Jobs And Growth Tax Relief Reconciliation Act”, Feb 19, 2004, <http://www.treas.gov/press/releases/js1201.htm>

General National Information:

- 116 Million taxpayers would see their taxes increase by more than \$1800 per year⁴
- More than 6 million low-income individuals and couples who currently pay no taxes will no longer be exempt⁵
- 43 Million married couples will see increases of nearly \$3,000⁶
- 48 million married couples will face an average tax increase of \$3000 per year⁷
- 18 Million seniors will owe an average of \$2,100 more each year⁸
- 27 Million business owners will see their taxes rise by an average of \$4000⁹

General Information for New York State:

The Majority's Budget plan will hit residents of New York State particularly hard, resulting in an average tax increase of \$3,658.¹⁰ In fact, only residents of Connecticut (\$4,311¹¹) and New Jersey (\$3,780¹²) will see their average tax bills increase by larger amounts.

Increasing Taxes on Millions of Low-Income Americans:

The tax relief measures passed in 2001 and 2003 reduced marginal tax rates across-the-board, reduced the tax burden on low-income Americans from 15% to 10% and removed nearly 5 million¹³ individuals from the tax rolls entirely. Unfortunately, the Majority's budget returns marginal tax rates to their pre-2001 levels. As a result, all Americans would pay more in federal taxes under this budget while those who can least afford to pay will see their tax bills jump by as much as 50%.¹⁴

Ignoring Warnings about Social Security and Medicare Spending

In order to protect Social Security and Medicare Congress must reform these programs to bring the rates at which they are growing to a sustainable level. If left unchecked growth in such entitlement spending will cripple the economy and overwhelm the budget as a whole. Yet the Majority chooses to kick the can down the road and put off any real reform for another 5 years. Under this proposal the unfunded liabilities to Social Security

⁴ House Committee on the Budget, Republican Caucus, "*The House Democratic Budget, The Status Quo – And Then Some, Taxes, Spending, and lack of reform*" available: <http://budget.house.gov/republicans/press/2007/pr20080306chair.pdf>

⁵ *ibid*

⁶ *ibid*

⁷ *ibid*

⁸ *ibid*

¹⁰ The Committee on the Budget, Republican Caucus, "*How Much Will the Democrats' Budget Raise Taxes on Your Constituents?*" available: <http://budget.house.gov/republicans/press/2007/pr20080305tax.pdf>

¹¹ *Ibid*

¹² *Ibid*

¹³ U.S Treasury, "Treasury Releases New Data On The Benefits Of The Jobs And Growth Tax Relief Reconciliation Act", Feb 19, 2004, <http://www.treas.gov/press/releases/js1201.htm>

¹⁴ House Committee on the Budget, Republican Staff, "*The House Democratic Budget, Real Tax Hikes, Real People*"

and Medicare will grow to \$52.5 trillion by 2013, a growth of \$14 trillion during that five year period.¹⁵

Reversing the Economic Stimulus Package

Just last month, the House passed an Economic Stimulus plan which will return \$300 to \$1200 or more to each American taxpayer over the coming months. Returning this money to American consumers will hopefully provide a shot in the arm our economy is desperately needs. Unfortunately, before the IRS has even begun printing these checks this Majority budget effectively takes back these benefits by instituting a tax increase greater than 4 times the size of the stimulus package.¹⁶

Effect of the Budget Resolution on the average family in Staten Island and Brooklyn

The following analysis is based on U.S. Census Data for the median family income in Richmond County (\$71,359¹⁷) and an average of the median family income for the parts of Brooklyn in the 13th Congressional District (\$41,819¹⁸) broken down by the specific tax relief measure the Majority has proposed eliminating.

Child Tax Credit¹⁹:

Staten Island: average loss of \$750.00 per family

Brooklyn: average loss of \$550.00 per family

The Child Tax Credit provides taxpayers a \$1,000 credit on their federal income taxes for each qualifying child under the age of 17. This represents a dollar-for-dollar reduction in a family's tax liability. The \$1,000 credit is set to expire on January 1st, 2011, and if not reauthorized, will decrease by 50% to \$500. Therefore, under the Majority's budget proposal, a family with two eligible children will pay \$1,000 more a year in federal taxes.

In 2005, more than 46,000 families in the 13th CD claimed this credit, resulting in a district-wide savings of over \$60 million a year. Reducing the credit to \$500 per child will increase taxes on Staten Island and Brooklyn families by more than \$30 million annually.

This tax increase will hit middle-income families with an adjusted gross income (AGI) between \$50,000 and \$75,000 the most, or more than 12,000 families in the CD, followed by families with an AGI between \$75,000 and \$100,000 (10,000 families). The hardest hit population financially will be those with an AGI of less than \$20,000 (nearly 1,500).

¹⁵ The House Committee on the Budget, Republican Caucus, "Budget Democrats Choose Pork Over Paychecks, 6 March, 2008 Available: <http://budget.house.gov/republicans/press/2007/pr20080306pay.pdf>

¹⁶ Ibid

¹⁷ US Census Factfinder data, <http://www.factfinder.census.gov>

¹⁸ Ibid

¹⁹ IRS TaxPayer Advocate Service, "Congressional District Statistics for 2005"

Alternative Minimum Tax:

Staten Island: Over 7000 new families would be subject to this tax

Brooklyn: Over 4000 new families would be subject to this tax²⁰

The Alternative Minimum Tax (AMT) was originally enacted nearly 4 decades ago to close a loophole that allowed 155 individuals who earned over \$200,000 a year (over \$1,000,000 in today's dollars) to avoid paying any income taxes. Rather than eliminate some deductions or credits the Congress chose to add new layers to the tax code in order to ensure these individuals paid²¹. However, within six years, middle-class taxpayers will be hardest hit by the tax. An estimated 33 million taxpayers – roughly one in four households – will pay the AMT by 2010, including 37% of households with income between \$50,000 and \$75,000 and 73% of households with income between \$75,000 and \$100,000.

The problem with the AMT is that it is not indexed for inflation, and thus casts a wider net each year encompassing more middle-income taxpayers. Temporary provisions intended to mitigate the effects of the AMT expired at the end of 2006. However, the Majority's Budget resolution fails to provide a long-term fix for AMT. In Staten Island and Brooklyn, a total of 16,000 taxpayers paid the AMT in 2005 – and the number could jump to nearly 100,000 individuals in the next 5 years based on current projections.

The Budget employs a reconciliation tactic for FY09 that instructs Congress to pass another 1 year patch to protect taxpayers. The Majority used this same tactic last year and the net result was that the patch was delayed so long that by the time it was passed the IRS was forced to revise 2007 tax forms in a way that delayed some tax refunds this year. What's even more egregious is that the Majority treats this patch as a new "tax cut" and requires \$70 billion in tax increases over the next 4 years to pay for it.²²

Capital Gains Tax

Entire 13th District: Possible total tax hike of as much as \$19 million²³

Almost everything you own and use for personal or investment purposes is a capital asset. Examples include your home, home improvements, pension plans, and stocks or bonds held in your personal account. When you sell a capital asset, the difference between the amounts you sell it for and what you paid for it (known as the basis) is a capital gain or a capital loss. You have a capital gain if you sell the asset for more than your basis. You have a capital loss if you sell the asset for less than your basis.²⁴ The budget allows recent reductions in the capital gains rate to expire, resulting in a tax increase on tens of millions of investors across the nation. The rate increase, on average from 15% to 20%, would hurt the 56,000 individuals on Staten Island and Brooklyn who paid \$383 million in taxes on capital gains in 2005. Under the proposal, a rate increase of 5 points would translate into a \$19 million tax hike on hard-working residents of the two boroughs.

²⁰ IRS TaxPayer Advocate Service, "Congressional District Statistics for 2005"

²¹ Tax Foundation, www.taxfoundation.org, "Backgrounder on the Individual Alternative Minimum Tax,

²² The House Committee on the Budget, Republican Caucus, "*Budget Democrats Choose Pork Over Paychecks*, 6 March, 2008 Available: <http://budget.house.gov/republicans/press/2007/pr20080306pay.pdf>

²³ IRS TaxPayer Advocate Service, "Congressional District Statistics for 2005"

²⁴ IRS Website

Double Taxation of Dividends

Staten Island: Potential average increase of over \$1000 per affected individual
Brooklyn: Potential average increase of over \$900 per affected individual²⁵

The Majority's budget ends the practice of taxing dividends at the personal capital gains rates, which would increase the double taxation of dividends by as much as 62%. In a worse case scenario, this would result in a \$100+ million tax increase on taxpayers in Staten Island and Brooklyn. Dividend taxation affects residents of all income brackets. For instance, more than 13,500 residents in the district with an AGI of less than \$20,000 paid over \$15 million in tax on dividends, or about \$1,100 per person in taxes. Under the new budget, these lower-income taxpayers would be forced to pay an additional \$720 in taxes every year. Taxpayers with an AGI of \$30,000 to \$50,000 would experience a tax increase of \$960 while those earning between \$50,000 to \$75,000 would pay \$1,090 more each year and those earning between \$75,000 and \$100,000 would pay an additional \$1,200 in taxes.

Aggregate Effect on Staten Island and Brooklyn:

Added together these examples alone will cost the local economy over **\$150,000,000**, a number that is likely to be much higher when all tax increases are included.

Actual Effect on a Local Couple:

For this example we will use a hypothetical couple living in the 13th Congressional District where the husband is an NYPD officer and the wife is a public school teacher. The average taxable income when filing jointly for such a married couple is \$91,845. For the 2006 tax year the tax liability for that couple is \$16,076. Should the Tax Cuts be allowed to expire and each tax bracket see an increase in their marginal tax rate back to the pre-tax cut levels this same couple will find themselves owing \$20,016. That's a tax increase of nearly **\$4,000!**

Effects on Individuals: (the below examples assume, single individual filer status)

NYC Police Officer

On the same note the average New York City Police Officer living here will owe approximately \$7,400 this year in federal income taxes. Under the Majority's plan they would have that same officer owe over \$8,700, raising their tax burden by over **\$1,300** each year.

²⁵ Joint Committee on Taxation

NYC Public School Teacher

A New York City Public School Teacher would also feel the sting of an increased tax burden. This year that teacher would owe about \$8,600 in federal income taxes. Under the Majority's budget that same teacher would owe about \$10,168, a tax increase of around **\$1,500**.

NYC Fire Fighter

Currently the average New York City Firefighter living in district will owe about \$12,300 in federal income taxes this year. If the Majority's budget were implemented now that same firefighter would owe about \$14,219. That's nearly **\$2,000** taken out of that firefighter's pocket.

Conclusion:

As you can tell from the above examples the Majority's budget resolution, if fully enacted would have a serious detrimental effect on the pocketbooks and wallets of residents of Staten Island and Brooklyn. We face a major tax increase that few will be able to easily afford. As New Yorkers we already pay the second highest taxes in the nation. With the Majority's budget proposal we will remain second while seeing our taxes increase by an average of \$3,658. What's worse, that number is a state-wide average. New York City residents are likely to see an even larger hit to their wallets if these tax hikes are allowed to occur. The tax burdens borne by Staten Islanders and Brooklynites are already high enough; we certainly don't need to see them any higher.