

June 16, 2000

Who Would Benefit From a Reduction in the Personal Income Tax Rates?

The latest budget package includes a proposal to reduce personal income tax rates by 0.55 percent. This proposal would reduce state revenues by an estimated \$300 million per year.

1. ***The proposed 0.55 percent reduction in personal income tax rates would disproportionately benefit high income households.*** The proposed rate cut provides a larger reduction in the top rate than the lower tax rates (.55% of a larger number is a larger tax cut). Moreover, all of the income above the threshold for the current top bracket (\$69,096 in 1999) would be reduced by 0.55% for high income earners. An analysis by the Washington, DC-based Institute on Taxation and Economic Policy finds that:
 - ✓ 39 percent of the benefits will go to the wealthiest 1 percent of taxpayers.
 - ✓ 57 percent of the benefits will go to the wealthiest 5 percent of taxpayers.
 - ✓ 81 percent of the benefits will go to the wealthiest 20 percent of taxpayers.
 - ✓ Only 1.2 percent of the benefits will go to the poorest 40 percent of taxpayers.
2. ***The average tax cut for the lowest 80 percent of California's families would be less than \$10 per year.*** The rate reduction would mean virtually nothing for the vast majority of California families:
 - ✓ The poorest 40 percent would receive tax cuts averaging less than a dollar per year.
 - ✓ Middle income families would receive tax cuts averaging \$2.73 per year.
 - ✓ The wealthiest one percent would receive an average tax cut of \$395 per year.

Who Would Benefit From A 0.55% Reduction in the Personal Income Tax Brackets?				
Income Group	Income Range	Average Income	Average Tax Cut	Percent of Total Tax Cut
Lowest 20%	Under \$15,000	\$ 9,000	\$ 0.11	0.2%
Next 20%	\$15,000 - \$26,000	\$ 20,300	\$ 0.87	1.0%
Middle 20%	\$26,000 - 42,000	\$ 33,600	\$ 2.73	5.0%
Fourth 20%	\$42,000 - 70,000	\$ 54,400	\$ 7.33	12.0%
Next 15%	\$70,000 - \$145,000	\$ 96,600	\$ 19.54	24.0%
Next 4%	\$145,000 - \$514,000	\$ 209,300	\$ 58.27	18.0%
Top 1%	\$514,000 and over	\$ 975,600	\$ 395.31	39.0%

Source: Institute on Taxation and Economic Policy. Based on 1999 tax liability.