

SPECIAL REPORT

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Bottom Line on the Taxpayer Relief Act of 1997

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Congress passed and President Clinton has signed the Taxpayer Relief Act of 1997. This is the first piece of legislation in 16 years to affect Americans' tax bills noticeably. Over the next five years Americans can expect taxes to be \$95.3 billion lower than they otherwise would have been as a result of this legislation.¹ This translates to approximately \$764 in tax savings for every individual income tax filer. Over 10 years these savings will climb to \$275.4 billion, or roughly \$2,136 for every filer.

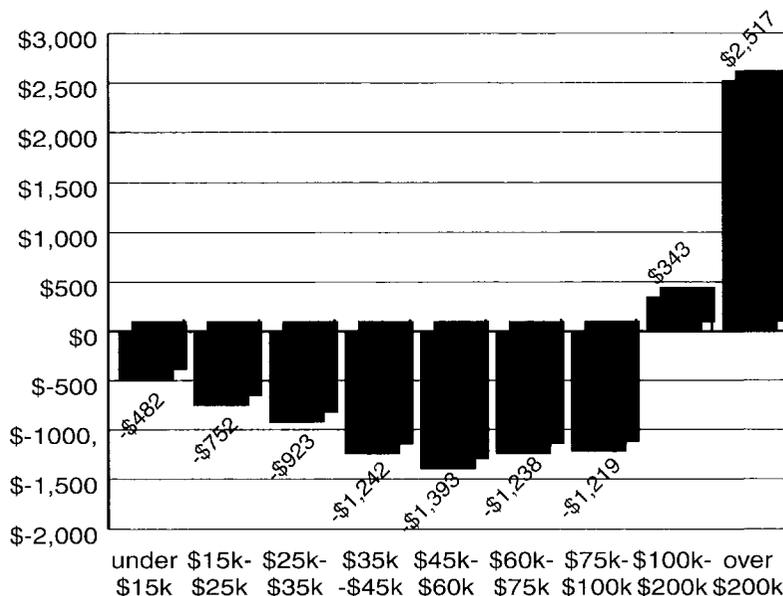
Before examining the new law in detail, it is important to put these changes in perspec-

tive. As stated above, over 10 years this legislation is projected to reduce federal revenues by \$275.4 billion. Prior to enactment of this law the Federal government was expected to take in more than \$19.0 trillion over the same period. The amount of enacted tax relief, therefore, represents about 1.4 percent of the taxes that would have been collected during this period.

The Taxpayer Relief Act of 1997

Table 1 lists each section of the legislation as well as the effect that each is expected to have on federal revenues over the next five- and 10-year periods.² Major subsections of the legislation, such as the education incentives and the new per-child tax credit, are further broken out so as to highlight major parts of the law. The table shows that the revenue reducing portions of the legislation are expected to lower receipts to the Treasury by \$151.7 billion over the next five years. These cuts, however, will be partially offset by other provisions in the legislation which are expected to boost federal revenues by \$56.4 billion during this period. Therefore, the net revenue reduction over five years is projected to total \$95.3 billion. The table shows that over 10 years the legislation is projected to reduce federal revenues by \$401.4 billion. These cuts would be partially offset by revenue increases which would bring in an additional \$126.0 billion to the federal treasury. Therefore, the net revenue reduction from the legislation would be \$275.4 billion over 10 years.

Figure 1
 Per Filer Net Tax Cuts/Tax Hikes by Income Group, FY 1997-2002



Note: Negative values represent tax cuts, positive values represent tax hikes.
 Source: Tax Foundation.

Revenue Reducing Provisions

Figures 2a and 2b show the composition of the revenue reductions over the five- and 10-year periods, respectively. These figures

Table 1
Estimated Budget Effects of the 1997 Taxpayer Relief Act
(\$ Millions)

	FY 1997-2002	FY 1997-2007
I. Child and Dependent Care Tax Credits; Health Care for Children Tax credit for children under age 17	-\$85,045	-\$183,401
II. Education Tax Incentives Administration's HOPE Tax Credit	-85,307	-183,384
Education IRA	-39,394	-98,835
III. Savings and Investment Tax Incentives Individual Retirement Arrangements	-31,559	-76,041
Capital Gains Provisions	-3,899	-14,193
IV. Alternative Minimum Tax Provisions	-1,709	-41,386
V. Estate, Gift, and Generation-skipping Tax Provisions	-1,832	-20,225
VI. Expiring Tax Provisions	123	-21,161
VII. District of Columbia Tax Incentives	-8,209	-19,951
VIII. Welfare-to-Work Tax Credit	-6,354	-34,450
IX. Miscellaneous Provisions	-2,888	-3,117
X. Revenue-increase Provisions Extend and modify Airport Trust Fund Excise Taxes	-686	-1,158
XI. Foreign Tax Provisions	-99	-106
XII. Simplification Provisions Relating to Individuals and Businesses	-4,850	-12,274
XIII. Estate, Gift and Trust Simplification Provisions	51,230	109,350
XIV. Excise Tax and Other Simplification Provisions	33,157	79,691
XV. Pension Simplification Provisions	-1,122	-4,102
XVI. Technical Corrections Provisions	-514	-1,167
XVII. Trade Provision	-5	-10
XVIII. Revenue Provisions in H.R. 2015 Increase small cigarette tax	-103	-266
Revenue Reductions	-310	-792
Revenue Increases	-8	-2
Net Decrease	-378	-378
	5,168	16,667
	5,167	16,667
Revenue Reductions	-151,674	-401,395
Revenue Increases	56,398	126,017
Net Decrease	-95,276	-275,378

Source: Joint Committee on Taxation.

show that over both periods the largest source of revenue reduction is the per-child tax credit. This provision grants parents a \$400 tax credit in 1998 for every child under 17 in their household. The amount of this credit rises to \$500 in 1999 and remains at that level thereafter. The benefits of the credit are gradually phased out for single filers with adjusted gross incomes above \$75,000 and for joint filers with AGIs in excess of \$110,000. The credit is also largely refundable for low income filers. Figure 2a shows that over five years this provision accounts for 56.1 percent of the law's tax cuts or \$85.0 billion. Over 10 years the child credit accounts for 45.7 percent of total revenue reductions, or approximately \$183.4 billion.

The other item accounting for a large fraction of revenue reductions over both the five- and 10-year periods is the Administration's Hope scholarship program. This program provides a tax credit of up to \$1,500 to help defray the cost of the first two years of post-secondary education. The benefits of this credit are gradually phased out for single filers with AGIs in excess of \$40,000 and joint filers with

AGIs in excess of \$80,000. Over five years this provision is projected to reduce federal revenues by \$31.6 billion and account for 20.8 percent of total revenue reductions in the law. Over 10 years it is projected to reduce federal revenues by \$76.0 billion, accounting for 18.9 percent of total revenue reductions.

Other portions of the legislation reform the federal estate tax, alter some of the rules governing the filing of the corporate alternative minimum tax, reduce the tax on capital gains, and expand savings incentives. The legislation includes provisions which reform federal estate, gift, and generation-skipping taxes in an attempt to make them less onerous on small businesses and family farms. The budgetary effect of these changes over five years is relatively small. During this period these changes are projected to reduce federal revenues by \$6.4 billion and account for 4.2 percent of the tax relief contained in the legislation. But over 10 years, the impact of these changes is expected to grow to \$34.5 billion, accounting for 8.6 percent of the plan's tax cuts.

The legislation also alters some of the rules governing the filing of the corporate alterna-

tive minimum tax. These changes are projected to reduce federal revenues by approximately \$8.2 billion over five years and account for 5.4 percent of total revenue reductions in the legislation. Over 10 years these changes are estimated to reduce federal revenues by \$20.0 billion, accounting for 5.0 percent of total revenue reductions.

The legislation also changes the law governing the taxation of capital gains. The law taxes such gains at several different rates, ranging from 8.0 to 39.6 percent, depending on how long an asset is held and the income level of the filer. Over five years these changes are expected to *increase* federal revenues by approximately \$123.0 million. Over 10 years, however, these provisions are expected to reduce federal revenues by \$21.2 billion, accounting for 5.3 percent of revenue reductions in the legislation.

Much of the unusual pattern of tax receipts and tax relief in the law arises because of the unique properties of capital gains relief, specifically, the well established "unlocking effect." Capital gains are due when net capital gains are realized. Taxpayers may choose when to sell an asset and thereby realize any resulting capital gain. Because of the prospect of owing tax thereon, many taxpayers choose not to sell assets they would prefer to sell in the absence of the tax. The taxpayer is said to be locked in with regard to these assets. At any point in time there is a large pool of such unrealized capital gains. When the tax rate is lowered, some portion of this pool of assets bearing unrealized capital gains are, in fact, sold.

This unlocking, or acceleration of realizations, produces a short-term increase in capital gains revenue. In the current bill, this effect lasts about two years and is sufficient for the change in the capital gains tax to raise revenue, on net, over the first five years. Eventually, this pool of unrealized capital gains shrinks to the point where there are no more additional sales in excess of the normal rate of asset sales. Under the methodologies employed by the Joint Committee on Taxation and Department of Treasury, the reduction in the capital gains tax rate produces a reduction in capital gains receipts every year thereafter.

Individual retirement savings plans are expanded several ways under the legislation. First, it creates new education IRAs into which parents may contribute up to \$500 per child annually to finance post-secondary education. The education IRAs are expected to reduce revenues to the Treasury by \$3.9 billion over five years and account for 2.6 percent of the law's revenue reductions during this period. Over 10 years these education IRAs are expected

to reduce federal revenues by \$14.2 billion, accounting for 3.5 percent of the revenue reductions. The law also raises the income limits on traditional IRAs and creates new, so-called "backloaded" IRAs.³ These provisions are expected to reduce federal revenues by \$1.8 billion and account for 1.2 percent of the law's revenue reductions over five years. Over 10 years these provisions are expected to reduce revenues to the federal treasury by \$20.2 billion and account for 5.0 percent of revenue reductions.

Revenue Raising Provisions

The law also contains significant revenue increases. Figures 3a and 3b show the composition of these increases over five- and 10-year periods, respectively. Over both time frames the bulk of the revenue increases would come from provisions which extend and modify various excise taxes associated with the Airport and Airway trust fund. These provisions are expected to boost federal revenues by \$33.2 billion over five years, accounting for 58.8 percent of the legislation's revenue increases. Over 10 years these provisions are expected to raise federal revenues by \$79.7 billion, accounting for 63.2 percent of revenue increases.

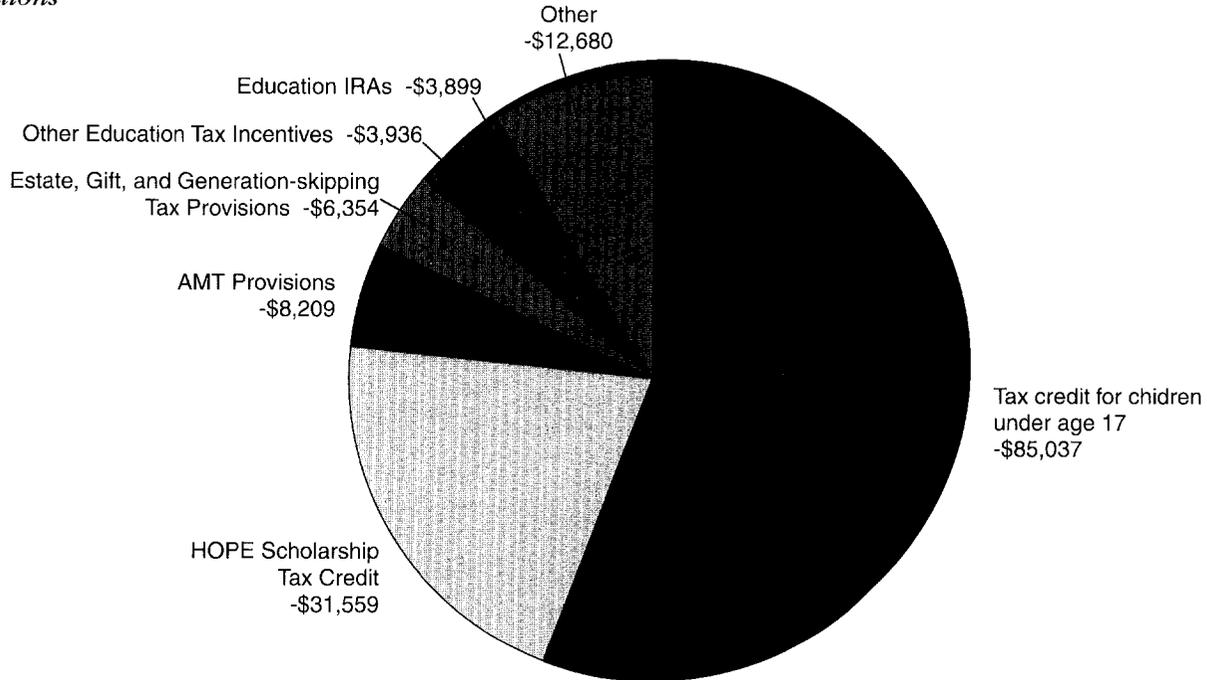
Other provisions in the law which raise relatively large amounts of revenue are those increasing the tax on cigarettes and raising various taxes and fees on financial products. The legislation boosts the federal tax on a pack of cigarettes from 24 cents today to 34 cents in the year 2000. The tax would then be raised again to 39 cents in 2002. This tax increase is expected to raise federal revenues by \$5.2 billion over five years, accounting for 9.2 percent of the law's revenue increases. Over 10 years this tax increase is expected to raise 16.7 billion, and account for 13.2 percent of the revenue increases.

The law also includes various provisions raising various fees and taxes associated with financial products. Over five years these provisions are expected to increase federal revenues by \$2.3 billion, accounting for 4.0 percent of the legislation's revenue increases. Over 10 years these provisions are expected to raise \$3.8 billion, or 1.6 percent of the law's revenue increases.

Effects by Income Group

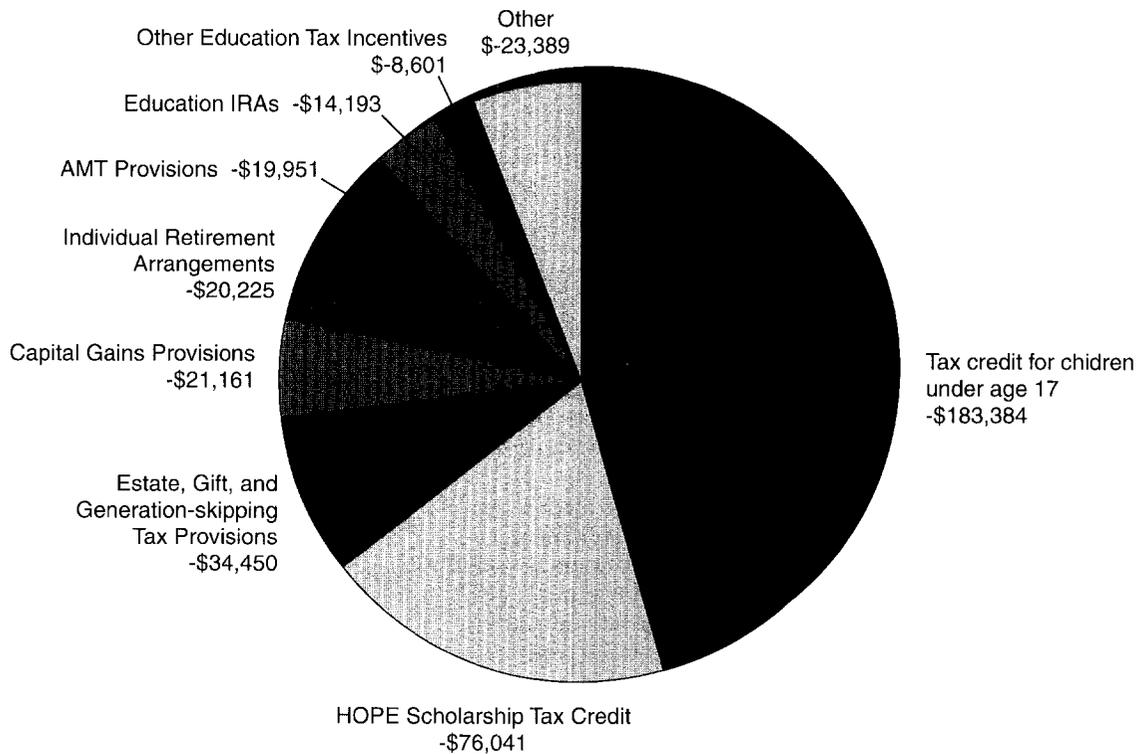
Tables 2a, 2b, 3a, and 3b present a breakdown of the effects of the legislation by major provision and income bracket. The five year total figures are presented in Table 2a. Table 2b presents the average benefit per filer over this period. Tables 3a and 3b present analo-

Figure 2a
Composition of Revenue Reductions, 5-Year Projection (FY 1997-2002)
 \$Millions



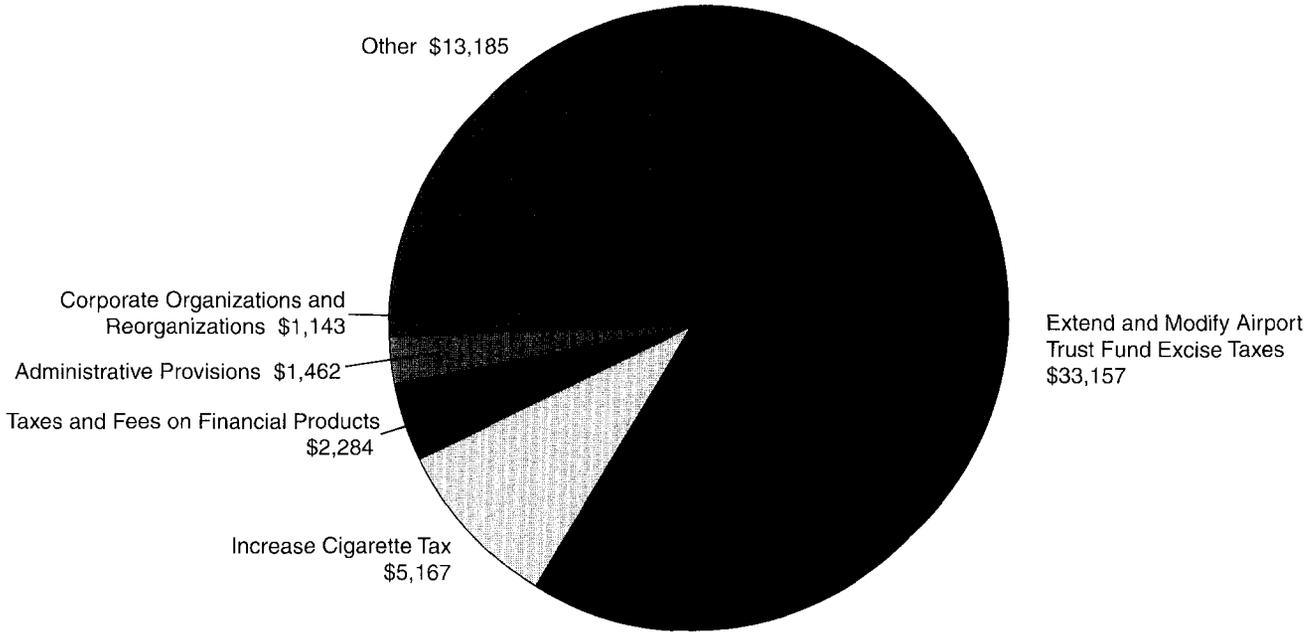
Source: Tax Foundation.

Figure 2b
Composition of Revenue Reductions, 10-Year Projection (FY 1997-2007)
 \$Millions



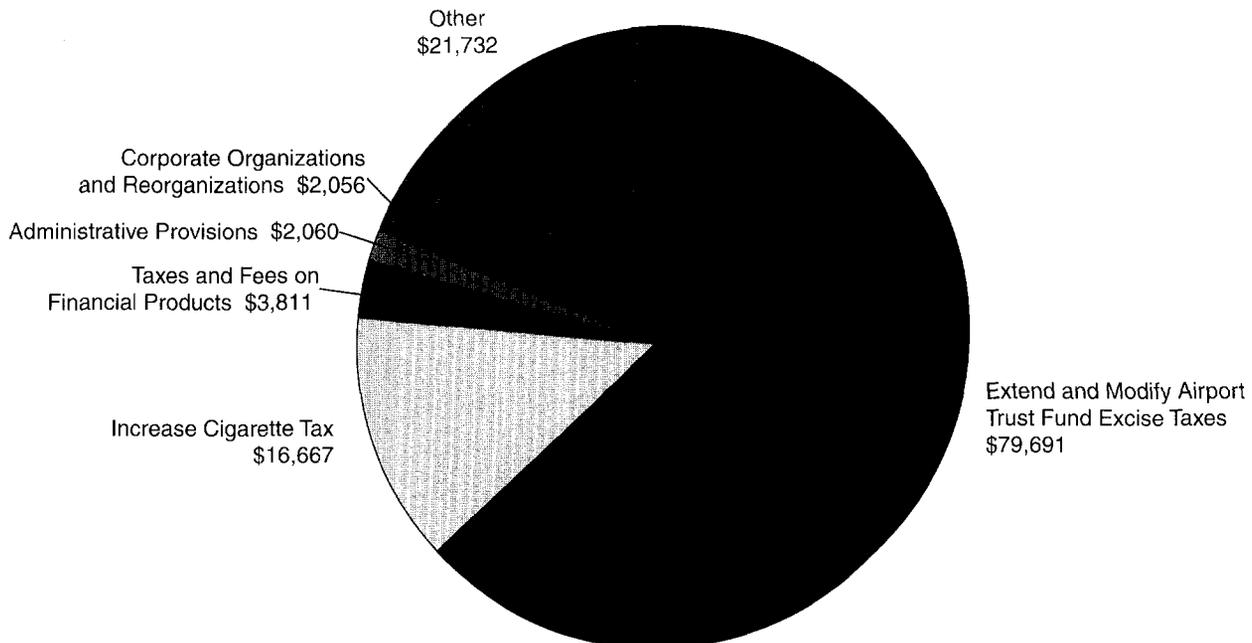
Source: Tax Foundation.

Figure 3a
Composition of Revenue Increases, 5-Year Projection (FY 1997-2002)
\$Millions



Source: Tax Foundation.

Figure 3b
Composition of Revenue Increases, 10-Year Projection (FY 1997-2007)
\$Millions



Source: Tax Foundation.

Table 2a
Effects of the 1997 Taxpayer Relief Act by Income Group (FY 1997 - 2002)
 (\$ Millions)

Adjusted Gross Income	Net Effect	Tax Cuts							Tax Increases			
		Total	Child Credit	Education Incentives	Estate Tax Reforms	Capital Gains	AMT	Other	Total	Airline	Cigarette	Other
Total	-\$95,276	-\$151,674	-\$85,045	-\$39,394	-\$6,354	\$123	-\$8,209	-\$12,795	\$56,398	\$33,157	\$5,167	\$18,074
under \$15,000	-23,055	-27,859	-20,844	-5,750	-120	7	-297	-856	4,803	1,770	1,756	1,277
\$15,000 under \$25,000	-17,075	-22,976	-14,513	-6,121	-422	3	-590	-1,335	5,902	3,019	891	1,992
\$25,000 under \$35,000	-14,511	-20,989	-12,203	-6,090	-500	3	-809	-1,390	6,478	3,537	866	2,075
\$35,000 under \$45,000	-14,504	-19,695	-10,828	-6,784	-259	4	-471	-1,357	5,191	2,809	357	2,026
\$45,000 under \$60,000	-15,708	-22,698	-12,289	-7,364	-492	6	-935	-1,624	6,990	4,112	454	2,424
\$60,000 under \$75,000	-8,012	-14,132	-7,920	-3,519	-426	5	-825	-1,447	6,120	3,646	314	2,160
\$75,000 under \$100,000	-5,606	-10,777	-5,281	-3,050	-486	7	-797	-1,170	5,171	3,213	211	1,747
\$100,000 under \$200,000	1,159	-5,597	-1,167	-716	-1,060	17	-1,344	-1,327	6,756	4,530	245	1,981
\$200,000 or more	2,722	-6,266	0	0	-2,589	70	-2,142	-1,603	8,988	6,522	73	2,393

Source: Tax Foundation

Table 2b
Effects of the 1997 Taxpayer Relief Act by Income Group (FY 1997 - 2002)
 Per Filer

Adjusted Gross Income	Net Effect	Tax Cuts							Tax Increases			
		Total	Child Credit	Education Incentives	Estate Tax Reforms	Capital Gains	AMT	Other	Total	Airline	Cigarette	Other
Total	-\$764	-\$1,216	-\$682	-\$316	-\$51	\$1	-\$66	-\$103	\$452	\$266	\$41	\$145
under \$15,000	-482	-582	-435	-120	-3	0	-6	-18	100	37	37	27
\$15,000 under \$25,000	-752	-1,013	-640	-270	-19	0	-26	-59	260	133	39	88
\$25,000 under \$35,000	-923	-1,336	-776	-387	-32	0	-51	-88	412	225	55	132
\$35,000 under \$45,000	-1,242	-1,687	-928	-581	-22	0	-40	-116	445	241	31	174
\$45,000 under \$60,000	-1,393	-2,014	-1,090	-653	-44	1	-83	-144	620	365	40	215
\$60,000 under \$75,000	-1,238	-2,183	-1,223	-544	-66	1	-127	-224	945	563	49	334
\$75,000 under \$100,000	-1,219	-2,343	-1,148	-663	-106	2	-173	-254	1,124	699	46	380
\$100,000 under \$200,000	343	-1,654	-345	-212	-313	5	-397	-392	1,997	1,339	72	585
\$200,000 or more	2,517	-5,794	0	0	-2,395	64	-1,981	-1,483	8,312	6,031	67	2,213

Source: Tax Foundation

Table 3a
Effects of the 1997 Taxpayer Relief Act by Income Group (FY 1997 - 2007)
 (\$ Millions)

Adjusted Gross Income	Net Effect	Tax Cuts							Tax Increases			
		Total	Child Credit	Education Incentives	Estate Tax Reforms	Capital Gains	AMT	Other	Total	Airline	Cigarette	Other
Total	-\$275,378	-\$401,395	-\$183,401	-\$98,835	-\$34,450	-\$21,161	-\$19,951	-\$43,597	\$126,017	\$79,691	\$16,667	\$29,659
under \$15,000	-53,049	-65,063	-44,950	-14,427	-649	-1,237	-721	-3,080	12,015	4,254	5,665	2,095
\$15,000 under \$25,000	-42,324	-55,721	-31,297	-15,356	-2,286	-543	-1,433	-4,806	13,397	7,255	2,873	3,270
\$25,000 under \$35,000	-37,160	-51,860	-26,316	-15,279	-2,713	-581	-1,966	-5,005	14,700	8,502	2,793	3,405
\$35,000 under \$45,000	-37,225	-48,451	-23,351	-17,021	-1,402	-647	-1,144	-4,886	11,226	6,750	1,151	3,324
\$45,000 under \$60,000	-41,408	-56,733	-26,501	-18,475	-2,666	-972	-2,273	-5,846	15,325	9,882	1,465	3,977
\$60,000 under \$75,000	-23,043	-36,363	-17,080	-8,829	-2,312	-928	-2,004	-5,209	13,320	8,763	1,013	3,544
\$75,000 under \$100,000	-17,834	-29,104	-11,389	-7,651	-2,636	-1,277	-1,938	-4,214	11,270	7,721	682	2,866
\$100,000 under \$200,000	-6,176	-21,105	-2,517	-1,797	-5,747	-3,000	-3,265	-4,778	14,929	10,888	791	3,250
\$200,000 or more	-17,159	-36,995	0	0	-14,039	-11,976	-5,207	-5,773	19,836	15,675	234	3,927

Source: Tax Foundation

Table 3b
Effects of the 1997 Taxpayer Relief Act by Income Group (FY 1997 - 2007)
 Per Filer

Adjusted Gross Income	Net Effect	Tax Cuts							Tax Increases			
		Total	Child Credit	Education Incentives	Estate Tax Reforms	Capital Gains	AMT	Other	Total	Airline	Cigarette	Other
Total	-\$2,136	-\$3,114	-\$1,423	-\$767	-\$267	-\$164	-\$155	-\$338	\$978	\$618	\$129	\$230
under \$15,000	-1,073	-1,316	-909	-292	-13	-25	-15	-62	243	86	115	42
\$15,000 under \$25,000	-1,805	-2,377	-1,335	-655	-97	-23	-61	-205	571	309	123	139
\$25,000 under \$35,000	-2,288	-3,194	-1,621	-941	-167	-36	-121	-308	905	524	172	210
\$35,000 under \$45,000	-3,086	-4,017	-1,936	-1,411	-116	-54	-95	-405	931	560	95	276
\$45,000 under \$60,000	-3,555	-4,871	-2,275	-1,586	-229	-83	-195	-502	1,316	848	126	341
\$60,000 under \$75,000	-3,445	-5,437	-2,554	-1,320	-346	-139	-300	-779	1,991	1,310	151	530
\$75,000 under \$100,000	-3,753	-6,125	-2,397	-1,610	-555	-269	-408	-887	2,372	1,625	144	603
\$100,000 under \$200,000	-1,767	-6,037	-720	-514	-1,644	-858	-934	-1,367	4,271	3,115	226	930
\$200,000 or more	-15,359	-33,113	0	0	-12,566	-10,720	-4,660	-5,167	17,754	14,030	210	3,515

Source: Tax Foundation.

Table 4
Effects of the 1997 Taxpayer Relief Act by Income Group (FY 1997 - 2002)

	Net Effect	Tax Cuts							Tax Increases				Total Net Effect (\$Millions)	Memo: Percentage of Eligible Dependents:	
		Total	Child Credit	Education Incentives	Estate Tax Reforms	Capital Gains	AMT	Other	Total	Airline	Cigarette	Other		Child Credit	Education Credit
Total	-8764	-1,216	-682	-316	-51	\$1	-\$66	-\$103	\$452	\$266	\$41	\$145	-\$95,276	95.6%	94.4%
Alabama	-797	-1,187	-706	-315	-33	1	-49	-84	390	215	50	125	-1,535	97.1	96.2
Alaska	-551	-924	-509	-251	-32	1	-48	-86	372	213	31	128	-211	94.0	92.8
Arizona	-827	-1,235	-717	-324	-48	1	-59	-88	408	240	37	132	-1,544	96.5	95.4
Arkansas	-815	-1,185	-715	-315	-33	1	-46	-77	370	198	56	115	-888	97.6	96.8
California	-797	-1,270	-710	-322	-61	1	-76	-102	473	293	28	152	-11,526	94.9	93.4
Colorado	-731	-1,168	-658	-311	-44	1	-58	-99	438	253	37	148	-1,350	95.2	94.0
Connecticut	-634	-1,252	-626	-307	-85	2	-104	-130	618	389	34	195	-1,078	91.5	90.0
Delaware	-723	-1,211	-670	-318	-52	1	-68	-103	488	279	55	154	-262	95.2	94.1
District of Columbia	-2,764	-3,257	-579	-257	-68	2	-83	-2,272	494	312	23	158	-875	93.8	92.0
Florida	-753	-1,197	-674	-301	-63	2	-68	-92	444	263	43	138	-5,178	95.8	94.6
Georgia	-748	-1,178	-678	-310	-40	1	-57	-94	430	243	47	140	-2,474	95.7	94.6
Hawaii	-754	-1,182	-659	-316	-47	1	-61	-100	428	260	20	149	-459	95.6	94.6
Idaho	-899	-1,269	-757	-351	-33	1	-44	-85	369	205	38	127	-461	97.1	96.4
Illinois	-751	-1,238	-681	-321	-58	1	-73	-105	487	292	38	157	-4,360	94.8	93.6
Indiana	-770	-1,211	-695	-328	-39	1	-57	-92	441	241	62	138	-2,149	96.7	95.9
Iowa	-823	-1,219	-705	-333	-42	1	-54	-85	395	226	42	127	-1,132	97.2	96.6
Kansas	-819	-1,253	-713	-337	-49	1	-62	-93	434	253	42	139	-994	96.3	95.5
Kentucky	-748	-1,175	-693	-314	-35	1	-50	-83	427	215	87	124	-1,268	97.1	96.3
Louisiana	-824	-1,213	-726	-321	-34	1	-50	-82	389	212	54	122	-1,532	97.0	96.0
Maine	-769	-1,169	-673	-313	-43	1	-58	-83	400	230	47	123	-462	97.3	96.6
Maryland	-713	-1,220	-659	-318	-56	1	-76	-112	508	306	34	167	-1,799	93.7	92.3
Massachusetts	-668	-1,186	-626	-301	-66	1	-84	-110	518	321	34	164	-2,034	93.8	92.5
Michigan	-756	-1,214	-678	-322	-49	1	-67	-99	459	272	39	148	-3,425	95.7	94.7
Minnesota	-758	-1,210	-674	-326	-47	1	-63	-100	452	265	38	150	-1,709	95.5	94.6
Mississippi	-820	-1,163	-717	-308	-26	1	-40	-72	342	180	55	108	-949	97.9	97.1
Missouri	-766	-1,204	-689	-318	-47	1	-61	-90	439	247	58	134	-1,913	96.5	95.6
Montana	-827	-1,178	-701	-319	-37	1	-46	-76	352	197	41	114	-340	97.5	96.8
Nebraska	-816	-1,206	-699	-328	-41	1	-53	-85	390	224	39	127	-662	97.0	96.2
Nevada	-732	-1,183	-669	-311	-46	2	-56	-103	451	254	42	154	-548	96.1	95.2
New Hampshire	-707	-1,226	-663	-321	-62	1	-79	-102	519	299	68	152	-415	95.4	94.5
New Jersey	-680	-1,248	-649	-312	-74	1	-93	-121	568	353	35	180	-2,798	92.2	90.6
New Mexico	-834	-1,183	-712	-315	-33	1	-46	-79	349	200	32	117	-638	97.3	96.4
New York	-698	-1,225	-652	-305	-71	1	-86	-112	527	327	33	167	-5,992	94.1	92.8
North Carolina	-738	-1,150	-670	-306	-36	1	-52	-88	412	225	56	131	-2,558	96.6	95.7
North Dakota	-840	-1,201	-708	-330	-37	1	-47	-80	362	205	37	120	-261	97.3	96.6
Ohio	-716	-1,141	-648	-303	-42	1	-59	-90	425	242	49	134	-3,996	96.6	95.7
Oklahoma	-817	-1,208	-716	-322	-38	1	-52	-81	391	216	54	121	-1,188	97.4	96.6
Oregon	-790	-1,205	-697	-323	-41	1	-53	-92	414	233	43	138	-1,174	96.3	95.4
Pennsylvania	-746	-1,193	-669	-315	-49	1	-65	-95	447	261	44	142	-4,389	95.9	94.9
Rhode Island	-713	-1,174	-646	-306	-55	1	-71	-96	461	276	42	143	-348	95.8	94.8
South Carolina	-766	-1,150	-682	-307	-31	1	-48	-82	383	209	51	123	-1,326	97.2	96.3
South Dakota	-822	-1,184	-703	-323	-36	1	-44	-80	362	198	45	119	-288	97.4	96.7
Tennessee	-745	-1,160	-676	-307	-37	1	-53	-87	415	227	58	130	-1,838	96.6	95.6
Texas	-815	-1,228	-715	-320	-45	1	-59	-90	413	242	36	135	-6,877	96.0	94.7
Utah	-958	-1,337	-788	-381	-31	1	-47	-90	379	218	26	134	-784	96.3	95.6
Vermont	-741	-1,168	-661	-310	-49	1	-62	-86	426	243	55	129	-214	96.7	95.9
Virginia	-713	-1,194	-660	-314	-50	1	-67	-104	482	278	48	155	-2,294	94.5	93.2
Washington	-779	-1,222	-687	-329	-45	1	-59	-103	442	259	30	153	-2,047	95.7	94.7
West Virginia	-804	-1,195	-711	-321	-34	0	-50	-80	391	210	61	119	-612	97.7	97.1
Wisconsin	-770	-1,201	-679	-326	-44	1	-59	-94	431	248	42	141	-1,934	96.5	95.7
Wyoming	-816	-1,240	-714	-337	-45	2	-57	-91	425	239	51	135	-191	97.1	96.4

Source: Tax Foundation.

Table 5
Effects of the 1997 Taxpayer Relief Act by Income Group (FY 1997 - 2007)

	Net Effect	Tax Cuts							Tax Increases				Total Net Effect (\$Millions)	Percentage of Eligible Dependents:	
		Total	Child Credit	Education Incentives	Estate Tax Reforms	Capital Gains	AMT	Other	Total	Airline	Cigarette	Other		Child Credit	Education Credit
Total	-\$2,136	-\$3,114	-\$1,423	-\$767	-\$267	-\$164	-\$155	-\$338	\$978	\$618	\$129	\$230	-\$275,378	95.6%	94.4%
Alabama	-2,060	-2,914	-1,473	-766	-173	-101	-116	-285	854	499	155	199	-4,100	97.1	96.2
Alaska	-1,538	-2,335	-1,062	-608	-168	-95	-112	-290	797	496	98	203	-609	94.0	92.8
Arizona	-2,232	-3,114	-1,496	-787	-250	-142	-138	-300	882	557	115	210	-4,307	96.5	95.4
Arkansas	-2,085	-2,905	-1,492	-764	-174	-105	-108	-262	820	461	176	183	-2,346	97.6	96.8
California	-2,288	-3,299	-1,482	-783	-319	-190	-179	-347	1,010	682	86	242	-34,201	94.9	93.4
Colorado	-2,095	-3,033	-1,373	-755	-229	-203	-136	-336	938	588	116	235	-3,999	95.2	94.0
Connecticut	-2,127	-3,447	-1,308	-745	-449	-258	-245	-442	1,320	905	106	309	-3,734	91.5	90.0
Delaware	-2,031	-3,097	-1,399	-773	-272	-141	-160	-351	1,066	649	171	245	-760	95.2	94.1
District of Columbia	-5,483	-6,533	-1,207	-624	-358	-250	-195	-3,899	1,050	726	73	251	-1,794	93.8	92.0
Florida	-2,235	-3,200	-1,407	-731	-332	-256	-159	-314	965	613	133	219	-15,873	95.8	94.6
Georgia	-2,027	-2,961	-1,416	-753	-208	-134	-134	-317	934	565	147	222	-6,929	95.7	94.6
Hawaii	-2,120	-3,022	-1,376	-767	-244	-152	-143	-338	902	604	62	236	-1,333	95.6	94.6
Idaho	-2,389	-3,185	-1,581	-852	-172	-189	-103	-288	796	476	118	201	-1,265	97.1	96.4
Illinois	-2,184	-3,231	-1,422	-780	-302	-197	-172	-358	1,047	679	118	250	-13,109	94.8	93.6
Indiana	-2,033	-3,007	-1,451	-797	-207	-104	-133	-314	974	561	193	219	-5,859	96.7	95.9
Iowa	-2,187	-3,047	-1,472	-807	-222	-129	-127	-289	860	525	132	202	-3,107	97.2	96.6
Kansas	-2,227	-3,168	-1,488	-818	-259	-141	-146	-316	941	589	131	221	-2,791	96.3	95.5
Kentucky	-1,923	-2,894	-1,446	-762	-185	-101	-118	-283	971	501	272	197	-3,369	97.1	96.3
Louisiana	-2,102	-2,960	-1,516	-780	-179	-90	-117	-278	858	494	170	194	-4,039	97.0	96.0
Maine	-2,042	-2,919	-1,405	-761	-225	-112	-135	-281	877	534	147	196	-1,267	97.3	96.6
Maryland	-2,061	-3,146	-1,375	-772	-296	-145	-179	-379	1,085	713	107	265	-5,376	93.7	92.3
Massachusetts	-2,060	-3,172	-1,306	-732	-347	-216	-199	-372	1,111	746	106	260	-6,484	93.8	92.5
Michigan	-2,083	-3,072	-1,416	-781	-255	-125	-158	-337	988	632	120	235	-9,757	95.7	94.7
Minnesota	-2,128	-3,099	-1,407	-792	-247	-164	-148	-340	971	615	118	238	-4,959	95.5	94.6
Mississippi	-2,046	-2,807	-1,497	-748	-134	-88	-95	-244	761	419	170	171	-2,444	97.9	97.1
Missouri	-2,070	-3,039	-1,438	-773	-246	-133	-144	-305	968	574	181	213	-5,345	96.5	95.6
Montana	-2,237	-3,003	-1,463	-775	-196	-202	-107	-259	766	457	128	181	-951	97.5	96.8
Nebraska	-2,183	-3,027	-1,459	-797	-216	-141	-125	-289	845	521	122	202	-1,828	97.0	96.2
Nevada	-2,267	-3,236	-1,396	-755	-241	-361	-132	-350	969	592	132	245	-1,753	96.1	95.2
New Hampshire	-2,102	-3,252	-1,384	-780	-327	-229	-186	-346	1,150	697	212	242	-1,275	95.4	94.5
New Jersey	-2,072	-3,288	-1,356	-758	-387	-160	-219	-409	1,216	822	108	286	-8,810	92.2	90.6
New Mexico	-2,167	-2,918	-1,485	-764	-174	-119	-108	-267	751	466	99	186	-1,712	97.3	96.4
New York	-2,162	-3,291	-1,361	-741	-374	-233	-202	-380	1,129	760	104	265	-19,171	94.1	92.8
North Carolina	-1,958	-2,864	-1,398	-742	-189	-116	-122	-297	906	523	175	208	-7,008	96.6	95.7
North Dakota	-2,202	-2,984	-1,477	-802	-193	-129	-111	-272	782	478	114	190	-706	97.3	96.6
Ohio	-1,939	-2,869	-1,352	-736	-221	-117	-138	-305	930	562	154	213	-11,185	96.6	95.7
Oklahoma	-2,101	-2,965	-1,494	-782	-199	-93	-122	-275	864	502	169	193	-3,157	97.4	96.6
Oregon	-2,210	-3,107	-1,454	-785	-213	-217	-125	-313	897	543	135	219	-3,392	96.3	95.4
Pennsylvania	-2,054	-3,024	-1,396	-765	-260	-127	-152	-323	970	608	136	226	-12,491	95.9	94.9
Rhode Island	-2,007	-3,006	-1,348	-743	-288	-133	-168	-326	999	641	130	228	-1,014	95.8	94.8
South Carolina	-1,982	-2,825	-1,424	-746	-163	-100	-112	-279	842	487	160	195	-3,544	97.2	96.3
South Dakota	-2,247	-3,037	-1,467	-784	-187	-225	-104	-270	790	461	140	189	-815	97.4	96.7
Tennessee	-1,999	-2,913	-1,411	-745	-196	-140	-125	-296	915	527	180	207	-5,093	96.6	95.6
Texas	-2,200	-3,090	-1,493	-776	-235	-142	-138	-307	890	563	112	215	-19,194	96.0	94.7
Utah	-2,481	-3,284	-1,646	-926	-164	-132	-110	-306	803	507	83	214	-2,097	96.3	95.6
Vermont	-2,044	-2,984	-1,380	-753	-257	-155	-145	-293	940	564	171	205	-611	96.7	95.9
Virginia	-2,010	-3,054	-1,378	-762	-261	-141	-159	-352	1,044	648	150	246	-6,681	94.5	93.2
Washington	-2,243	-3,183	-1,434	-800	-237	-226	-138	-348	940	603	94	243	-6,090	95.7	94.7
West Virginia	-2,031	-2,901	-1,483	-779	-180	-71	-117	-271	870	489	192	189	-1,597	97.7	97.1
Wisconsin	-2,113	-3,045	-1,418	-791	-230	-147	-139	-320	932	577	131	223	-5,480	96.5	95.7
Wyoming	-2,342	-3,270	-1,489	-817	-234	-289	-133	-307	929	555	159	215	-567	97.1	96.4

Source: Tax Foundation.

gous findings over 10 years.

Tables 2a and 3a show that the bulk of the tax cuts over both five and 10 year periods will go to low- and middle-income individuals. Over five years almost 90 percent of the net benefits of these cuts will go to filers with adjusted gross incomes of less than \$60,000. Over 10 years 76.5 percent of the benefits will go to these individuals. This occurs because many of the benefits of the legislation, such as the child credit and education incentives, are phased out for higher income individuals while many of the legislation's tax increases are borne by such individuals, either directly or indirectly.

Tables 2b and 3b show the effects of the legislation on the average filer for each income group. Overall, the average filer's tax burden will be cut by \$764 over five years. During this period the average filer in each income group, with the exception of the two groups at the upper end, will receive a tax cut. The size of the tax cut will range from \$482 for the average filer with income below \$15,000 to \$1,393 for the average filer with income between \$45,000 and \$60,000. The average filer with income between \$100,000 and \$200,000 will experience a tax increase of \$343, while the average filer with income of \$200,000 and above will receive a \$2,517 increase.

Over 10 years the story is expected to change somewhat. During the additional five-year period upper-income individuals will begin to realize tax savings from various aspects of the legislation, particularly the estate and capital gains provisions. This will reduce the tax bills of those individuals with incomes above \$200,000 by an average of \$15,359. Individuals in the \$100,000 to \$200,000 bracket will also receive tax savings averaging \$1,767. Note, however, that the average tax savings of individuals in this income bracket is less than that of their counterparts in all of the other brackets except the \$15,000 and under group. This occurs because individuals in the \$100,000 to \$200,000 bracket are ineligible for many of the law's tax relief provisions but are still forced to pay a relatively large share of its costs.

Benefits by State

Tables 4 and 5 present a breakdown of the per-filer effects of the legislation by major provision and state. Table 4 shows the effects of the legislation over five years. The 10 year effects are illustrated in Table 5.

Though not a state, the District of Columbia is a big winner over both periods. The provisions in the legislation which attempt to ease the city's severe fiscal problems are projected to save the average filer \$2,764 over five years.

Over 10 years this figure balloons to \$5,483.

The legislation has a disparate impact on the states over the two time periods. As was the case when the effect of the law on taxpayers in different income brackets was examined, over the five year period the phaseout rules associated with child credit and the education incentives are critical. Over the 10 year period, however, these effects are mitigated in many states as the estate tax reform and the capital gains provisions begin to take full effect.

Table 4 shows that over the five year period the three states with the highest average per-filer tax savings are Utah, Idaho, and North Dakota. Note that virtually all of the children in these states are eligible for the tax credit. In these states just 3.7, 2.9, and 2.7 percent of parents with young children are affected by the phaseout rules associated with the child credit, respectively. Similarly, just 4.4, 3.6, and 3.4 percent of college students or their parents, respectively, in these states are affected by the phaseout rules governing the educational assistance provisions in the legislation. Contrast these figures with those of the states in which the average filer does not fare so well under this legislation. In Alaska 6.0 percent of parents with young children and 7.2 percent of college students or their parents are affected by the phaseout provisions in the legislation. Similarly, 8.5 percent of parents with young children and 10.0 percent of the college students or their parents in Connecticut are affected by the phaseout rules.

This effect is mitigated in some states over time, however, as the provisions governing the estate and capital gains taxes take effect. This dynamic does little for the average filer in Alaska, who will continue to see the lowest average tax cut over the longer period. The average filer in Connecticut and Massachusetts, however, stand to reap substantial benefits. The average filer in Connecticut goes from having the second lowest tax cut over the five year period to having the 21st highest over the longer period; the average filer in Massachusetts goes from having the third lowest average tax cut over the five year period to having the 33rd highest over the longer term.

¹This report examines the effects of both the Taxpayer Relief Act (H.R. 2014) and the accompanying legislation (H.R. 2015).

²While most of the law's provisions take effect during FY 1998, a few will affect FY 1997 revenues. The budgetary impact of these provisions, however, is minimal.

³Contributions to so called "backloaded" IRAs are not deductible. However, income is allowed to accumulate tax free.

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