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Congress to Choose: Extend Tax Credit Changes That Help Families or Extend Estate Tax Cut That Helps the Wealthy

Later this year, as Congress considers which expiring tax cuts to continue or modify, it will debate two options that have price tags in the same ball park, but vastly different effects. One plan benefits a small number of multi-million-dollar estates and the other benefits about 13 million working families.

According to a new report from the nonpartisan Center on Budget and Policy Priorities, the plan approved by the House in August would extend lucrative tax breaks for about 40 very large estates in Wisconsin, while discontinuing enhancements to two tax credits for families with kids, which would adversely affect 155,000 low- and moderate-income Wisconsin working families.

The alternative tax plan supported by Senate leaders and President Obama would continue the enhancements made to the credits for families and would set the estate tax exemption at the 2009 level – a $3.5 million exemption for individuals and $7 million for couples – which would exempt all but the wealthiest 0.3 percent of estates. If no legislation is approved, the estate tax will revert next year to its 2001 level, which exempted estates up to $1 million for individuals and $2 million for couples.

In contrast, the bill approved by the House would extend a temporary change made in 2010 that exempts all estates under $5 million, or under $10 million for couples, and it would lower the estate tax rate. Although the House plan would benefit only about 7,400 estates nationwide each year, the estate tax provisions would expand budget deficits by $141 billion over the next ten years, compared to the President's plan.

The tax legislation supported by the President and Senate would forego roughly the same amount of revenue by continuing tax credit improvements that benefit 13 million working families with 25 million children. These improvements in the Child Tax Credit (CTC) and the Earned Income Tax Credit (EITC) are scheduled to expire at the end of the year. Failure to extend them would push over a million people, including 900,000 children, into poverty nationwide.

"Many low- and middle-income families depend on refundable tax credits to stay afloat and provide their children with a brighter future," said Jon Peacock, director of the Wisconsin Budget Project, a nonpartisan research group focusing on tax and budget policy. "We shouldn't ask 155,000 Wisconsin families to sacrifice even more in order to offset the cost of a tax break that benefits a fraction of one percent of the largest estates."

Under the House plan, the child tax credit for a single mother with two children and a minimum wage job would be cut by 90 percent, from $1,725 now to just $173. A married couple with three children and earnings equivalent to the poverty line ($27,713 for a family that size) would lose $1,934 from the combined effect of the reductions in the CTC and EITC.

Peacock noted that independent analysts such as the Congressional Budget Office have rated the improvements in the refundable tax credits for families as having much more "bang for the buck" in boosting the economy than the Bush tax cuts for high-income individuals.

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In addition to ending the enhancements for the tax credits for families with children, the House-passed legislation would also reduce a tax credit that helps nearly 11 million low-and middle-income families gain access to higher education.

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The Center's full report can be found at: http://www.cbpp.org/cms/index.cfm?fa=view&id=3850.