Who Benefits from a Capital Gains Tax Cut?

On June 10, 2005, Governor Mitt Romney proposed legislation that would change the effective date for changes in the tax rate on capital gains income, made during the FY 2003 budget debate, from January 1, 2002 to January 1, 2003. If enacted, the legislation would force the Commonwealth to forego anywhere from $375 million to $475 million in tax revenue. Moreover, such legislation would overwhelmingly benefit the most affluent taxpayers in Massachusetts, families and individuals who are already reaping the lion’s share of the federal tax cuts adopted since 2001. Indeed, the capital gains tax breaks that the Governor is now attempting to extend provided, in their last full year of existence, more than $17,000 on average to the wealthiest one percent of taxpayers in Massachusetts, but just $14 on average to taxpayers in the middle of the income distribution.

Delaying the Capital Gains Effective Date Would Benefit the Wealthiest …

Under current law, capital gains income – that is, income from the sale of assets such as stocks – is taxed at the same rate as earned income – 5.3 percent. From 1996 until 2002, however, it was taxed at special low rates that varied depending on how long the asset was owned. Those special rates disproportionately benefited the most affluent residents of Massachusetts. For instance, in 2001, the last full year for which the tax break was in effect, the richest one percent of taxpayers – those with average family incomes of $1.5 million annually – received an estimated 76.2 percent of the benefits from these special low rates. Their share was seventeen times as great as the bottom 80 percent of taxpayers or three times as much as all other taxpayers combined.

The graph on the following page shows even more clearly how heavily tilted the special rates on capital gains income were towards upper-income taxpayers. In 2001, the richest one percent of taxpayers received estimated tax cuts of $17,690 on average from these special rates (compared to if capital gains had been taxed at a flat rate of five percent). In contrast, taxpayers in the middle of the income distribution received $14 each on average. Governor Romney’s proposed legislation would simply have the effective of extending these extremely skewed tax breaks another year.
...Who Are Already Enjoying the Lion’s Share of Federal Tax Cuts

Of course, those who would gain from the Governor’s proposed legislation are already receiving the bulk of the federal tax cuts that have been put in place since 2001. In 2005, Massachusetts taxpayers will receive a total federal tax cut of $5.2 billion; yet, 41.5 percent of that amount will flow to the wealthiest one percent, with 72.5 percent going to the top 20 percent. In dollar terms, that means that taxpayers with family incomes in excess of a million dollars on average will receive tax cuts of more than $70,000 in 2005.