



# Committee On Finance

Max Baucus, Ranking Member

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## Baucus Urges Passage of Child Tax Credit

*Senator Emphasizes High Marginal Tax Rates Low-Income Americans Face, Need for Tax Relief*

(WASHINGTON, D.C.) U.S. Senator Max Baucus today spoke on the Senate floor to insist that the child tax credit be expanded to low-income Americans before the House adjourns for summer recess in two days.

In June, the Senate passed a \$3.5 Billion child tax credit bill that ensures that America's working families who make between \$10,000 and \$27,000 a year are eligible for the child tax credit. It will also allow families of military personnel to receive the child tax credit. These provisions were left out of the Jobs and Growth tax bill passed earlier this year.

The child tax credit bill passed by the House earlier this summer costs over \$80 billion and includes numerous tax breaks for middle and upper-income Americans. The House and Senate child tax credit conference committee has failed to meet and the House is scheduled to adjourn for the summer on July 25, 2003.

"It is an outrage that the House would not agree to pass the fiscally responsible, Senate bill that helps low-income Americans and is completely offset," Baucus said. "It has been 48 days since the Senate passed the Lincoln-Snowe bill to provide the child tax credit to the families of 12 million children. We have two days left to get this done and I urge the conferees to burn the midnight oil to ensure that American families are taken care of before the House adjourns."

Today on the Senate floor, Baucus cited the high marginal tax rates that low-income Americans pay and insisted on passage of the child tax credit, which will work to reduce these rates.

"Under current law, taxpayers in the lower income brackets face marginal rates as high as 46 percent," Baucus said. "In other words, for every additional dollar they earn, they only keep an additional 54 cents... a taxpayer making \$27,000 faces a higher marginal rate than a taxpayer making \$1 million. In addition, a family making \$27,000 has a marginal rate that is far higher than the corporate rate of 35 percent.

"If marginal rate cuts are good enough for the wealthy today, aren't they good enough for the working poor? The answer from the Senate is a resounding— YES. The Lincoln-Snowe bill – to reduce marginal rates for the working poor immediately – passed the Senate almost unanimously," Baucus continued.

The first round of child tax credit checks are scheduled to be mailed out to middle and upper-income Americans on July 25, 2003. This is also the day the House is scheduled to adjourn, possibly without extending the child tax credit to low-income Americans.

"We have 2 working days left," Baucus said. "Two days to convene this conference, work out our differences, and send this bill to the President. Two days to ensure that low-income working families receive the same tax relief promised to the rest of America's families. And two

days left to ensure to fix this problem- that even President Bush agrees is an “egregious problem” in the tax code.”

Full Floor Statement of Senator Baucus follows:

Senator Max Baucus  
Statement on the Child Tax Credit and Marginal Rates  
July 23, 2003

Mr. President, it has been 48 days since the Senate passed the Lincoln-Snowe bill to provide the child tax credit to the families of 12 million children. The House then passed a different child credit bill.

And 35 days ago, the Senate appointed conferees to work out the differences between these two bills. Thirty-five days- and the conference has yet to hold its first meeting.

On July 25th- just 2 business days from today- many families will begin receiving checks for the increased child credit. But millions of families will find their mailboxes empty. Millions who hope for such a credit will not receive it. The Lincoln-Snowe bill would ensure that these families are not left behind.

In 2 working days, the House will also adjourn for the remainder of the summer. We must send a bill to the President before that time.

In 2001, the President brought a tax reduction proposal to Congress. This proposal was based upon the premise that taxpayers across the board were paying too much of their income in taxes. The President included the working poor, citing their extremely high marginal rates.

At that time, the working poor faced marginal rates above 50 percent – among the highest marginal rates faced by any taxpayer. The President’s economic advisors called this an “egregious problem” in our tax code. On the campaign trail, candidate Bush pledged that “lowering these barriers to the middle class” was one of his top priorities.

I worked with the President in 2001 to reduce the marginal rates for working Americans. The bill that we enacted included marginal rate cuts for taxpayers across the board. It also included two provisions specifically targeted at reducing the marginal rate for low-income workers.

First, it reduced the lowest marginal rate - the tax paid on the first dollar of taxable income- from 15 percent to 10 percent.

Second, it made the child tax credit partially refundable for working families. Currently, the child credit is refundable up to 10 percent of a family’s income above \$10,500. In 2005, this amount is set to increase to 15 percent.

The marginal rates for working taxpayers are less than they were before the 2001 bill was passed. And they will be less in 2005. But, I believe that we should do more.

Current Law

Under current law, taxpayers in the lower income brackets face marginal rates as high as 46 percent. In other words, for every additional dollar they earn, they only keep an additional 54 cents. Many of my colleagues have argued that such high marginal rates decrease incentives for work.

Let's take an example – a family of four making \$27,000. This is about 150 percent of poverty. If they earn an additional dollar of income, they lose twenty-one cents of the Earned Income Tax Credit they receive. They pay payroll taxes of fifteen cents, if you include both shares of the payroll tax, as most economists do. And they pay ten cents of federal income tax. This adds up to a marginal rate of 46 percent.

For every additional dollar this family makes, they only keep 54 cents.

How does this compare with other taxpayers? This family making \$27,000 faces a higher marginal rate than a similar family making \$100,000. Or \$150,000. Or even \$200,000.

In fact, this family has a marginal rate that is higher than that of the wealthiest taxpayers in America. As this chart shows, a taxpayer making \$27,000 faces a higher marginal rate than a taxpayer making \$1 million.

In addition, this family has a marginal rate that is far higher than the corporate rate of 35 percent.

#### The Lincoln-Snowe Bill

Senators Lincoln and Snowe have led the fight to reduce the marginal rates for working families. They began this process in 2001, when they fought to ensure that low-income working families would be able to receive a refundable child credit. They are now fighting to ensure that these families receive the full child credit today.

Let me explain how the refundable child credit reduces the marginal rate for working families.

Take a family of four making \$22,000. Without the refundable child credit, their marginal rate would be 36 percent. The current credit – which is 10 percent refundable - brings their marginal rate down to 26 percent.

In 2005, the refundability of the child credit will increase to 15 percent. This family's marginal rate will then go down to 21 percent.

But we have all heard the argument for immediate tax relief- if tax relief is good enough in a few years, it is good enough today. This was the theory behind the President's Jobs and Growth package, which accelerated marginal rate reductions for millions of taxpayers. Including those making one-hundred thousand, two-hundred thousand, and even a million dollars.

For a family making \$100,000, the marginal income and payroll tax rate was reduced from 30 percent to 28 percent. For the family making \$200,000, the rate went from 38 percent to 36 percent. And for millionaires, the rate was reduced from almost 42 percent to 38 percent.

But the provision that would have reduced the marginal rate for low-income working families- the increase in child credit refundability- was specifically excluded from the final bill.

If marginal rate cuts are good enough for the wealthy today, aren't they good enough for the working poor?

The answer from the Senate is a resounding- YES. The Lincoln-Snowe bill - to reduce marginal rates for the working poor immediately - passed the Senate almost unanimously.

I believe that the marginal rates for low-income working families are still too high. Passing the Lincoln-Snowe bill is an improvement. This improvement would provide additional incentives to work and earn that extra dollar. And it would shrink what the President has called "barriers to the middle class."

We have 2 working days left. Two days to convene this conference, work out our differences, and send this bill to the President. Two days to ensure that low-income working families receive the same tax relief promised to the rest of America's families. And two days left to ensure to fix this problem- that even President Bush agrees is an "egregious problem" in the tax code.

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