

# Program for Public Consultation

Consulting the People on Public Policy

## Consulting the American People on the 2001/2003 Tax Cuts

A Study by the Program for Public Consultation and  
Knowledge Networks

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**The Program for Public Consultation** seeks to improve democratic governance by helping governments consult their citizenry on the key public policy issues the government faces. Unlike standard polls, in public consultations respondents are presented information that helps simulate the issues and tradeoffs faced by policymakers. PPC has been established to develop the methods and theory of public consultation and to conduct public consultations. PPC is a joint program of the Center on Policy Attitudes and the School of Public Policy at the University of Maryland

**The Center on Policy Attitudes (COPA)** was established in 1992 with the purpose of giving public opinion a greater voice in the public policy process. COPA conducts in-depth studies of public opinion that include polls, focus groups and interviews. It integrates its findings together with those of other organizations. In addition to PPC, COPA has a joint program with the Center for International and Security Studies at the University of Maryland called the Program on International Policy Attitudes.

**School of Public Policy, University of Maryland** (College Park) is one of the nation's leading graduate programs devoted to the study of public policy, management and international affairs. It is the only policy school in the Washington area that is embedded in a major research university and combines both domestic and international policy studies under one roof.

**Knowledge Networks** is a polling, social science, and market research firm based in Menlo Park, California. Knowledge Networks uses a large-scale nationwide research panel which is randomly selected from the national population of households having telephones and is subsequently provided internet access for the completion of surveys (and thus is not limited to those who already have internet access).

#### **Acknowledgements**

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## INTRODUCTION

As the President releases his proposed budget for 2013 and Congressional forces gear up for debate, all in the context of a Presidential election year, a looming question is how to deal with the temporary tax cuts that were passed in 2001 and 2003. These were originally slated to terminate at the end of 2010, but were extended to the end of 2012. Unless Congress decides, and the President agrees, to extend all or some of them further, these tax cuts will terminate at the end of 2012. This outcome will have significant impacts on the tax bills of most Americans and on the federal budget deficit.

When these tax cuts were first passed in early 2001 there was a general belief in the United States that growing budget surpluses were rolling up so much money that the primary issue was how to best allocate these surpluses. The Congressional Budget Office estimated—based on then-current tax law, and assuming that federal spending would not rise faster than inflation—a \$3.12 trillion ten-year general revenue surplus and a Social Security surplus of \$2.49 trillion, for a total projected surplus of \$5.61 trillion.

A key debate of the 2000 election concerned how much of the surplus should be invested in public goods and services, how much used to pay down the national debt, and how much returned to taxpayers in the form of tax cuts. Within the first six months of George W. Bush's presidency, the law was changed to phase in by 2006 a lowering of all tax brackets, an increase in the child tax credit, and an end to limits on deductions for high-income taxpayers (among other items).

In September 2001 came the 9/11 attacks on the World Trade Center and the Pentagon. The US went to war in Afghanistan and defense spending started on a strong upward trajectory.

Over 2001 the economy contracted--technically a recession, but mild by current standards. Nonetheless this had the effect of reducing government revenue below what had been anticipated when the 2001 tax cuts were passed.

In May 2003 further legislation accelerated the phase-in of tax cuts so they would take effect for the 2003 tax year. All the cuts were to expire at the end of 2010, and their long-range impact on government finances was calculated accordingly and seen as limited.

The Iraq war began in March 2003. It was initially expected to be a major spending item for only a year or two. By 2011, however, Congress had appropriated a total of \$806 billion for the Iraq war and \$444 billion for the Afghanistan war (\$1.25 trillion in all).

In December 2007 the US entered the most severe recession since the early 1980s, accompanied by an international financial crisis reminiscent of the 1930s. By June 2009 the recession was over in the US, but many side effects of the broader crisis were still unfolding and the economic recovery was sluggish. The Federal deficit ballooned to over a trillion dollars.

In December 2010, President Obama and Republican Senate minority leader McConnell agreed on a package that extended the 2001/2003 tax cuts through 2012, as part of a bargain that also extended unemployment insurance and cut employee payroll taxes for a year. However, now, as the debate about the 2013 budget gears up, the future of these tax cuts is very much back on the table.

Largely missing from the debate is the question of what course the public would choose. While there have been some poll questions on the topic (see Appendix below), none have offered the full range of options, or presented respondents with clear information about the consequences of different choices or the arguments for and against them.

This study remedies this gap. It is part of a series of in-depth consultations on issues relating to the American economy—including a major study, released in February 2011, on how the public would deal with the budget deficit, and a study on temporary payroll tax cuts for employees and employers (December 2011).

The study was fielded from December 3 to 9, 2011 as part of a larger study with a sample of 907 adult Americans. Each section was partially sampled, however, so the sample size was 680 for each question released. Thus, with a design effect of 1.6431, the margin of error was 4.8%. Please contact PPC if you would like a detailed sample design.

The poll was conducted using the web-enabled KnowledgePanel®, a probability-based panel designed to be representative of the U.S. population. Initially, participants are chosen scientifically by a random selection of telephone numbers and residential addresses. Persons in selected households are then invited by telephone or by mail to participate in the web-enabled KnowledgePanel®. For those who agree to participate, but do not already have Internet access, Knowledge Networks provides a laptop and ISP connection. More technical information is available at <http://www.knowledgenetworks.com/ganp/reviewer-info.html>.

Key findings were:

*1. Considering the Facts and the Arguments*

When respondents were presented the fiscal consequences of the three main options and then presented two arguments in support of each one, in the cases of all but one argument, majorities of all partisan persuasions said they found the arguments convincing. This suggests that most were seriously considering the full range of arguments and willing to recognize their merit, even if they did not finally agree with them.

*2. Coming to a Conclusion*

When asked to come to a conclusion, among the general public, and among followers of both parties, a large majority supported extending the tax cuts for income below \$250,000 and a large majority opposed extending them for income over \$250,000.

*3. Specifying the Income Threshold for Extending Cuts*

When asked to choose the preferred threshold for extending the tax cuts, the most popular option was \$250,000. However, a substantial 4 in 10 independents favored lowering it to \$150,000, and 4 in 10 Republicans favored increasing it to \$500,000.

## ***FINDINGS***

*1. Considering the Facts and the Arguments*

When respondents were presented the fiscal consequences of the three main options and then presented two arguments in support of each one, in all but one case majorities of all partisan persuasions said they found the arguments convincing. This suggests that most were seriously considering the full range of arguments and willing to recognize their merits, even if they did not finally agree with them.

In introducing the issue to respondents, they were reminded that the 2001 and 2003 tax cuts were originally scheduled to expire at the end of 2010, but then were extended through 2012. They were presented the following:

As you may know, in 2001 and 2003 Congress passed temporary cuts to individual income taxes. These were supposed to expire at the end of 2010, with taxes returning to the levels that had been in place since 1994. However, in 2010 the tax cuts were extended to the end of 2012.

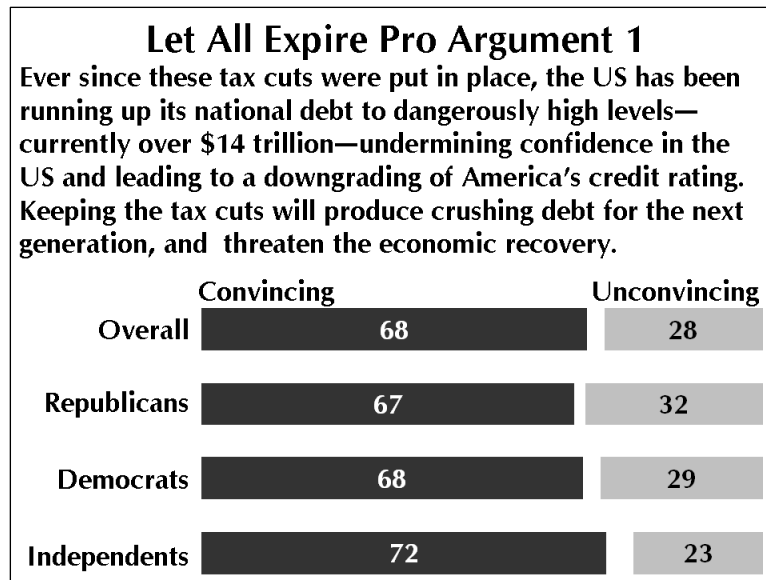
Respondents were then shown a table with the three key proposals:

Here are three major proposals about what should happen after 2012—along with official estimates of the effect each approach would have on government revenue, compared to having the tax cuts expire, as currently mandated by law:	
<b>Proposal</b>	<b>Effect on government revenue</b>
Having the income tax cuts expire (current law)	No effect
Making the tax cuts permanent for both those with high incomes and those making less.	Reduces projected revenue (i.e. increases deficit) by approximately \$3.7 trillion over the next decade.
Having the tax cuts expire for those with high incomes (households that make more than \$250,000 a year), but keeping the tax cuts for those making less.	Reduces projected revenue (i.e. increases deficit) by approximately \$3.0 trillion over the next decade.

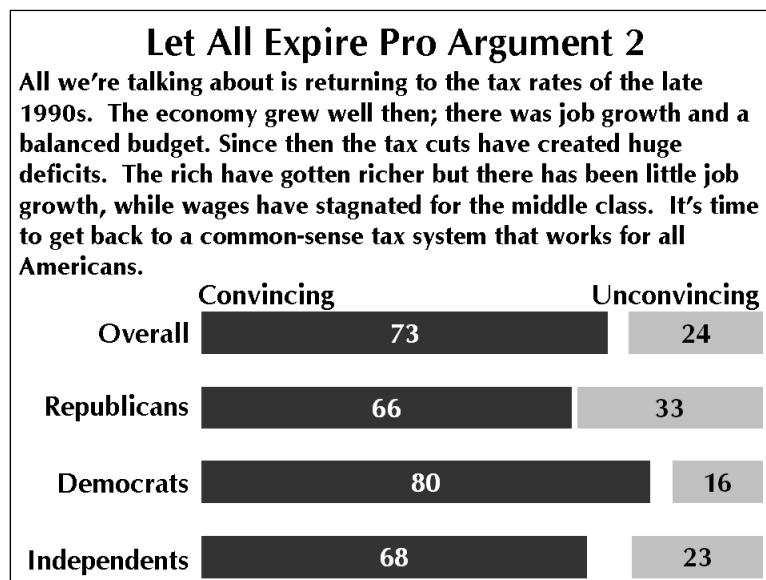
They were then asked to think about each of the three proposals in turn, evaluating two arguments in favor of each one. (There were no negative arguments criticizing a proposal. Each proposal was shown in its best light and then had to compete with the other two.)

**ARGUMENTS IN FAVOR OF HAVING THE TAX CUTS EXPIRE AT ALL INCOME LEVELS**

The first argument for having the tax cuts expire was that the deficit and debt demand such an approach. Two thirds found this argument convincing and there was not much party differentiation. Democrats were a little more likely to find it very convincing (32%) than Republicans (22%).

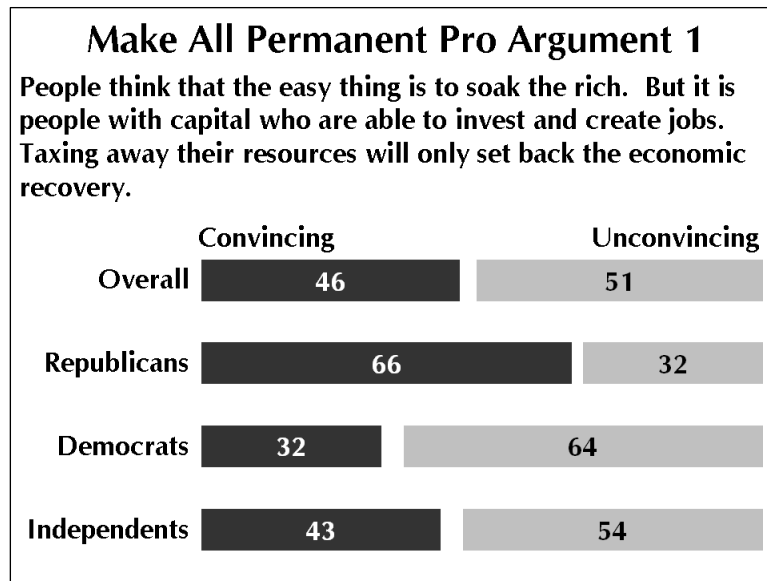


The second argument for having the tax cuts expire evoked the tax rates of the 1990s and argued that this was a successful approach. This argument was slightly more popular than the first. Thirty-five percent found it very convincing, and even two thirds of Republicans found it convincing.

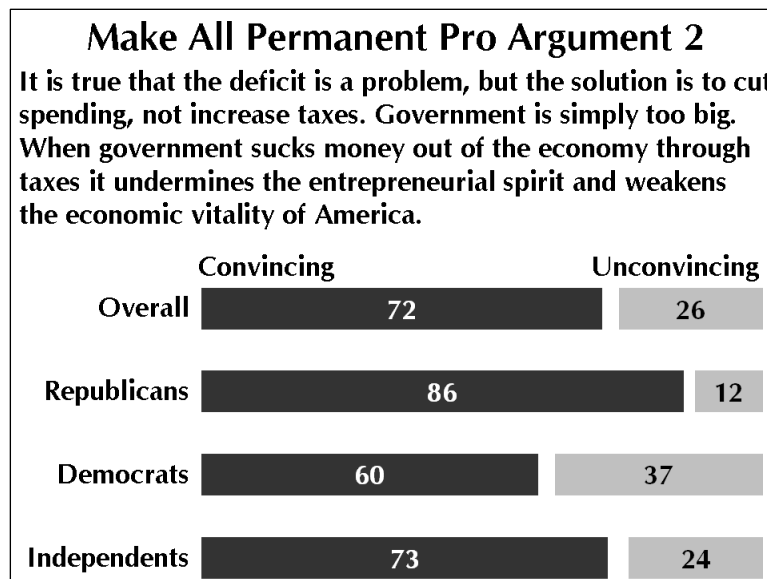


**ARGUMENTS IN FAVOR OF MAKING THE TAX CUTS PERMANENT AT ALL INCOME LEVELS**

The first argument for making the tax cuts permanent pointed out high-income people’s function as investors in economic activity. This argument got a divided response, leaning slightly toward “unconvincing.” This was one of the few arguments in this section to receive a clearly partisan response, with seven in ten Republicans finding it convincing, but majorities of Democrats and independents finding it unconvincing.

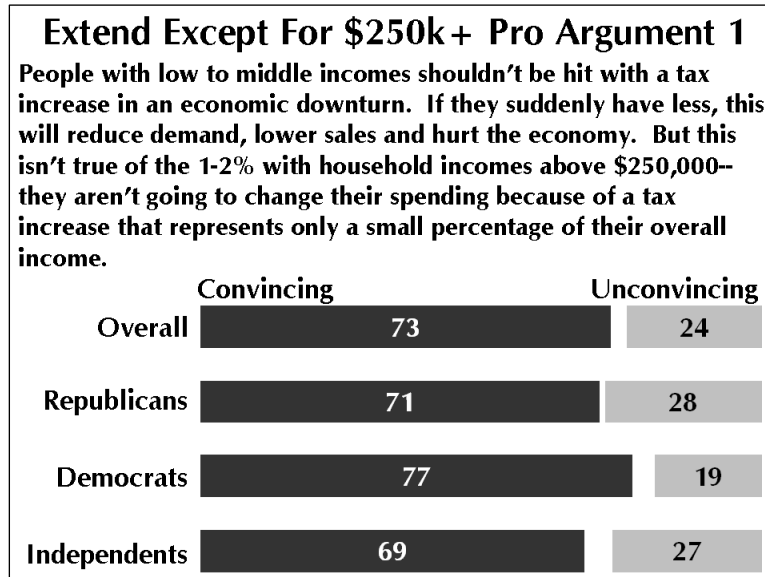


The second argument, focusing on the role of government, did much better. Although this argument would seem to carry as much of a partisan ring as the preceding argument, it got a bipartisan favorable response. A modest majority of Democrats and seven in ten independents found convincing the view that government is too big.

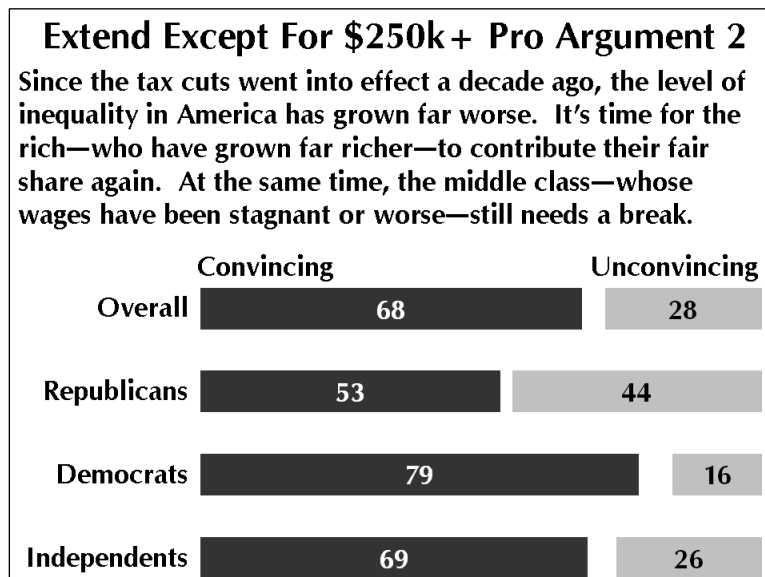


**ARGUMENTS IN FAVOR OF EXTENDING THE TAX CUTS EXCEPT FOR HIGH INCOMES**

The first argument in favor of the Obama administration’s proposal explained the economic logic behind a cutoff at household incomes above \$250,000, and how this could be expected to work in a struggling economy. Across the political spectrum more than seven in ten found this argument convincing. Among Democrats 42% found it very convincing, while among Republicans 28% did.



The second argument was grounded in the issue of income inequality that has come strongly to the fore in recent months. Surprisingly, majorities across the political spectrum found this argument convincing, including 53% of Republicans, as well as eight in ten Democrats.





**2. Coming to a Conclusion**

**When asked to come to a conclusion, among the general public, and among followers of both parties, a large majority supported extending the tax cuts for income below \$250,000 and a large majority opposed extending them for income over \$250,000.**

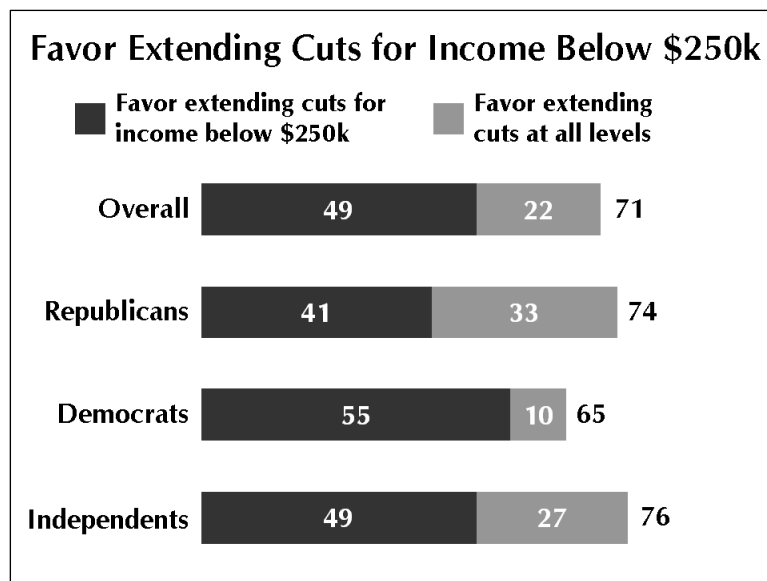
After evaluating the arguments respondents were presented three options as follows:

Now having considered these arguments, which approach do you favor for dealing with the tax cuts passed by Congress in 2001 and 2003 and extended in 2010:

- Having the tax cuts expire, as currently mandated by law
- Making the tax cuts permanent for both those with high incomes and those making less
- Having the tax cuts expire for those with high incomes (households that make more than \$250,000 a year), but keeping the tax cuts for those making less

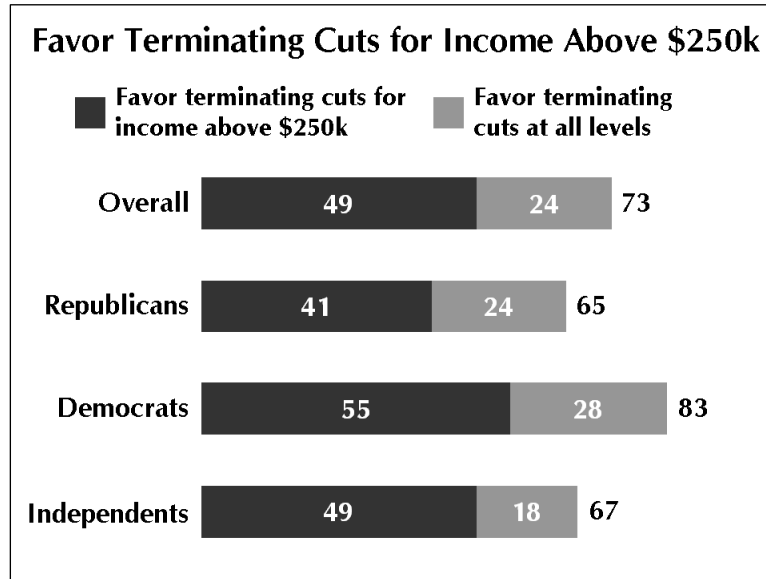
When considered in aggregate, seven in ten (71%) favored extending the cuts for income below \$250,000. This included 22% who favored extending the cuts for all income levels, as well as the 49% who favored limiting them to income below \$250,000.

These positions were relatively consistent regardless of party affiliation. Extending cuts for low and middle income households was supported by 74% of Republicans, 65% of Democrats, and 76% of independents.



A similar margin (73%) favored terminating them for income over \$250,000. This included 24% who favored terminating them for all income levels as well as the 49% who favored terminating them for income above \$250,000.

Letting cuts expire for higher income households was supported by 65% of Republicans, 83% of Democrats, and 67% of independents.



Among the three options the most popular idea--favored by 49% overall--was to extend the 2001/2003 tax cuts for household income below \$250,000 and let them expire for the higher incomes. Terminating the tax cuts for all income levels (as presently called for by law), was supported by just 24%. Making the tax cuts permanent for all income levels was favored by 22%.

Since those who favor extending the cuts for all levels also implicitly favored extending them for those with incomes below \$250,000, a majority of 71% agreed on extending them for the low and middle incomes. Since those who favored terminating them for all income levels also implicitly favored terminating them for incomes above \$250,000, a majority of 73% favored terminating the for upper incomes.

Partisan differences, while present, were modest. Republicans were relatively higher in support for making the tax cuts permanent for all income levels at 33%, but interestingly, this was not the most common position. A larger 41% favored extending the cuts only for income below \$250,000, and a substantial 24% favored terminating them for all incomes. Independents were also relatively higher in support of making all cuts permanent at 27%, but a majority favored terminating the cuts either for the higher incomes (49%) or for all incomes (18%).

Democrats were relatively higher in support for terminating cuts for all incomes at 28%, but a majority favored preserving the cuts for those with incomes below \$250,000 (55%). Only 10% favored extending them for all incomes.

### 3. Specifying the Income Threshold for Extending Cuts

When asked to choose the preferred threshold for extending the tax cuts, the most popular option was \$250,000. However, a substantial 4 in 10 independents favored lowering it to \$150,000, and 4 in 10 Republicans favored increasing it to \$500,000.

In the initial presentation of the option for terminating the tax cuts for higher incomes only, the threshold amount was specified as \$250,000. All respondents were also given the opportunity to weigh in on what that threshold should be.

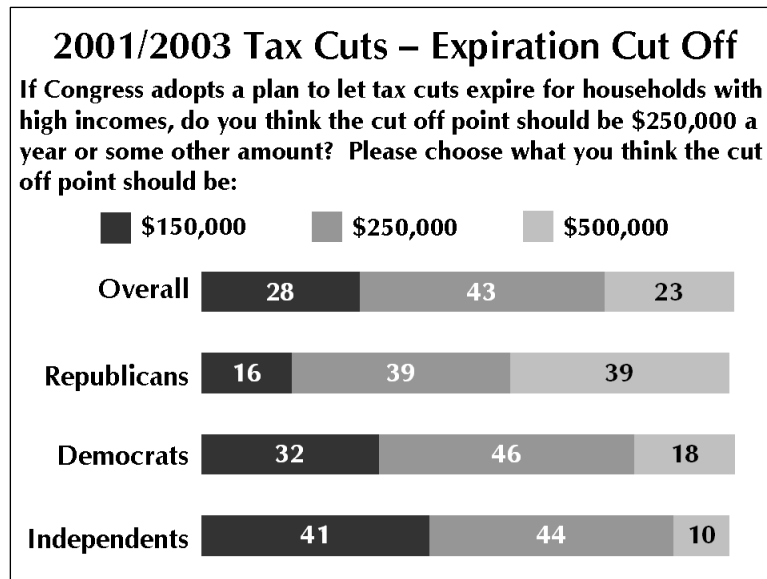
They were asked, “If Congress adopts a plan to let tax cuts expire for households with high incomes, do you think the cut-off point should be \$250,000 a year or some other amount?” and offered three options: \$150,000, \$250,000, and \$500,000.

Overall, the \$250,000 threshold was the most popular, with 43% favoring it. Slightly more favored \$150,000 (28%), than favored \$500,000 (23%).

Among Republicans a substantial 39% favored \$500,000, but this was outweighed by the majority (54%) who wanted a lower threshold (39% for \$250,000 and 16% for \$150,000).

At the other end of the spectrum were independents, with 41% favoring \$150,000. But here too, this was outweighed by a majority of 54% favoring a higher amount (44% or \$250,000, 10% for \$500,000).

Among Democrats, 46% favored \$250,000, with more favoring the lower amount of \$150,000 (32%) than favoring the higher amount (18%).



Given that in all cases a majority favored an amount above \$150,000 or below \$500,000, we could simply say that in all cases the center of gravity was \$250,000, though Republicans were skewed upward while independents (and, by a lesser margin, Democrats) were skewed downward.

**APPENDIX***Analysis of Standard Polls*

A review of polling conducted over the last year found many poll questions in 2011 that addressed the 2001/2003 tax cuts. However, this study appears to be the only one to offer more than one option. Also, none offered arguments or a choice about what the threshold should be if cuts are to be maintained for some income levels and not others.

Nine poll questions simply asked respondents if they favored the termination of cuts for incomes above \$250,000. Majorities ranging from 53% to 78% were favorable to it in seven questions (United Technologies/National Journal , November 2011; Bloomberg, March and September; Kaiser Foundation, September; NBC News/Wall Street Journal, February and August; and Greenberg Quinlan Rosner Research, April) and pluralities of 49% and 48% were favorable in two (United Technologies/National Journal, September; Univision, November).

Among those who said they did not favor this proposal, it is not clear if they took this position because they wanted to terminate cuts at all levels, or because they did not want to terminate *any* of the cuts--and thus would presumably favor extending them for income below \$250,000, rather than letting them all lapse as called for by current law.

Two questions asked respondents if they favored letting all the tax cuts elapse. A plurality of 48% was favorable in one (Bloomberg, September) and the other got a divided response (Kaiser Foundation, September).

Here again, it is not clear how respondents would have answered if they had had a full range of options. Some opposition to letting all tax cuts elapse may have derived from an objection only to letting cuts elapse for low and middle incomes. Some support for letting all tax cuts elapse may have derived largely from a desire to terminate the cuts for higher incomes.



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