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COMPILATION OF SHORT ANALYSES ON THE ADMINISTRATION'S TAX AND RELATED PROPOSALS

CENTER ON BUDGET AND POLICY PRIORITIES

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February 13, 2003

Tax Cuts a Major Factor in Return of Deficits

The full report can be viewed at http://www.cbpp.org/2-12-03bud.htm

The Center on Budget and Policy Priorities has released *Are Tax Cuts a Minor or Major Factor in the Return of Deficits?*, which examines this question using data the Congressional Budget Office issued in late January. Mitchell Daniels, the Director of the President's Office of Management and Budget, has said that the tax cuts of the past two years have played only a "minor" role in the return of budget deficits and that the budget would be in deficit even without them. The Center's analysis finds that:

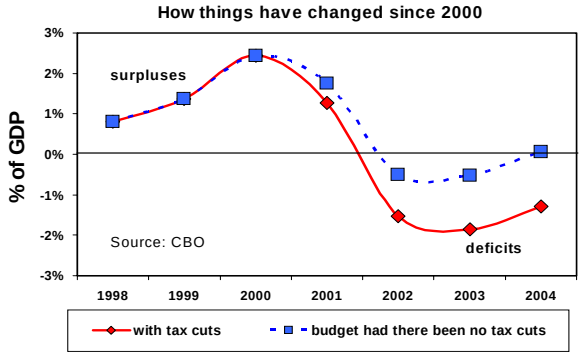
- **A third of the deterioration in the budget is due to the tax cuts.** Since 2000, the budget has deteriorated by an amount equal to 4.0 percent of GDP. *One-third* of this deterioration has been caused by tax cuts enacted in the last two years, making the tax cuts one of the principal factors behind the budget deterioration.

  The CBO data do not reflect the possible economic stimulus effects of recent tax or spending measures. The President's Council of Economic Advisers argues that the tax cuts have stimulated economic growth and has estimated how much worse the economy would have been without them. Yet even using the CEA estimates, the net cost of the tax cuts would still turn out to have caused almost 30 percent of the budget deterioration since 2000. Moreover, other studies suggest the CEA estimates likely overstate the tax cuts' effect on the economy.

- **Without the tax cuts, surpluses would return in 2004.** The recession, along with defense, homeland security, and other spending increases already enacted, would have driven the budget into deficit in 2002 and 2003 even without the tax cuts. But the budget would be back in surplus in 2004 and stay there for the rest of the decade were it not for the tax cuts. In contrast, the Administration itself says the budget will remain in deficit *every year for the next 75 years* under its budget, which would make the 2001 tax cut permanent, add further tax cuts, and increase spending in areas like a prescription drug benefit.

- **More than half of 2003 and 2004 budgetary costs are due to tax cuts.** Over the last two years, Congress has enacted legislation costing an annual average of $260 billion in 2003 and 2004. Some 58 percent of this cost is due to tax cuts, more than all other legislation — including increases for the military and homeland security, last year's farm bill, and other legislation — combined. (Using the favorable CEA assumptions to factor in the supposed economic benefits of the tax cuts reduces that 58 percent figure only slightly, to 54 percent.)

Figure 1: Tax Cuts and Deficits



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February 11, 2003

Administration Savings Plan Would Lead to Very Large Revenue Losses

The full report can be viewed at http://www.cbpp.org/2-5-03tax.htm

The Center on Budget and Policy Priorities has released *Proposed "Savings Incentives" Would Cause Revenue Hemorrhage in Future Decades*, an analysis of the Administration's new tax-cut proposal related to savings.

The proposal, which is being touted as a way to increase national saving and help workers save for retirement, would create three new savings vehicles: (1) "Retirement Savings Accounts," which would replace existing IRAs and be structured like Roth IRAs (except that there would be no income limits on who could use them and the contribution limits would be raised to $7,500); (2) "Lifetime Savings Accounts," which would operate like Retirement Savings Accounts except that funds could be withdrawn at any time and be used for any purpose; and (3) "Employer Retirement Savings Accounts," which would resemble 401(k)s but with fewer protections for low- and moderate-income workers. The Center's report finds that this proposal would:

- **Sharply reduce federal revenues over time.** While the proposal contains gimmicks that would *raise* revenues over the next few years, it would cause substantial revenue losses after that, with the revenue losses growing larger each year. Eventually the losses would become massive, as most of the nation's capital gains, dividend, and interest income would ultimately be sheltered from taxation.

  Moreover, these revenue losses would mount in the same period that the baby boom generation will be retiring in large numbers and Social Security and Medicare costs will swell. The Congressional Budget Office, the General Accounting Office, and independent analysts already project that federal budget deficits will reach alarming levels in those decades. This proposal would aggravate that problem, further burdening future generations.

- **Reduce states' revenues and raise their borrowing costs.** States, too, would experience revenue losses, since their tax codes are generally linked to the federal code in how they define taxable income. The plan also could force states to offer higher interest rates on the bonds they issue in order to compete with the tax-sheltered accounts the plan would make available to high-income investors.

- **Provide windfalls to wealthy taxpayers.** Unlike current Roth IRAs, which are not available to individuals with incomes over $110,000 or couples with incomes over $160,000, the new tax-free retirement and savings accounts that the proposal would create would have no income limits. This would give people at high income levels great incentive to shift large amounts of assets over time into the tax-free accounts.

  Today, a couple can contribute up to $6,000 a year to IRA accounts. Under the proposal, a wealthy couple with two children could place $45,000 every year into the new accounts, and all interest, dividends, capital gains, and other earnings on

these accounts would be permanently tax free. Only people with very large incomes or considerable wealth would be able to take full advantage of these new accounts. These affluent individuals would receive extremely large tax cuts over time.

- **Not increase national saving.** The proposal is promoted as increasing national saving and thereby boosting economic growth. In fact, the proposal is more likely to *reduce* national saving and thereby *slow* long-term growth.

  National saving is the sum of *public* saving (i.e., government surpluses or deficits, with deficits constituting negative saving) and *private* saving (saving by private individuals and institutions). The Administration's proposal would substantially reduce public saving over time by swelling the deficit. It would be unlikely to generate enough new private saving to offset this decline in public saving because those who would be able to take full advantage of the proposal would primarily be high-income individuals with significant wealth. Economic research has shown that such individuals are more likely to shift *existing* savings from taxable accounts to the new tax-free accounts than to undertake *new* savings in response to tax breaks of this nature.

- **Likely reduce pension coverage for ordinary workers.** Today, if business owners want to put more than $6,000 a year for themselves and their spouses into tax-advantaged retirement or saving accounts, they must offer a pension plan that also covers their employees. (That limit is scheduled to rise to $10,000 by 2008.)

  By contrast, under the proposal, business owners and executives could put away $30,000 a year for themselves and their spouses through expanded IRAs and new "Lifetime Savings Accounts," plus an additional $7,500 a year for each child they have, *without having to offer any retirement plan through their firm*. Leading pension experts have warned that over time, this is likely to lead to a reduction in the number of small businesses that offer pension coverage for their workers and that make pension contributions on their workers' behalf.

- **Constitute a move toward a consumption tax.** The proposal constitutes a large step toward converting the current progressive income tax into a less-progressive consumption tax because, over time, it would largely eliminate taxes on saving and investment income, which tends to be concentrated among higher-income households.

The Center's analysis concludes that the proposal is likely to be disadvantageous to ordinary Americans over time. While some middle-income families would benefit from the new tax-sheltered saving accounts the proposal would create, they would be harmed by the larger federal budget deficits that would result (since the deficits would likely lead to slower economic growth, higher interest rates, and cuts in federal programs on which many families rely). Middle- and low-income families also would be adversely affected by state-level budget cuts and tax increases instituted to make up for the state revenue losses the proposal would trigger, and by the reductions that the proposal would induce in pension coverage for workers.

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A "REALITY CHECK" ON RECENT ARGUMENTS IN FAVOR OF THE ADMINISTRATION'S NEW "ECONOMIC GROWTH" PLAN

by Andrew Lee, Robert Greenstein, and Isaac Shapiro

While promoting his new "economic growth" plan, President Bush and other Administration officials have made a number of statements that are technically accurate but nevertheless quite misleading. These arguments primarily (but not exclusively) involve a deceptive use of averages. The Center on Budget and Policy Priorities has released several analyses examining these arguments. Here is a short summary that looks at some of the statements the President made this week.

Arguments shown in quotes are from the President's January 22 speech in St. Louis:[1]

"92 million Americans will keep an average of $1,083 more of their own money when this tax plan goes through..."

This statement is misleading because the average is skewed upward by the very large tax cuts that would go to a small number of high-income taxpayers. For an example of how averages can be deceptive, consider a group of five individuals — four of whom each receive $100 tax cuts and one who receives a $4,600 tax cut. The average tax cut for the group is $1,000, but four of the five receive far less than this amount. The Administration's use of averages suffers from a similar distortion. Data from the Urban Institute-Brookings Institution Tax Policy Center show that 80 percent of tax filers would receive less than the $1,083 "average" amount, while about half of tax filers would receive $100 or less. The White House produced the $1,083 average figure by averaging together high-income people who would get massive tax cuts — the average tax cut would be $90,000 for people who make more than $1 million per year — with the much larger number of Americans who would get small tax cuts.

Thus, while $1,083 may be the average tax cut amount, it does not accurately reflect what an "average" American would receive. The Tax Policy Center data show that the average tax cut for those in the middle fifth of the income spectrum would be $256.

For further discussion, please see: "Administration's Use of 'Average' Tax Cut Figures Creates Misleading Impression About the Tax Cuts Most Households Would Receive" at http://www.cbpp.org/1-9-03tax.htm.

[1] "Taking Action to Strengthen Small Businesses," Remarks by the President on the Economy, The White House, January 22, 2003.

"23 million small business owners will receive an average tax cut of $2,042 under this plan..."

This statement, as well, reflects a misleading use of averages. The Urban-Brookings Tax Policy Center data show that 79 percent of returns with small business income would receive less than this $2,042 "average" amount and that 52 percent would get less than $500. The average is skewed by a small number of high-income returns with small business income who are getting very large tax cuts.

In addition, the Administration uses a definition of "small business owner" which includes a substantial number of wealthy investors who don't actually run small businesses but simply have passive investments in them. For example, President Bush and Vice President Cheney count as "small business owners" under this definition. Defining "small business owner" in this way pumps up the average tax cut that small business owners are said to receive.

For further discussion, see: "President's Radio Address and Other Administration Statements Exaggerate Tax Plan's Impact on Small Businesses" at http://www.cbpp.org/1-18-03tax.htm.

"More than 40% of the people who receive dividends make under $50,000 a year. Many of them are seniors. Three-fourths of the people in America who receive dividends make less than $100,000 a year."

These statements mislead because they count a person with $20 in dividend income the same as a person with $20,000 in dividend income. While many people receive dividends, most receive only small amounts. The distribution of dividend income is very skewed.

- People with income below $50,000 account for over 40 percent of those receiving dividends, but they get only 18.5 percent of all dividend income.

- Furthermore, according to the Urban Institute-Brookings Institution Tax Policy Center, people under $50,000 would receive only 6.7 percent of the tax cut from the Administration's proposal to eliminate the taxation of dividends.

- Similarly, while people with incomes below $100,000 make up three-fourths of those who receive dividends, they get only 37 percent of all dividend income and would receive only 21 percent of the proposed tax cut on dividends.

For further discussion, see: "Who Belongs to the 'Investor Class'?" at http://www.cbpp.org/1-6-03tax2.htm

The averages are also misleading with respect to the elderly. It's true that a significant share of the benefits of the dividend exemption would go to individuals over 65. These benefits, however, would be mostly concentrated among a small number of high-income elderly individuals. Nearly 43 percent of the benefits of the dividend exemption that would go to the elderly would go to the 2.5 percent of elderly people with incomes above $200,000. Elderly

people with incomes below $50,000 — who make up two-thirds of all elderly people in the nation — would receive only 11 percent of the dividend tax cut going to the elderly and only 4 percent of the total dividend tax cut. The Administration statistic may leave the impression that the dividend tax cut would broadly benefit seniors; this is untrue. In fact, many seniors would be worse off if the large tax cut reduced the resources available for important services and benefits on which they rely.

For more, see: "Impact of the Dividend Tax Cut on the Elderly" at http://www.cbpp.org/1-7-03tax.htm.

"A family of four with an income of $40,000 will receive a 96 percent tax cut."

This statement is true with regard to the federal *income* taxes this family pays, but not with regard to the family's total federal tax bill. This family would receive a 96 percent cut in federal income taxes; its federal income tax liability would fall from $1,178 to $45. But this family pays much more in payroll taxes than income taxes. When one includes the family's $3,060 in payroll taxes, it would receive a more modest 27 percent cut in federal income and payroll taxes. Furthermore, this $3,060 figure includes only the *employee* share of payroll taxes. Most economists have concluded that workers bear the burden of both the employee and the employer payroll taxes, with the employer portion being passed on to workers in the form of lower wages. If one includes both the employer and employee portions, the family pays $6,120 in payroll taxes and receives a 16 percent reduction in federal income and payroll taxes under the Administration's plan.

A recent analysis from the Urban Institute-Brookings Institution Tax Policy Center shows that among tax filers with wage earnings, 90 percent of those with income below $100,000 pay more in payroll taxes than in individual income taxes.[2]

Finally, the tax-cut proposals that would benefit this family — acceleration of the widening of the 10 percent bracket, the increase in the standard deduction for married filers, and the increase in the child tax credit to $1,000 — constitute less than one-quarter of the overall cost of the package. As a result, three-quarters of the proposal could be dropped without affecting this family's tax benefit.

For more, see: "President's Own Example Shows Bulk of Tax Package Irrelevant to Middle-Income Americans" at http://www.cbpp.org/1-13-03tax.htm.

"The Council of Economic Advisors said these proposals over the next three years will create 2.1 million jobs."

This statement glosses over the fact that the CEA estimates show the plans will create only 190,000 jobs in 2003 — which simply equals the number of jobs the Labor Department says we

[2] William Gale and Jeffrey Rohaly, "Three-Quarters of Filers Pay More in Payroll Taxes Than in Income Taxes," *Tax Notes*, January 6, 2003.

lost just in the last two months. These 190,000 jobs equal only 0.1 percent to 0.2 percent of the U.S. workforce.

In addition, the CEA estimates show the plan could pump up jobs in 2004 — an election year — but that after 2004, the plan would actually reduce the rate of job growth. This outcome is not surprising, given the plan's effect in swelling medium and long term deficits.

Finally, some have argued that the majority of Americans now own stocks and would benefit from the Administration's proposal to eliminate taxation of dividends.

It's true that over half of Americans own stocks. Middle-income people with stocks, however, are likely to have them primarily in retirement accounts, which already are tax advantaged. The ownership of taxable stocks and mutual funds is highly concentrated. Using data from the Federal Reserve's Survey of Consumer Finance, New York University economist Edward Wolff estimated that in 1998, the top 10 percent of households in terms of net worth owned 85 percent of taxable stocks and mutual funds, with the wealthiest 1 percent owning 49 percent of taxable stocks and mutual funds. Despite the growing number of Americans who have some stocks, the benefits of the dividend tax cut would flow primarily to very wealthy individuals.

For further information, see: "Who Belongs to the 'Investor Class'?" at http://www.cbpp.org/1-6-03tax2.htm.

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Administration Tax Cut Proposals Would Cost $2.5 Trillion Through 2013

The full report can be viewed at http://www.cbpp.org/1-22-03bud.htm

The Center on Budget and Policy Priorities has released a new analysis, *Administration's Tax Cutting Agenda Would Cost $2.5 Trillion Through 2013*. The Treasury Department estimates that the tax cut proposals in the Administration's budget — such as the "economic growth package" and making the 2001 tax cut permanent — will cost $1.5 trillion through 2013. Yet as the Center's analysis explains, that figure excludes two key additional costs: (1) by increasing the national debt, the proposed tax cuts would make interest payments on the debt costlier; and (2) the budget includes relief from the Alternative Minimum Tax only through 2005, even though the Administration has made clear that it plans to offer proposals in 2005 to ensure that AMT relief continues. Including these additional costs raises the cost of the Administration's tax cut plans to $2.5 trillion through 2013.

- **Tax cuts in the "economic growth" package would cost $695 billion through 2013.**

- **Making the 2001 tax cut permanent would cost at least $523 billion through 2013.**

- **Other tax proposals in the President's budget would cost about $272 billion through 2013.**

- **Providing permanent Alternative Minimum Tax relief would cost at least $575 billion between 2005 and 2013.** About two million taxpayers face the AMT today; nearly 40 million will face it by 2012 unless action is taken. The Administration's budget provides AMT relief only through 2005. Extending the Administration's form of AMT relief through 2013 adds approximately $575 billion in cost.

- **Increased interest payments on the national debt would add about $460 billion in cost through 2013** because of the revenue losses from the tax cuts above.

Cost of Bush Administration Tax Cut Agenda, 2003-2013 (in billions)

	Revenue Loss	Interest	Total
"Economic Growth" Package	$695	$254	$949
Make 2001 Tax Cuts Permanent	$523	$41	$564
All Other Bush Tax Proposals	$272	$66	$338
Fix Alternative Minimum Tax	$575	$100	$675
Total	**$2,065**	**$461**	**$2,526**

These measures carry a combined cost of $2.5 trillion. When the cost of the tax cut enacted in 2001 is added, the total cost of tax reductions from 2001 through 2013 mounts to $4.4 trillion.

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January 18, 2003

PRESIDENT'S RADIO ADDRESS AND OTHER ADMINISTRATION STATEMENTS EXAGGERATE TAX PLAN'S IMPACT ON SMALL BUSINESSES

In his radio address today, President Bush said that "small businesses stand to gain a great deal" from his tax-cut plan because 23 million small business owners would receive tax cuts averaging $2,042 this year. Unfortunately, the President's statement was misleading in several respects.

In fact, *79 percent of tax filers with small business income* — or nearly four of every five such tax filers — *would receive less than this amount*, according to data issued by the Urban Institute-Brookings Institution Tax Policy Center. A majority of returns with small business income would get $500 or less. The *average* tax cut is $2,042 only because a small number of wealthy individuals who have some small business income would receive much more than that amount; the millions of more-typical small business people would receive much less. (Similarly, the Administration has used averages in a misleading fashion to overstate the impact of its tax plan on the elderly and on taxpayers generally.)

In his radio address, the President also repeated Administration claims that his proposal to accelerate the reduction in the top income tax rate would benefit small business owners broadly because two-thirds of all tax filers who pay the top rate — 500,000 out of 750,000 such filers — are small business owners. This statement, as well, is misleading in two respects.

- The two-thirds figure is derived by counting all tax filers with *any* business income as "small business owners." Thus, wealthy individuals who do *not* run small businesses and simply have passive investments in partnerships, S corporations, and the like are counted as "small business owners" as though they ran a corner store. When a more reasonable definition of "small business owner" is used, one that examines sole proprietorships with positive business income, only about *one-fourth* of those who pay the top income tax rate turn out to be small business owners, according to an analysis by Citizens for Tax Justice.

- Even if the Administration's claim that two-thirds of all filers who pay the top rate are small business owners were valid, it would *not* mean that the reduction in the top rate would broadly help small businesses. The Treasury Department's own figures show that the 500,000 "small business owners" said to pay the top rate constitute only *two percent* of small business owners.

Moreover, a key feature of the President's plan — the exclusion of corporate dividends from individual income taxation — could harm small businesses, in two ways. First, it would attract investment dollars away from small businesses into corporate stocks that issue tax-free dividends. Second, it would increase the cost of borrowing for small businesses by raising long-term interest rates. (Interest rates would rise as dividend-paying stocks became more attractive investments relative to bonds and as long-term deficits rose.) While the President's plan also includes an "expensing" provision that would benefit small businesses by increasing the amount they can deduct for investments, the likely increase in interest rates would mitigate the benefits of that provision.

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ADMINISTRATION'S USE OF "AVERAGE" TAX CUT FIGURES CREATES MISLEADING IMPRESSION ABOUT THE TAX CUTS MOST HOUSEHOLDS WOULD RECEIVE

By Isaac Shapiro and Joel Friedman

The Administration has sought to portray its "growth package" as providing substantial benefits to a broad spectrum of the population. To do so, it has repeatedly asserted that "92 million taxpayers would receive, on average, a tax cut of $1,083 in 2003."[1] This information is misleading. Most taxpayers would receive far less than this average amount. According to data from the Urban Institute-Brookings Institution Tax Policy Center, *80 percent* of tax filers would receive a tax cut of less than $1,083 in 2003.[2]

How can this be? The *average* tax cut is much larger than the tax cut a typical household would receive largely because, in generating these figures, the Administration has averaged the big tax cuts that those at the top of the income spectrum would receive with the far more modest tax cuts those in the middle of the income spectrum would get (and the small or non-existent tax cuts that would go to working families with low incomes). Take, for example, a hypothetical situation where one taxpayer gets a $10,500 tax cut and 9 taxpayers receive a $500 tax cut. Among these 10 taxpayers, the average tax cut amounts to $1,500. Yet 9 of the 10 taxpayers are receiving a tax cut only one-third that size.[3]

The Urban-Brookings Tax Policy Center data indicate the following about the tax cuts the Administration's plan would provide in 2003:

- The average tax cut for tax filers in the middle fifth of the population — those filers right in the middle of the income spectrum — would be $256, only one-fourth the $1,083 figure the Administration is citing for the average taxpayer.

- Almost half of all tax filers — 49 percent — would receive tax cuts of less than $100.

- The average tax cut for the bottom 80 percent of tax filers would be $226. Even the next-to-top fifth of tax filers would get an average tax cut of only $574.

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[1] "Taking Action to Strengthen America's Economy," White House website.

[2] www.taxpolicycenter.org, Table 6 on the Administration's stimulus proposal. Other data used in this analysis come from the Tax Policy Center's Tables 1 and 2 on the Administration's stimulus proposal.

[3] 9 times $500 is $4,500. $4,500 plus $10,500 is $15,000. $15,000 divided by 10 is $1,500.

- By contrast, the top one percent of tax filers would receive an average tax cut of $24,100. Those with incomes of more than $1 million would get tax cuts averaging a whopping $90,200.

- Overall, *80 percent of tax filers would get less than the average tax cut of $1,083 the Administration is touting*.

The Administration also is promoting other highly stylized "facts" about how much in tax cuts would go to specific groups. These figures are similarly distorted. For example, the White House claims "13 million elderly taxpayers would receive an average tax cut of $1,384." The Tax Policy Center data indicate that only 3.1 million elderly tax filers actually would get tax cuts of this size or greater. Some 79 percent of elderly tax filers — nearly four of every five — would get less than the amount the White House is advertising.

Similarly, the Administration says the average tax cut among six million single women with children would be $541. Yet 85 percent of such women would receive tax cuts of less than $500, and 49 percent would receive nothing. The average is $541 because a small number of such women would receive massive tax cuts, thereby raising the average.

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Dividend Tax Cut: Ineffective Stimulus Now, Bigger Deficits Later

The full report can be viewed at http://www.cbpp.org/1-6-03tax.pdf

The Center on Budget and Policy Priorities has released a report, *Exempting Corporate Dividends from Individual Income Taxes,* that examines the centerpiece of the Bush Administration's proposed "growth package." As the Center's report explains, eliminating the taxes that individuals pay on dividend payments they receive from corporations would have little short-term stimulative effect on the economy and would impose long-term economic costs by swelling the federal budget deficit.

Advocates of the proposal argue it is needed to end the "double taxation" of corporate dividends, which can face taxation at both the corporate and individual levels. This ignores the significant and growing problem of corporate tax avoidance, which causes large amounts of corporate profits not to be taxed even *once*. Indeed, a recent analysis published by the National Bureau for Economic Research finds that increased use of tax shelters lies behind the growing unexplained gap between the profits that corporations report to their shareholders and the much lower profit figures they report to the IRS; Citizens for Tax Justice estimates that in 2002 less than half of corporate profits were subject to the corporate income tax. A reduction in dividend taxes should be considered only as part of a *deficit-neutral* corporate tax reform package that also curbs corporate tax avoidance and closes unproductive tax shelters. The Administration has rejected this balanced approach in favor of a one-sided approach that will impose long-term costs on the economy.

In addition, the proposal has a number of specific weaknesses, such as:

- **Not an effective stimulus.** Although the proposal's stated goal is to address the weakness in the economy now, most investors would not receive a tax cut from it until well over one year from now (when they file their 2003 taxes in early 2004). More than 90 percent of the tax cut's ten-year cost of $364 billion would not be incurred until *after 2003* — that is, until after the economy is expected to have recovered from the current downturn. Further, most of the benefits would flow to high-income individuals, who are likely to save rather than spend more of a tax cut than moderate- and lower-income families would; yet only if the dollars are spent will they stimulate the economy. Overall, as a recent Congressional Research Service study concludes, "using dividend tax reductions to stimulate the economy is unlikely to be very effective."
- **Skewed toward the wealthy.** Claims that the proposal's benefits would be spread broadly across a growing "investor class" are misleading. Many middle-class investors

hold the bulk of their investments in tax-deferred retirement accounts; yet only taxable accounts are directly affected by the proposal. According to preliminary Urban-Brookings Tax Policy Center estimates, nearly two-thirds of the tax-cut benefits would flow to the top five percent of the population, since they own the lion's share of stocks in taxable accounts. Tax filers with incomes over $1 million — the top 0.2 percent of tax filers, with an average income that exceeds $3 million — would receive nearly 30 percent of the benefits, reflecting an average tax cut of more than $27,700 from this proposal. In contrast, those with incomes between $30,000 and $40,000 would see an average tax cut of $29. It is worth noting that the 2001 tax-cut package, like this proposal, also gave the bulk of its benefits to high-income taxpayers.

- **Harmful to states.** The proposal would worsen the fiscal crisis in the states, which already face their largest budget shortfalls in the last half-century. Because of the linkages between state and federal tax codes, cutting or eliminating the individual tax on dividends would likely reduce *state* revenues by more than $4 billion per year. This would force states to raise taxes or cut spending to compensate, which in turn would undercut efforts to stimulate the economy.

- **Potentially harmful to small businesses and interest-sensitive parts of the economy.** By making dividend-paying corporate stocks a more attractive investment, the proposal would cause investment dollars to shift away from other sectors of the economy, such as small businesses. Further, some funds can be expected to shift from bonds into stocks, causing interest rates to rise as the bond market attempts to attract new investment. Higher interest rates will make home mortgages and car loans more expensive for consumers and will impose a burden on borrowers, such as states and some businesses.

- **Not a big boost to the stock market.** Supporters of the proposal claim it will significantly buoy the stock market (by making dividend-paying stocks more valuable) and thereby bolster both consumer confidence and the overall economy. This claim is likely exaggerated. Over half of dividends are paid to tax-exempt accounts such as pension funds and thus would not be directly affected by the proposal. In any event, attempting to stimulate the economy via an increase in the stock market is a very indirect approach to boost consumer spending and much less efficient than direct measures such as program increases or tax cuts aimed at lower- and middle-income individuals.

- **Unlikely to promote long-term economic growth.** The preponderance of economic research indicates that sustained budget deficits reduce national savings, which results in less investment and ultimately lowers the nation's income. Sustained budget deficits would become more likely under the proposal because of the substantial and permanent revenue losses it would cause.

If the goal is providing an immediate economic stimulus, the Center's report states, measures that extend and strengthen unemployment benefits, provide temporary fiscal assistance to the states, or direct a one-time tax cut to lower- and moderate-income working families would be far more effective than eliminating individual taxes on corporate dividends. Moreover, these temporary economic stimulus proposals would not worsen the long-term budget outlook, unlike the permanent dividend tax cut.

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ASSESSMENT OF BUSH GROWTH PLAN

By Robert Greenstein

The Administration's $674 billion growth package represents a radical departure from actions taken during previous downturns by Presidents and Congresses of both parties. The proposal is striking in a number of respects.

- **The plan is extremely inefficient as a stimulus.** It would cost $674 billion through 2013 but would put out only $59 billion in the first year, the period when stimulus is needed. With more than $11 in overall cost for every $1 put out this year, the plan may constitute the most inefficient stimulus during any downturn in recent American history. Furthermore, much of the $59 billion itself would not be injected into the economy in 2003 because it would be saved rather than spent. Both economic research and common sense indicate that tax cuts for high-income individuals are more likely to be saved rather than spent than are tax cuts for middle- and low-income workers, and the dividend tax cut and tax rate accelerations the Administration is proposing — which would account for half of the tax cuts in 2003 — are heavily skewed to the top of the income spectrum. Preliminary data from the Tax Policy Center show that in 2003, some 60 percent of the tax cuts would go to the top 10 percent of taxpayers.

- **The plan is striking in its degree of fiscal profligacy.** It would add at least $925 billion to deficits between 2003 and 2013. (The total figure amounts to at least $925 billion because the Treasury would have to make at least $250 billion in increased interest payments on the debt over this period, as a result of the higher deficits the plan would cause.) It makes sense to increase the deficit during the present period when the economy is weak, but not after the economy has recovered. With the huge costs that will result from the 2001 tax cut, the baby boomers' retirement, and the war on terrorism facing the nation in the years ahead, it is irresponsible for policymakers to be advancing profligate policies that would institute new, permanent claims of this nature on the budget. This action stands in sharp contrast to the steps taken under President Reagan in 1982, when the marked deterioration of the fiscal outlook led to bipartisan action to scale back the tax cut passed the year before, not to large, permanent tax cuts added on top.

- **The plan is heavily tilted to those at the top of the income scale.** While the plan contains middle-class tax cuts, they are *temporary* — they simply accelerate tax cuts that have already been enacted. By contrast, the most affluent Americans would receive a lavish new tax cut that is *permanent* — the elimination of taxes on corporate dividends.

There is no "free lunch." These tax cuts ultimately would be paid for either by swelling the deficit, which in the long run would likely result in higher interest rates and less economic growth, or by deep budget cuts, most likely in programs for the middle class and the poor. Over time, middle-class families could well be net losers.

- **Two immediate losers would be states and working poor families.** The plan's dividend tax cut would remove more than $4 billion a year from state treasuries, making state budget deficits deeper at a time when states already face their worst fiscal crises in 50 years. Since states must balance their budgets each year, the result would be larger budget cuts and tax increases at the state level. Although some media reports over the weekend suggested the plan would contain some fiscal relief for states, it turns out to contain none. (The plan includes $4 billion for "reemployment training accounts;" this money would finance a new program and does not represent fiscal relief to states.)

  Millions of the low-income working families that pay payroll tax but do not earn enough to owe income tax — such as a married couple with two children that earns $20,000 a year — could lose because they apparently would receive no tax cuts but could face higher interest rates on purchases they make and be subject to deeper budget cuts in state-financed programs. Interest rates would likely rise for two reasons: 1) eliminating the tax on dividends would make stocks relatively more attractive than bonds, causing interest rates on bonds to rise in order to attract sufficient capital and thereby raising interest rates throughout the economy; and 2) the increase in long-term deficits would likely exert upward pressure on long-term interest rates. Such increases in interest rates would raise the cost of home mortgages and loans for cars and household purchases.

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PRESIDENT'S TAX PROPOSALS WOULD REDUCE STATE REVENUES BY $64 BILLION OVER 10 YEARS

By Iris J. Lav

There are 11 tax proposals in the President's budget that would affect state revenues, causing states to lose up to $64 billion over the next 10 years. These provisions all would reduce in various ways the amount of a taxpayer's income that is potentially subject to tax. Because most states with an income tax use the federal definition of adjusted gross income as the basis for their own income taxes, these proposed federal tax cuts would flow through to the states and reduce state income tax revenues.

The provisions that would reduce state revenues include the elimination of the taxation of dividends, an increase in expensing for small businesses, a new charitable deduction for non-itemizers, an "above-the-line" deduction for long-term care insurance premiums, expansion of Archer MSAs, the consolidation of employer-based retirement savings accounts, and several others (see table). One provision — the expansion of Roth IRAs (renamed Retirement Savings Accounts) and the creation of the Lifetime Savings Accounts — appears to increase both federal and state revenues in the near term. Over time, however, these provisions would cause a large loss of revenue at both the federal and state levels.

According to the Administration's budget, these 11 provisions will result in a net federal revenue loss of $153 billion in the five years between 2004 and 2008. The federal revenue loss grows to $277 billion in the subsequent five years from 2009 to 2013.

As a rule of thumb, one can roughly estimate that aggregate state revenue losses from these types of tax cut provisions would equal about 15 percent of the federal revenue loss. Thus, if these provisions were enacted, states would stand to lose $23 billion between 2004 and 2008. As the proposed savings accounts grow in cost over time, so would the state revenue loss. The state revenue loss would rise to more than $41 billion over the subsequent five years from 2009 to 2013.

These revenue losses are on top of the state revenue losses that resulted from the 2001 tax law changes. In particular, the estate tax changes enacted in 2001, and which are made permanent in the President's budget, have a $75 billion cost to states in the 2004-2013 period. While approximately one-third of the current cost of the estate tax changes to states has been avoided because 17 states are "decoupled" and thus have not incorporated the federal changes, it is unclear whether decoupling will be sustainable over the long term.

Tax Proposals in President's Budget That Would Reduce State Revenues
(millions of dollars)

	2004-2008	2009-2013	2004-2013
		Federal Cost	
Eliminate taxation of dividends	-$140,232	-$220,092	-$360,324
Increase expensing for small business	-8,372	-6,211	-14,583
Charitable deduction for non-itemizers	-5,944	-6,627	-12,571
Tax free IRA withdrawals for charitable	-1,944	-2,132	-4,076
Above the line deduction for classroom expense	-1,001	-1,351	-2,352
Above the line deduction for long-term care premiums	-6,641	-21,614	-28,255
Archer MSAs	-1,777	-3,357	-5,134
Exclude employer-provided computers	-249	-305	-554
Exclude 50% gains conservation property	-209	-322	-531
Expand tax free savings	14,820	-12,818	2,002
Consolidate employer-based accounts	-1,269	-1,742	-3,011
Total Federal Cost	**-$152,818**	**-$276,571**	**-$429,389**
		State Cost	
State Loss (15% of federal cost)	**-$22,923**	**-$41,486**	**-$64,408**

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January 16, 2003

States Would Lose Under Administration "Growth Plan"

The full report can be viewed at http://www.cbpp.org/1-8-03sfp.htm

On January 16, the Center on Budget and Policy Priorities released *Bush "Growth Plan" Would Worsen State Budget Crises.* The report examines the effects the Administration's proposed "growth package" would have on states, which face their greatest fiscal crisis in half a century. As the Center's report explains, the plan not only provides *no* fiscal relief to the states, but also would:

- **Cost states more than $4 billion a year.** The plan's largest effect on states would come from excluding corporate dividends from the taxable income of individuals. This would reduce revenue in most of the 39 states and the District of Columbia that link their tax systems to the federal taxation of dividends and/or capital gains income; it also might reduce revenue in some other states as well. Preliminary estimates suggest that the changes would cost states between $4 billion and $4.3 billion a year.

- **Force states to institute deeper spending cuts and/or tax increases.** States are struggling with deficits likely to total at least $60 billion for the fiscal year beginning in July. Since states must balance their budgets each year, the revenue loss caused by the Administration proposal will require states to make deeper spending cuts (in areas like health insurance for working families, K-12 education, and public higher education) and/or to raise state taxes to a greater degree.

- **Undercut efforts to spur growth and create jobs.** The program cuts and tax increases states would have to institute to compensate for the loss in revenue would further slow the economy and reduce employment, undercutting efforts at the federal level to stimulate the economy.

- **Raise the cost of state and local borrowing.** The dividend tax cut would draw funds away from the bond market by making dividend-paying stocks more attractive investments. To compete for investor dollars, state and local governments would have to offer higher interest rates on the bonds they use to finance public investments such as schools, transportation, and clean water.

- **Add to state revenue losses from other recent federal actions.** States already have lost billions in revenue as a result of the 2001 federal tax cut and the 2002 stimulus package. For example, changes in the estate tax enacted in 2001 will cost states $16 billion from 2003-2007 and more in years after that. Yet despite this fact, and despite the worst state budget crises in 50 years, the Administration is proposing measures that would make the problem still more acute.

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WHO BELONGS TO THE "INVESTOR CLASS"?

By Joel Friedman

Some supporters of reducing or eliminating individual income taxes on corporate dividends argue that it will benefit a large "investor class" that includes millions of middle-income families. The implication is that a broad cross-section of the American public is now invested in the stock market and that the "investor class" is no longer confined to those with high incomes but has become a more representative group. Although this may be truer than in the past, it misses two fundamental points: First, a significant portion of investments occurs in the context of tax-deferred retirement accounts, particularly for middle-class investors. These investments would be unaffected by proposals that change the tax treatment of stock dividends and capital gains. Second, higher-income taxpayers are not only more likely to have taxable income from dividends and capital gains, but the amount of this income is far higher than for other income groups. In other words, when it comes to stock holdings in taxable accounts, the "investor class" is still dominated by those with high incomes.

These points are demonstrated by data from the Federal Reserve's most recent Survey of Consumer Finances. The SCF data show that in 1998, nearly half of all families had investments in stocks, mutual funds, or retirement accounts.[1] But middle-income families not only had much smaller amounts of assets in these investments than high-income families did, they also had a much larger share of such investments in tax-deferred retirement accounts rather than in taxable accounts.

Using the SCF data, New York University economist Edward Wolff has estimated that in 1998, approximately 85 percent of the value of taxable stocks and mutual funds were held by the top 10 percent of households, when households are ranked according to their net worth. The top one percent of households held 49 percent of the total value of taxable stock and mutual funds. In contrast, the bottom 90 percent of households held only 15 percent of these assets.[2]

Income from Stocks and Mutual Funds

Internal Revenue Service data on income in 2000, the most recent year available, tell a similar story, showing that income derived from taxable stock and mutual fund assets is heavily concentrated at the top of the income spectrum. Only 22 percent of filers with income under

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[1] Arthur Kennickell, Martha Starr-McCluer, and Brian Surette, "Recent Changes in U.S. Family Finances: Results from the 1998 Survey of Consumer Finance," Federal Reserve Bulletin, January 2000.

[2] Note that the Federal Reserve recently released SCF data covering through 2001. These data show that in 2001 *more than half* of all families had investments in stocks, mutual funds, or retirement accounts. However, the detailed data needed to update the Edward Wolff calculations shown above of holdings of *taxable* stocks and mutual funds are not yet available.

$100,000 reported any dividend income in 2000, while 72 percent of filers with incomes between $100,000 and $1 million and virtually *all* filers with income over $1 million reported dividends. Further, the amount of dividends reported rises sharply with income. Some 63 percent of all dividend income was reported by the 8.4 percent of tax filers with incomes over $100,000, and more than one-fifth of all dividend income went to the top 0.2 percent of filers with incomes over $1 million. For those with incomes over $1 million who reported corporate dividends, average dividend income totaled more than $75,000 — 65 times more than the average for filers who reported dividends and had income below $100,000.

INCOME FROM CORPORATE DIVIDENDS, 2000

Income	Share of all returns	Dividends*		
		Share of returns with dividends	Share of all dividend amounts	Average dividend for those with dividends
Under $100,000	91.6%	22.2%	37.0%	$1,159
$100,000 to $1,000,000	8.2%	71.9%	41.8%	$4,511
Over $1,000,000	0.2%	96.3%	21.2%	$75,463
All returns	100.0%	26.4%	100.0%	$2,411

Source: David Campbell and Michael Parisi, "Individual Income Tax Returns, 2000," *Statistics of Income Bulletin*, Fall 2002.

* Dividend amounts have been adjusted to exclude interest from mutual funds. These interest amounts are classified as dividends for tax purposes, but are assumed not to be part of the Administration's proposal to exempt corporate dividends from individual taxation. The amounts for dividends in the IRS data were reduced across-the-board by 44 percent to adjust for the mutual fund interest, following the methodology used for this adjustment by the Urban Institute-Brookings Institution Tax Policy Center.

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IMPACT OF ADMINISTRATION "GROWTH" PACKAGE ON THE ELDERLY

By Joel Friedman

Supporters of the Administration's "economic growth" package frequently stress the impact of these tax cuts on the elderly. In particular, they maintain that a significant share of the benefits of the proposed exemption from individual taxes of corporate dividends would flow to the elderly. Although the elderly as a group would receive a large relative share of the Administration's proposed tax cuts, these benefits would flow predominately to those elderly individuals who have high incomes.

According to estimates prepared by the Urban Institute-Brookings Institution Tax Policy Center, nearly 15 percent of the total tax-cut benefits of the "growth" package would go to tax filers over the age of 65. But of this total going to the elderly:

- About 14 percent would flow to those over age 65 with incomes exceeding $1 million a year, and who represent just 0.2 percent of all elderly. These very high-income elderly would receive an average tax cut of over $90,000 in 2003.

- Over 60 percent of the benefits would go to those elderly with incomes over $100,000, who account for only about 11 percent of all elderly tax filers.

- Fewer than 11 percent of the benefits would flow to the elderly with incomes of less than $50,000, even though this group represents two-thirds of all filers over age 65. Overall, this group of elderly would receive *less than 2 percent* of all the benefits from the total tax-cut package.

The Administration has also portrayed its tax cuts as advantageous for the elderly by noting that "13 million elderly would receive an average tax cut of $1,384." But highlighting the *average* tax cut is misleading, because Tax Policy Center data show that only 79 percent of elderly tax filers — nearly four out of five — would get less than this amount. About 40 percent of elderly tax filers would receive less than $100 from the Administration's package.

Impact of Dividend Tax Cut on the Elderly

Tax Policy Center estimates also show the misleading nature of the claims that the proposed dividend tax cut would greatly benefit the elderly. The estimates confirm that a significant share of the benefits of the dividend tax cut — 37 percent — would go to those over age 65. But these benefits would be concentrated in a small group of elderly who have high incomes.

- Nearly 43 percent of the benefits of the dividend exemption that would accrue to elderly individuals would flow to the 2.5 percent of elderly people with incomes exceeding $200,000.

- More than three-quarters of the benefits that would go to the elderly from this tax cut would flow to the 19 percent of elderly with incomes above $75,000.

- Elderly people with incomes below $50,000 — a group that represents two-thirds of all of the elderly in the nation — would receive only 11 percent of the tax cut going to the elderly and *only 4 percent* of the total dividend tax cut.

By citing a statistic showing that a large share of the benefits from the dividend exemption would go to the elderly, some proponents of this tax cut appear to be trying to foster the impression that it would benefit the average or typical elderly person. This is not the case. The majority of elderly have fairly modest incomes and would receive little or nothing from this tax proposal.

Overall, the benefits of the Administration's tax-cut proposals would flow predominately to a small group of individuals with high incomes, and a number of these high-income taxpayers happen to be elderly. That this is so does not alter the fact that most elderly people would receive little or no benefit from the Administration's proposal. In fact, many elderly could be adversely affected if the tax cuts resulted in fewer resources being available for programs upon which ordinary elderly people rely.

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PRESIDENT'S OWN EXAMPLE SHOWS BULK OF TAX PACKAGE IRRELEVANT TO MIDDLE-INCOME AMERICANS

by Andrew Lee and Isaac Shapiro

In response to criticism that his tax cut plan is skewed towards upper-income taxpayers, President Bush noted in a speech on January 9 that, under his proposal, a family of four making $40,000 would see its federal income taxes fall 96 percent in 2003, from $1,178 to $45. This represents a tax cut of $1,133. (If one includes other federal taxes such as payroll taxes, the percentage reduction in the family's taxes is much smaller; see text box below.)

While it is true that this family's income taxes would be cut by $1,133, closer examination reveals that the tax cuts that would benefit this family constitute less than one-quarter of the overall cost of the proposal. In other words, more than three-quarters of the package could be jettisoned and the $40,000 family mentioned by President Bush — as well as most other middle-class families — would receive just as much help. Thus, the example unintentionally illustrates the point that most of the tax cuts do not in fact help middle- or lower-income families.

The family of four with $40,000 receives its $1,133 tax cut through three provisions:

- The acceleration of the widening of the 10 percent bracket from $12,000 to $14,000 saves this family $100. (The family will have $2,000 taxed at the 10 percent rate instead of the 15 percent rate, saving $100.)

- The acceleration of the "marriage penalty relief" increase in the standard deduction from $7,950 to $9,500 saves the family $233. (The family will have its taxable income reduced by $1,550. Since it faces a 15 percent marginal tax rate, this saves the family $233.)

- The acceleration of the increase in the child tax credit from $600 to $1,000 saves the family $400 per child, or $800 overall.

Over ten years, the increase in the 10 percent bracket costs $48 billion, the "marriage penalty relief" increase in the standard deduction costs approximately $25 billion, and the increase in the child tax credit costs $91 billion. The three provisions thus cost a combined $164 billion. This is less than one-fourth of the entire $670 billion cost of the tax cuts in the Administration proposal.

Furthermore, the provisions that benefit middle-income families would merely accelerate tax cuts which are already scheduled — in contrast to the $364 billion dividend exclusion, which

would provide a new, permanent tax cut primarily for high-income earners. Over the long-term, middle-class families would receive *no new* tax-cut benefits while high-income earners would receive large and permanent new tax cuts from the dividend exclusion.

It is also worth noting that many lower-income families are entirely left out of the Administration's tax plan. For example, a married family with two children and $20,000 in earnings (such as two minimum wage earners) would receive no benefit whatsoever from the tax package. According to the Urban Institute-Brookings Institution Tax Policy Center, nearly 11 million families with children — or one-fourth of all families with children — would receive no benefits from the proposed tax cuts.[1] These lower-income families are excluded despite the fact that they are most in need and most likely to spend additional funds and stimulate the economy.

Finally, while accelerating the widening of the 10 percent bracket, the "marriage penalty relief" increase in the standard deduction, and the increase in the child tax credit would provide benefits to middle-income families, accelerating these measures would not meet the standards for a well-designed stimulus package. As the Chairmen and Ranking Members of the House and Senate Budget Committees stated in setting forth bipartisan principles for economic stimulus in October 2001, all stimulus measures should be temporary and sunset within one year if possible. Accelerating these provisions of the 2001 tax cut would entail new costs every year through 2010, deepening deficits in years long after the economy has recovered. Indeed, the large majority of the costs of the three provisions discussed here — more than 80 percent — occur in 2004 and beyond.

Administration Percentage Includes Only Federal Income Taxes

The family of four making $40,000 would receive a 96 percent cut in federal *income* taxes. The family's federal income tax liability would fall from $1,178 to $45. This family, however, pays much more in federal payroll taxes than in federal income taxes. When one includes just the family's *employee* share of $3,060 in payroll taxes, they would receive a more modest 27 percent cut in federal income and payroll taxes. Furthermore, most economists have concluded that workers bear the burden of both the employee and the employer payroll taxes, with the employer portion being passed on to workers in the form of lower wages. If one includes both the employee and employer portions, the family pays $6,120 in payroll taxes and would receive a 16 percent reduction in federal income and payroll taxes under the Administration's plan.

A recent analysis from the Urban Institute-Brookings Institution Tax Policy Center shows that among tax filers with wage earnings, 90 percent of those with income below $100,000 pay more in payroll taxes than in individual income taxes.*

* William Gale and Jeffrey Rohaly, "Three-Quarters of Filers Pay More in Payroll Taxes Than in Income Taxes," *Tax Notes*, January 6, 2003.

[1] www.taxpolicycenter.org, Table 5 on the Administration's stimulus proposal.

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TOTAL COST OF BUSH "GROWTH PACKAGE" EXCEEDS $900 BILLION

$674 Billion Figure Doesn't Include Cost of Increased Interest Payments

By Richard Kogan

The Administration estimates that its "growth package" will reduce tax revenue and increase expenditures by $674 billion over the period 2003-2013. This figure does not include the cost for higher interest payments on the debt that would result from the package. These increased interest costs, which would be an inevitable result of the plan, would total at least $250 billion over this period. The total cost of the package to the Treasury — and the amount by which deficits would increase (or surpluses be reduced in the unlikely event that surpluses return during this period) would be at least $925 billion.

Measuring the Costs of Tax Cuts and Spending Increases

When the Office of Management and Budget and the Congressional Budget Office measure the cost of a budget proposal, they first compare what projected revenues and expenditures would be if the proposal is enacted with projected revenues and expenditures if current law remains unchanged. In the case of the Administration's new package of tax cuts, the $674 billion figure represents the Administration's estimate that revenues would be $670 billion lower and expenditures $4 billion higher than if the plan is not enacted.[1]

Any proposal that reduces revenues or raises expenditures increases budget deficits (or reduces budget surpluses). As a result, the federal debt is larger than it otherwise would be. The Administration's proposal is no exception. By increasing projected deficits (or reducing projected surpluses) by $674 billion, it would significantly increase the debt relative to what it otherwise would be.

The Treasury pays interest on the debt. Any proposal that increases the debt above what it otherwise would be thus causes the Treasury to make interest payments that are higher than previously projected, since interest will have to be paid on a larger amount of debt.

By making reasonable assumptions about the year-by-year path of the $674 billion cost of the Administration's package (based on the Administration's estimate of the cost of the

[1] Material released by the Treasury and Labor Departments shows $670 billion in revenue losses and $4 billion in expenditure increases, for a total of $674 billion. The expenditures increases are for the proposed new "personal re-employment accounts."

package in 2003 and on past year-by-year estimates of the cost of various tax cuts enacted in 2001 that would be accelerated), we are able to derive the year-by-year amount of extra debt and consequently the extra interest payments the package would entail. We use CBO's standard model for calculating interest costs that result from tax cuts or spending increases. The result is an estimate that the added interest costs over the period 2003-2013 would total more than $250 billion.[2] Combined, the direct costs of the tax cut package and the resulting interest costs thus amount to more than $925 billion.

Combining the direct costs and the interest costs of any budget proposal is sound budgeting. The combined cost must be known to determine what effect the proposal would have on the budget and whether the proposal is affordable. OMB documents have followed this approach in showing the total costs of previous tax cuts; for example, OMB's Mid-Session Review of July 2002 displays a ten-year estimate of the cost of the June 2001 tax cut that includes the interest costs.[3] The $925 billion estimate presented here employs the same approach.

[2] Our exact estimate of the increased interest costs is $265 billion over 2003-2013. This estimate is likely to change by a small amount when Congressional analysis is complete. The precise year-by-year path of the tax cuts is not yet known, and CBO has not yet publish new interest rate assumptions (it will do so later this month). For purposes of this analysis, we use an estimate of $250 billion to be conservative.

[3] OMB, *Mid-Session Review, Fiscal Year 2003,* Table 2 on page 6.