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WAYS AND MEANS COMMITTEE REPUBLICANS' USE OF JOINT TAX COMMITTEE DATA IS DEEPLY DECEPTIVE

Data Say *Nothing* About Who Would Win Or Lose From the Rangel Bill

By Robert Greenstein and Aviva Aron-Dine

In a November 8 press release, Ways and Means Committee Ranking Member Jim McCrery claimed that new estimates from the nonpartisan, highly respected Joint Committee on Taxation (JCT) show that Ways and Means Committee Chairman Charles Rangel's recently-introduced tax reform bill would raise taxes on 113 million households.[1] The claim is false; the JCT found nothing of the sort. Unfortunately, some media outlets have taken the press release at face value and reported the deception as fact.

The estimates touted in the press release were produced in response to Rep. McCrery's request that JCT compare two hypothetical scenarios and report how many taxpayers would pay more in taxes under the first as compared to the second:

- If Rep. Rangel's revenue-neutral Alternative Minimum Tax (AMT) proposal were enacted *and the 2001 and 2003 tax cuts were allowed to expire*,

Vs.

- If all of the 2001 and 2003 tax cuts and AMT relief were extended *without any offsets*.

Not surprisingly, taxpayers pay more under a scenario in which all of the 2001 and 2003 tax cuts expire as compared to a scenario in which all of those tax cuts are extended. But this has nothing to do with Rangel's bill, which does not touch the 2001 and 2003 tax cuts, neither extending nor terminating them. Indeed, a comparable "analysis" of tax bills introduced by various Republican House members that deal with issues other than the 2001 and 2003 tax cuts (such as Ways and Means Member Phil English's bill repealing the AMT) would portray all of those bills as large tax increases as well.

Moreover, the JCT has analyzed the Rangel bill's actual effects, as distinguished from a hypothetical scenario that does not represent the bill. The JCT found the Rangel bill would *reduce* taxes for 90 million households, while increasing taxes for a few million households with high incomes. The JCT also found that the Rangel bill would neither increase nor decrease tax revenues in the aggregate; it found that the bill is *revenue-neutral*, not a tax increase.[2]

Rep. McCrery's press release is thus deeply misleading. For two main reasons, the estimates say nothing about who would win or lose from the Rangel bill.

1. The McCrery press release rests on the premise that because the Rangel bill is silent on the subject of the 2001 and 2003 tax cuts, it is designed to let those tax cuts all expire. By that logic, *every tax bill enacted since 2001 has raised taxes on millions of Americans*.

Rep. Rangel has made clear that his bill is an *AMT proposal*, not a statement on what should happen to the 2001 and 2003 tax cuts. In a November 8 statement, Rangel reiterated, "We can deal with 2010 when we get to 2010, but we need to fix the AMT now."[3] In addition, House Democrats have made clear they support extending substantial parts of the 2001 and 2003 tax cuts, provided the costs are offset.[4]

- The large numbers of moderate- and middle-income families that Rep. McCrery's press release shows as better off if the 2001 and 2003 tax cuts are extended would benefit almost exclusively from three provisions of those tax cuts: the 10 percent tax bracket, the Child Tax Credit, and the marriage penalty relief provisions.[5] It makes no sense to claim that if Congress were to pass the Rangel AMT plan, that means Congress has decided that these three provisions, which enjoy broad bipartisan support, should expire. Yet that claim is the foundation of the McCrery press release.

- If any major tax bill that does not extend the 2001 and 2003 tax cuts is tantamount to saying that those tax cuts should expire, and if that constitutes a tax increase, then all of the tax bills that the Republican Congresses passed between 2002 and 2006 qualify as large tax increases. By the same logic, the 2001 tax bill itself was a massive tax increase starting in 2011.[6]

2. The McCrery press release assumes that deficit-financed tax cuts are a free lunch.

Rep. McCrery's press release describes the JCT estimates as measuring the effect of Rep. Rangel's proposal against a "reality baseline." In fact, the estimates do exactly the opposite: they measure the effects of the Rangel proposal against a fantasy baseline in which trillions of dollars in tax cuts can be provided with no one ever footing the bill. It is hardly surprising that $3 trillion in deficit-financed tax cuts would leave most people with lower tax burdens than a $1 trillion individual-income-tax reform proposal that is fully paid for.[7] But this is not even comparing apples to oranges; it is comparing cotton candy to spinach.

Tax cuts are not free. As the Administration's own Treasury Department has found, tax cuts do *not* pay for themselves.[8] Nor can they be financed with higher deficits forever (especially since, even without additional unpaid-for tax cuts, the nation is already on an unsustainable fiscal path). Eventually, today's unpaid-for tax cuts have to be offset with tomorrow's tax increases or program cuts. Indeed, the same JCT estimates that Rep. McCrery cites show that extending the 2001 and 2003 tax cuts and AMT relief without offsets would add more than $2,000 per-year per-tax filer to the national debt.

Data from the Urban-Brookings Tax Policy Center show that if the costs of the 2001 and 2003 tax cuts and AMT relief are eventually paid for through measures that reduce income by the same percentage for households at every income level (which is roughly what could occur under a balanced package of program reductions and progressive tax increases), the bottom *four-fifths of U.S. households* will end up *worse* off, on average, than in the absence of the tax cuts.[9] In other words, once the measures that ultimately will be needed to finance the tax cuts are taken into account, a large majority of Americans will likely lose, rather than gain, from Rep. McCrery's preferred approach: extending the 2001 and 2003 tax cuts and AMT relief in a way that piles up higher deficits and debt rather than stepping up to the plate and paying the bill now.

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[1] The press release is available at http://republicans.waysandmeans.house.gov/News/PRArticle.aspx?NewsID=162. The JCT estimates are available at http://republicans.waysandmeans.house.gov/distribution_tables_jct.pdf.

[2] Joint Committee on Taxation, "Estimated Revenue Effects of Proposals Contained in 'The Tax Reduction and Reform Act of 2007,'" October 25, 2007.

[3] Press release available at http://waysandmeans.house.gov/news.asp?formmode=release&id=589.

[4] As the House-passed budget resolution stated, "It is the policy of this resolution to support extension of middle-income tax relief and enhanced economic equity through policies such as — (1) extension of the child tax credit; (2) extension of marriage penalty relief; (3) extension of the 10 percent individual income tax bracket… This resolution assumes the cost of enacting such policies is offset…"

[5] Tax Policy Center estimates show that these three provisions account for about 85 percent of the tax cuts received by households in the middle fifth of the income spectrum. Isaac Shapiro and Joel Friedman, *Tax Returns: A Comprehensive Assessment of the Bush Administration Tax Cuts*, Center on Budget and Policy Priorities, April 2004.

[6] The large "cliff" in the tax code in 2010 exists because Congress chose to sunset the 2001 tax cut bill, in part so as to reduce its scored cost and thus squeeze more tax cut provisions into the allotted budgetary limit. Another factor was that congressional leaders elected to use the budget "reconciliation" process — previously used only for deficit *reduction* legislation — to pass three major tax-cut bills that were not paid for and that *increased* deficits. Use of the reconciliation process enabled tax-cut proponents to pass these bills with 51 Senate votes rather than 60, but the unpaid-for tax cuts had to be temporary in order to comply with reconciliation rules. In contrast, President Regan used the *regular* process — rather than reconciliation — to pass the 1981 tax cuts, which were permanent reductions.

[7] Over the 2008-2017 period, extending the 2001 and 2003 tax cuts and AMT relief would provide $3.0 trillion in tax cuts; over the same period, the Rangel bill would provide about $1 trillion in individual-income tax cuts and offset their cost.

[8] See James Horney, "A Smoking Gun: President's Claim That Tax Cuts Pay for Themselves Refuted by Administration's Own Analysis," Center on Budget and Policy Priorities, July 11, 2006, http://www.cbpp.org/7-11-06bud.htm.

[9] William G. Gale, Peter R. Orszag, and Isaac Shapiro, "The Ultimate Burden of the Tax Cuts: Once the Tax Cuts Are Paid For, Low- and Middle-Income Households Likely to Be Net Losers, On Average," Center on Budget and Policy Priorities, June 2, 2004, http://www.cbpp.org/6-2-04tax.htm.