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FACT SHEET
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TAX-CUT RECONCILIATION AGREEMENT SEVERELY FLAWED

Whether one looks at the conference agreement bill from the standpoint of fiscal responsibility, of budgetary integrity, or of fairness, the agreement is seriously flawed.

- **More, and more, tax cuts**. The bill officially costs $70 billion, but the conferees stayed within the $70 billion limit set for the bill only by also agreeing that a second tax-cut bill will follow in coming weeks. That bill will reportedly include more than a dozen tax cuts that were in *both* the House- and Senate-passed reconciliation bills but were dropped from the final agreement to make room for a two-year extension of the capital gains and dividend tax cuts.

  All of these other tax cuts have already expired or will expire at the end of 2006. Extending them for one year would cost $20 billion. Moreover, the cost of a second tax bill could end up being much higher (particularly in an election year) as more tax cuts are added.

  Congressional leaders pursued this costly, two-bill strategy to extend the capital gains and dividend tax cuts for two years, even though those tax cuts will not expire until the end of 2008. Congressional leaders concluded they would rather use the filibuster protections that apply to a reconciliation bill to help extend the capital gains and dividend tax cuts than to extend the other expiring tax cuts, which are more popular and thus more likely to overcome any 60-vote challenge.

- **Gimmicks to evade Senate rules.** The agreement depends on budget gimmicks to create the appearance that it complies with a key rule that bars reconciliation bills from increasing long-term deficits. The agreement relies heavily on timing shifts; it moves corporate tax payments between years to mask revenue losses that occur after 2010. Most troubling, the bill includes a substantial tax cut for affluent households disguised as an offset. This provision, which would allow high-income individuals to convert regular IRAs to Roth IRAs, would raise revenue initially but lose larger amounts of revenue in later years, according to analyses by the Joint Tax Committee, the Congressional Research Service, and the Tax Policy Center. The temporary increases in revenue would be used to help "offset" the cost of the capital gains and dividend tax cut in 2011-2013, but the eventual revenue losses, which would start in 2014, would continue to grow in the years after 2015, when the official cost estimate ends. As a result, the conference agreement would increase long-term deficits, in violation of the Senate rule.

- **$20 for the middle class, $43,000 for millionaires.** Middle-income households would get an average tax cut of just $20 from the agreement, according to preliminary estimates by the Urban Institute-Brookings Institution Tax Policy Center, while the 0.2 percent of households with incomes over $1 million would get average tax cuts of $43,000, and the top 0.1 percent of households (whose incomes exceed $1.6 million) would get average tax cuts of $84,000. The benefits are skewed this way largely because of the capital gains and dividend tax cuts that Congressional leaders went to such lengths to protect. Nearly half (45 percent) of the benefits of extending the capital gains and dividend tax cuts will go to households with annual incomes over $1 million.

This tax reconciliation agreement is the second of two reconciliation bills authorized under last year's budget resolution. The first reconciliation bill, enacted in February, cut entitlement programs by $39 billion over five years, including programs such as Medicaid that assist low-income families, elderly people, and people with disabilities. Congressional leaders promoted that bill as a deficit-reduction measure. It now is clear, however, that the first reconciliation bill is being used not to reduce the deficit but rather to offset a little more than half of the cost of the tax cuts contained in the new tax reconciliation conference agreement. The combined effect of the policies in the two reconciliation bills will be to increase deficits, while further widening disparities between the most well-off households and Americans of more modest means.