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HOUSE WAYS AND MEANS ACTION TO DATE ADDS $300 BILLION TO COST OF ADMINISTRATION'S TAX CUTS

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To date, the House Ways and Means Committee has considered four of the major components of the Administration's tax package — rate reductions for taxpayers in the higher income tax brackets, creation of a new 10 percent bracket, expansion of the child tax credit, and marriage penalty relief. Although the Committee has made certain modifications in the President's proposals, the Ways and Means bills are the best indicator of the progress of the Administration's tax cuts in Congress.

- The Joint Committee on Taxation estimates the two House bills (H.R. 3 and H.R. 6) that include these four elements will reduce revenues by $1.34 trillion between 2002 and 2011. This is $221 billion — or nearly 20 percent — more than the Administration's budget shows for these four components. When the added interest payments on the national debt are taken into account, the difference rises to nearly $300 billion.

- The House has not yet considered a number of provisions of the Bush tax-cut plan — including repeal of the estate tax, among others — that the Administration's budget estimates will reduce revenues by $531 billion. Yet the House has only about $310 billion left for tax cuts if it plans to stay within the often-cited $1.6 billion amount for tax reductions (an amount that does not reflect the cost of the increased interest payments that will accompany the tax cuts).

Comparison of the Cost of Proposals the House Has Considered (in billions of dollars, 2002-2011)

	House Action	Bush Budget	Difference
Reduce rates for upper brackets	-$560	-$501	-$59
Create new 10% bracket	-378	-311	-67
Expand child credit	-176	-193	+17
Marriage penalty relief	-224	-112	-112
Total	-1,337	-1,116	-221
Debt service costs	-339	-266	-74
Total, including debt service	-1,676	-1,381	-295

Note: "House Action" reflects Joint Committee on Taxation estimates, while "Bush Budget" figures are Administration estimates for the comparable provisions in the February 28th budget.

The $1.6 Trillion Target

In the budget blueprint that President Bush sent to Congress on February 28, he included tax cuts totaling $1.647 trillion over the ten years from 2002 to 2011.[1] In defending its tax-cut package against those who would like to increase its size by adding even more tax cuts and those who would like to scale the package back, the Administration maintains that the size of its package is "just right" — neither too big, nor too small. The Administration has indicated that it will work with Congress to address some of the shortcomings of the package, such as its lack of fiscal stimulus. But it has said it is committed to keeping the total level of tax cuts at $1.6 trillion over ten years. In its budget, the Administration also included associated interest costs of nearly $400 billion, bringing the total cost of its tax-cut package to $2.0 trillion.

The House Budget Committee has basically accepted the President's level on tax cuts. The budget resolution that committee adopted on March 21 provides $1.639 trillion for tax cuts over ten years. Like the Administration's budget, the Committee assumes outlays associated with increases in certain refundable credits. When the refundable portions of the tax changes are included, the total reflected in the House budget resolution is $1.679 trillion without interest costs and $2.1 trillion when the additional interest payments are included.

Given the $1.3 trillion cost of the four provisions the House Ways and Means Committee has approved (two of which, the rate reductions and the creation of the 10 percent bracket, were passed by the full House on March 8) and the Administration's stated goal of holding the tax cut to $1.6 trillion, only about $310 billion is available to pay for the remaining tax cuts the President has proposed. Yet the President's budget estimates these remaining provisions will cost $531 billion. The largest of the outstanding provisions is repeal of the estate tax, which alone would cost $267 billion over ten years, according to the Administration's estimates. Other tax cuts proposed by the Administration that Congress has not yet considered include the permanent extension of the research and experimentation credit, a deduction for charitable donations for taxpayers that use the standard deduction, and a tax credit for individuals to purchase health insurance.

Moreover, none of these totals include the cost of addressing problems associated with the Alternative Minimum Tax. The Joint Tax Committee estimates that the number of taxpayers subject to the AMT, which was originally designed to ensure that high-income taxpayers did not make excessive use of tax shelters and thereby avoid paying income tax, will grow from 1.5 million in 2001 to 20.7 million in 2011 under current law. The Bush tax proposals, particularly the rate reductions that apply to the upper brackets, would increase the number of taxpayers

[1] The tax-cut package in the February 28 budget included additional proposals that were not in the package the President submitted to Congress on February 8, which was identical to his campaign proposals. For instance, the budget included $123 billion over ten years of "additional tax incentives," the largest of which is a refundable tax credit to purchase health insurance. The $1.647 trillion total includes these additional tax cuts as well as the outlays associated with proposals that have a refundable component.

Initial Signs of the Same Pattern in the Senate

This discussion focuses on action taken in the House. The Senate Finance Committee, however, recently approved several tax-cut provisions related to education, including an expansion of Education IRAs. The Administration included $6 billion over ten years in its budget for education-related tax cuts. The cost of the Senate Finance Committee bill is $21 billion.

In approving the Affordable Education Act on March 13, the Senate Finance Committee increased the annual contribution limit for Education IRAs from $500 to $2,000. The President proposes a $5,000 limit by 2006. The Committee measure also expands the exclusion for employer-provided educational assistance to include graduate as well as undergraduate education (and makes this exclusion permanent). This and most of the bill's other provisions are not part of the Bush plan.

affected by the AMT by another 15 million by 2011, bringing the number of taxpayers who would be subject to the AMT that year to 35.7 million. Preventing these additional 15 million taxpayers from being subject to the AMT — an action Congress is virtually certain to take at some point — will add another $292 billion over ten years to the cost of the Bush plan, according to the Joint Tax Committee. Although the Ways and Means Committee included in the bill it approved on March 22 certain small adjustments to the AMT that are not part of the President's plan, these provisions will not have a significant effect on the cost of addressing the daunting AMT problems.

In summary, House Ways and Means Committee action on provisions of the Bush tax-cut plan have exceeded by $221 billion over ten years the cost of the comparable provisions in the Administration's budget. Part of this difference reflects Joint Tax Committee estimates that certain tax cut proposals will cost more than the Administration's budget assumes. In other cases, these differences reflect Ways and Means modifications to the Bush proposals. The House will have to scale back radically the remainder of the Bush tax proposals — shrinking them by nearly half — if it hopes to stay within the $1.6 trillion limit that the Administration has endorsed (and that the budget resolution the House Budget Committee approved would set). Even larger reductions in the remaining provisions of the President's plan will have to be made if the Joint Tax Committee estimates higher costs than the Administration for those proposals, which seems likely, or if the House hopes to accommodate other popular tax cuts, such as legislation to expand pension tax preferences, while holding the revenue loss from the tax cuts to $1.6 trillion.

On the other hand, if the House continues on its current course, it will breach the targets the President and its budget committee have set and use an even larger share of the surplus for tax cuts. If the House passes the remaining Bush tax proposals in the form the President has proposed, then House action will cost $1.9 trillion over ten years even before one adds in the increased interest payments on the debt, and $2.3 trillion with the interest payments. If one were to include the cost that ultimately will be borne to address the problems in the AMT, the total rises to $2.6 trillion or higher.

Appendix
Congressional Action To Date

To date, the House Ways and Means Committee has approved two pieces of legislation that contain four major provisions of the Bush tax-cut package. One of these bills has passed the House. In some areas, the Committee modified the President's proposal.

Most recently, on March 22, the Ways and Means Committee approved H.R. 6, which includes two elements of the President's plan. The House is expected to consider this measure the week of March 26. The bill includes the following provisions:

- **Marriage penalty relief —** The House Ways and Means Committee proposal has three components: it increases the income level at which the 15 percent tax bracket ends and the 28 percent bracket begins for married couples; it increases the standard deduction for married couples to twice the size of the standard deduction for single filers; and it expands the Earned Income Tax Credit for married couples. The expansion of the 15 percent bracket would be phased in slowly, becoming fully effective only in 2009. This approach differs from the President's proposal, which called for allowing couples to deduct 10 percent of the earnings (up to $30,000) of the lower-paid spouse.

  The Joint Committee on Taxation estimates that the Ways and Means provisions would cost $224 billion over ten years, or double what the Administration had allocated for marriage penalty relief in its budget. The Ways and Means bill also includes provisions to ensure that the number of taxpayers subject to the AMT does not increase as a result of the marriage penalty relief provided in the bill.

- **Child credit expansion —** The Ways and Means Committee bill doubles the child credit from $500 to $1,000 per child, as the President proposed. The Committee would make a $600 credit available in 2001 (a year sooner than the President proposed) and then gradually increase the credit amount until it reaches $1,000 in 2006. The Committee did not include the President's proposal to extend the child credit to married couples with two children and incomes between $130,000 and $300,000. The Committee also enlarged a provision of current law under which the child credit is partially refundable, with the refundable amount limited to the amount by which the employee share of a family's payroll taxes exceeds the family's Earned Income Tax Credit. Currently, this limited refundability is available only to families with three or more children; under the bill, it would be extended to families with one or two children as well. Like the President's plan, the Ways and Means bill also makes permanent a provision of current law that is scheduled to expire at the end of 2001 under which the child credit can be applied to a family's AMT liability.

The Joint Committee estimates that expanding the child credit as proposed in the Ways and Means bill would cost $176 billion over 10 years. This total is $17 billion less than what the President estimated his child credit expansion would cost.

The Ways and Means Committee also approved H.R. 3, which was subsequently passed by the House on March 8. H.R. 3 includes the following provisions from the President's plan:

- **Rate reductions —** The bill reduces the 28 percent and 31 percent marginal tax rates to 25 percent, and the 36 percent and 39.6 percent rates to 33 percent. The rate reductions are phased in and are fully effective in 2006. This provision, which is identical to the President's proposal, is the most costly component of the President's package. The Joint Committee estimates this provision will cost $560 billion over ten years, $59 billion more than the Administration estimated.

- **New 10 percent bracket** — The bill creates a new 10 percent bracket that applies to the first several thousand dollars of taxable income — the first $6,000 for a single filer and the first $12,000 for a couple. This new lower-rate bracket would be phased in, with the 10 percent rate effective in 2006. The President's budget would phase in this new rate slowly, beginning at 14 percent in 2002. The House bill accelerates the President's proposal by setting the new rate at 12 percent and making it first effective in 2001. The Joint Committee estimates the House provision will cost $378 billion over ten years, $67 billion more that the President allocated in his budget for the new 10 percent bracket.