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NICKLES AMENDMENTS TO BUDGET RESOLUTION WOULD UNDO TAX-CUT REDUCTIONS PASSED TO PAY FOR WAR AND EASE EFFECTS ON DEFICITS

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The Senate voted last week to reduce by \$100 billion the \$726 billion that the Senate budget resolution includes for an “economic growth” tax-cut package in order to set \$100 billion aside to help cover the cost of the war in Iraq. The Senate voted today to further reduce the “economic growth” package to \$350 billion to ease the effects on deficits and the national debt. Senate Budget Committee Chairman Don Nickles and other Senators, however, are now poised to offer amendments to undo the effects of these changes.

Some of the Nickles amendments may seem appealing to some Senators at first blush; these proposals are presented as amendments to provide funds in the budget for various popular tax cuts. In fact, the amendments do *not* fund the specific tax cuts in question. The real effect of these amendments would be to raise back up the total amount allowed for the reconciliation tax-cut package, thereby partially or entirely undoing the votes to scale back these tax cuts so they do not add so heavily to deficits and the national debt and so that the budget can accommodate the initial costs in Iraq. (It should be noted that the \$100 billion set aside to cover the costs of the war is modest; this will cover only part of the costs of the war and its aftermath. The Administration intends to request \$75 billion in an emergency supplemental just to cover the cost of the conflict and related activities for the initial months. The total costs over a number of years are virtually certain to exceed \$100 billion, possibly by a large amount.)

- The Nickles amendments are presented as providing funds for tax cuts such as continuing the child credit expansion in 2011-2013. The amendments do not, however, actually provide funds for these tax cuts; funds provided for a reconciliation tax-cut package can be used for any tax-cut provisions. By increasing the size of the reconciliation package, the principal purpose that the Nickles amendments would serve is to enable the reconciliation bill to include more tax cuts — and in particular, to increase the chances that the bill will include the entire proposal to eliminate the taxation of corporate dividends.
- Furthermore, some of the tax-cut items ostensibly funded under the Nickles amendments — such as extending the child tax credit and the 10 percent tax bracket through 2013 — *are already covered* under the Senate budget resolution. These provisions are covered under the tax cuts that the budget resolution assumes outside the “growth” package. If Congress believes these provisions should become law, it can enact them under the budget resolution as it already stands, through regular budget procedures. (Alternatively, Congress can substitute them in the reconciliation bill for other features of the growth package, such as the dividend proposal.) An increase in the size of the reconciliation tax-cut target is not needed.

These issues are discussed further below.

Amendments Related to the Child Tax Credit and the 10 Percent Bracket

Two of the amendments filed by Senator Nickles — one to extend the \$1,000 child tax credit through 2013, and the other to extend the 10 percent tax bracket through 2013¹ — are designed so they increase the tax cuts in the reconciliation package but do not increase the overall amount of tax cuts in the budget resolution. As noted, these two tax cuts already are assumed to be part of the total tax cuts contained in the resolution. These amendments essentially use these two tax-cut proposals as a justification for increasing the total amount of tax cuts that would receive reconciliation protections.

Assumptions in the budget resolution about how tax cut dollars allotted to the Senate Finance Committee for the reconciliation tax-cut package will be used are, however, *not binding* on the Committee. Only the overall dollar figure for the package is binding. Thus, there is no particular reason to believe that the increase in the reconciled tax-cut level that would result from these amendments would actually lead to inclusion in the reconciliation package of provisions to extend the child tax credit or the 10 percent bracket. These tax-cut provisions could — and likely would — be replaced when the actual reconciliation legislation is written by the President's proposed tax cut for stock dividends or other Administration tax-cut priorities. Moreover, since the overall tax-cut total contained in the current budget resolution already allows for these tax cuts, increasing the size of the reconciliation tax cut is not necessary to accommodate these two proposals.

The Other Amendments

Unlike the amendments related to the child tax credit and the 10 percent bracket, the other four tax-cut amendments that Senator Nickles has filed (and that other senators may offer on his behalf) are *not* currently assumed to be part of the budget resolution. The cost of these amendments would total \$247 billion over the next 10 years and much more after that. The four amendments relate to eliminating the 5-year holding period for capital gains, at a cost of \$10.2 billion over 10 years; extending and increasing the bonus depreciation level, at a cost of \$34.7 billion; permanently extending the research and experiment tax credit, at a cost of \$56.4 billion; and eliminating certain taxes on Social Security benefits that apply to the one-fifth of Social Security beneficiaries with the highest incomes, at a cost of \$145.6 billion. The Social Security amendment was offered on March 25 and fell just short by a 51-48 vote. It may be voted on again on March 26.

These amendments, unless accompanied by offsets, would increase both the overall size of the tax cuts in the resolution *and* the reconciliation tax cuts. Here, too, the increase in the amount to be reconciled could be used for *any* type of tax cut, not just the tax cuts named in the amendments. The principal effect of these amendments, as well, would likely be to create room within the reconciliation package for most or all of the dividend tax cut.

¹ The expansion of the child tax credit and the creation of the 10 percent bracket were part of the tax-cut measure enacted in 2001. All of the provisions of that legislation expire at the end of 2010.