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BRIEF OVERVIEW OF THE ADMINISTRATION'S TAX-CUT AGENDA

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Despite the dramatic deterioration in the budget picture over the past two years, President Bush is proposing tax cuts that total $1.6 trillion through 2013, according to the Joint Committee on Taxation. This would more than double the amount of tax cuts enacted since he took office. Moreover, this $1.6 trillion estimate leaves out two key additional costs:

- By increasing the national debt, the proposed tax cuts would make interest payments on the debt costlier. This raises the total cost of the proposals to $1.95 trillion through 2013.
- Unless changes are made to the Alternative Minimum Tax, millions of middle-class filers will have to pay the AMT over the next decade. As a result, AMT relief is inevitable. The Administration's budget includes AMT relief only through 2005, even though the AMT problem becomes even more acute later in the decade. The Administration has stated its intent to continue AMT relief after 2005 (and to propose this in a future budget) but does not show these costs in its current budget.

When the added interest payments and AMT relief after 2005 are included, the total cost of the Administration's tax-cut agenda rises to $2.7 trillion through 2013.

The cost of these proposals, which are described below, will continue to mount in later decades. This is of critical importance because starting in the 2010s, the large-scale retirement of the baby boomers (and the resulting increase in Social Security and Medicare costs) will place intense pressure on the budget even without these tax cuts. In other words, the revenue loss from the tax cuts will skyrocket at the same time as the need for revenue to finance the baby boomers' retirement increases.

The Administration's "Economic Growth" Package

The two major pieces of the growth package are the elimination of individual taxes on corporate dividends and the acceleration of certain pieces of the 2001 tax cut — such as the cuts in income tax rates for upper-income filers and the expansion of the child tax credit — so they take full effect in 2003. Although a response to the continuing slow economy, the package is very poorly designed as an economic stimulus. Only about $40 billion of its cost would occur this fiscal year, when a stimulus is needed. In addition, most of the benefits of the package would go to higher-income households, which are less likely than lower-income households to inject new funds they receive into the economy by spending them immediately.

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

	Revenue Loss	Interest	Total
"Economic Growth" Package	$726	$268	$994
Make 2001 Tax Cuts Permanent	$624	$48	$672
All Other Bush Tax Proposals	$225	$55	$280
Fix Alternative Minimum Tax	$658	$111	$769
Total	**$2,233**	**$483**	**$2,716**

The Administration states that the package will provide an average tax cut of $1,083 in 2003. However, *four-fifths of taxpayers will receive less than this amount.* The average figure is skewed upward by the much larger tax cuts that higher-income families would receive. For example, households with incomes over $1 million would receive an average tax cut of $90,222. (Similarly, the Administration has used averages in a misleading fashion to overstate the benefits of the plan to the elderly and small business owners.)

Making the Entire 2001 Tax Cut Permanent

Like the "growth package," the 2001 tax cut — which is scheduled to expire by the end of 2010 — is aimed primarily at upper-income households. For example, when the tax cut is fully in effect, the total benefits it provides *just to the top 1 percent of taxpayers* will be 1½ times the size of the Department of Education budget and nearly nine times the size of the EPA budget.

Making the tax cut permanent would lock in these revenue losses, requiring large and growing cuts in federal programs in coming years. It also would primarily benefit a group whose income has risen much more rapidly than that of lower- or middle-income households.

Tax-Free Savings Accounts and Other Tax-Cut Proposals

The Administration proposal to create two new individual savings accounts would give high-income households a major new opportunity to shift savings into tax-free accounts. For example, a wealthy couple with two children would be able to put *$45,000 a year* into tax-free accounts. Since as the Treasury Department acknowledges, more than half of all households have negligible assets for investment or none at all, they have little to gain from the proposal.

In addition, while the proposal's short-term cost is negligible (creating the illusion of affordability), its long-term cost could be massive. Under the accounts the proposal would create, earnings would accumulate tax free and would not be taxed upon withdrawal. Over time, the proposal would significantly reduce the amount of investment income that would be taxed.

The President's new budget also contains more than two dozen smaller tax cuts in a variety of areas. A number of these are costly and could have damaging effects. For example, the proposed tax credit for the purchase of individual health insurance would weaken employer-based health coverage, but is unlikely to make comprehensive health insurance coverage affordable for most lower-income individuals and families.

Fixing the Alternative Minimum Tax

Roughly 2 million taxpayers face the Alternative Minimum Tax today; close to 40 million will face it a decade from now unless action is taken. The Administration has included temporary AMT relief in its "growth package," delaying the advent of this problem through 2005. Further, the Administration has said it plans to continue AMT relief after 2005 but does not include these costs in its budget. The estimate given in the table reflects the cost of continuing to limit the AMT after 2005 along the lines of the Administration's AMT relief proposal that would run through 2005. (The AMT could be reformed in a deficit-neutral fashion, such as by directing the tax away from the middle class and increasing it for higher-income taxpayers, but the Administration has given no indication that it will agree to such a solution and no one expects it to do so.)