



CENTER ON BUDGET AND POLICY PRIORITIES

820 First Street, NE, Suite 510, Washington, DC 20002
Tel: 202-408-1080 Fax: 202-408-1056 center@cbpp.org www.cbpp.org

COMPARISON OF THE STATUTORY PAY-AS-YOU-GO RULE IN EFFECT FROM FISCAL YEARS 1991 THROUGH 2002¹ WITH THE VERSION APPROVED MARCH 17, 2004, BY THE HOUSE BUDGET COMMITTEE

	PAYGO statute, 1991-2002	PAYGO as approved by the House Budget Committee
Tax cuts	The costs of tax cuts must be offset (or “paid for”) in the current year, the coming year, and each of the subsequent four years. The costs can be offset either by tax increases (in the same or separate bills) <i>or</i> by entitlement cuts (in the same or separate bills)	Tax cuts do not need to be offset.
Entitlement increases	The cost of entitlement increases must be offset in the current year, the coming year, and each of the next four years. The costs can be offset either by entitlement cuts (in the same or separate bills) <i>or</i> by tax increases (in the same or separate bills)	Entitlement increases need to be offset by other entitlement cuts (in the same or separate bills). Tax increases can not be used to pay for entitlement increases.
Refundable tax credits	The expenditure portion of refundable tax credits are costs and so need to be offset, as above.	An extension of the 2001/2003 refundable tax credits is treated as a tax cut and so does not need to be offset, but any <i>other</i> new or expanded refundable tax credits are treated as an entitlement increase and so do need to be offset by an entitlement cut.
Enforcement	If at the end of any session of Congress OMB finds that, for the fiscal year just started, the costs of tax cuts or entitlement increases enacted since the imposition of the PAYGO rule have <i>not</i> been fully offset, the president is required to “sequester” specified entitlements to make up for the costs that are not paid for. (This sequestration is an across-the-board cut in entitlement programs.) A number of entitlements are exempt from sequestration. But Medicare, farm price supports, veterans’ education benefits, and social services grants to states (among others) are subject to sequestration.	No change (except that tax cuts are not part of the calculations).

¹Each year between 1999 and 2002, Congress suspended the “pay-as-you-go” rules to accommodate deficit-increasing measures — such as the 2001 tax-cut package — and avoid a sequester; the “pay-as-you-go” rules expired after 2002.