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NEW JOINT TAX COMMITTEE ESTIMATES RAISE COST OF BUSH TAX PLAN

Cost Now Well Over \$2 Trillion

New Joint Tax Committee cost estimates of several elements of the Bush tax plan, which were released March 1 in conjunction with House Ways and Means Committee action, show that the cost of the Bush tax cuts is mounting. The Joint Tax Committee estimates find that the cost of the plan's income tax rate reductions exceeds the cost listed in the Administration's budget.

The Joint Tax Committee estimates also show that the rate reductions in the Bush plan would raise the number of taxpayers subject to the Alternative Minimum Tax to a stunning 36 million by 2011 — or about one of every three taxpayers. In addition, the Joint Committee estimates indicate that enactment of the proposed rate reductions would increase the cost of fixing the problems in the AMT by several hundred billion dollars over 10 years.

- The budget the Administration issued on February 28 shows that the tax cut would consume \$2.0 trillion in projected surpluses. The Administration's estimates show the tax cuts would lose a little more than \$1.6 trillion in revenue over 10 years and would raise the cost of interest payments on the national debt by nearly \$400 billion, for a total cost of \$2.0 trillion.¹
- The cost estimate the Joint Tax Committee released March 1 shows that the Bush proposal to reduce the 28 percent, 31 percent, 36 percent, and 39.6 percent tax rates would cost \$59 billion more over 10 years than the Administration's budget estimates.
- The Joint Tax Committee also provided a cost estimate for the Bush proposal that would create a new 10 percent tax bracket; the estimate includes the effects of the Ways and Means Committee action to accelerate the phase-in of this provision. Primarily because of the faster phase-in, the cost of this provision is \$67 billion higher than the cost listed for this provision in the Administration's budget.
- This additional \$126 billion in tax reductions, shown by the Joint Tax estimates, results in additional interest costs of \$54 billion. This brings the overall added

¹ The budget shows the tax proposals costing \$1.647 trillion (of which \$1.62 trillion consists of tax reductions and \$27 billion of refundable tax credits). The budget also lists net spending initiatives of \$180 billion. The budget shows that the resulting \$1.83 trillion in total revenue reductions and spending increases would result in a \$417 billion increase in interest payments on the debt. Some \$373 billion of this \$417 billion in added interest payments results from the tax cuts.

cost to \$180 billion, raising the cost of the tax cut from \$2.0 trillion to \$2.2 trillion.

- Further increases in cost may occur when the Joint Tax Committee issues its estimates for the cost of other components of the Bush tax plan. A comparison of the estimate of the cost of the Bush plan that the Joint Tax Committee issued last May to the estimates in the Administration's budget suggests the Joint Committee's forthcoming estimate of other aspects of the plan also is likely to exceed the Administration's figures.

The Joint Tax Committee's Shocking AMT Estimates

Another new analysis the Joint Tax Committee released in conjunction with the Ways and Means Committee action finds that the rate reductions the Committee approved would result in 15 million additional taxpayers becoming subject to the Alternative Minimum Tax by 2011. To prevent the rate reductions in the Ways and Means bill from subjecting these additional 15 million taxpayers to the AMT would require changes in the AMT that, according to the JCT analysis, would cost \$292 billion over the next ten years.

The bill's rate reductions are taken from the Bush plan. That plan fails to address the bulk of the AMT problem identified by the Joint Tax Committee.² A substantial portion of the \$292 billion in added cost is not included in the Administration's estimate of its plan. This cost, however, will eventually have to be paid; neither party will stand by and allow one of every three taxpayers to be hit with the complexities (and increased tax burdens) of the AMT. The Bush plan thus ultimately entails a cost to address the AMT; the figure is likely to be several hundred billion dollars, including associated interest costs. This would likely raise to approximately \$2.5 trillion over ten years the amount of projected surpluses that ultimately will be consumed if the Bush plan becomes law.

The Alternative Minimum Tax was intended to prevent high-income taxpayers from using a combination of tax breaks that would eliminate most or all of an individual's income tax liability. Taxpayers must pay the larger of either their normal income tax bill or the income tax they would owe under the AMT.

Because of flaws in the AMT's design, growing numbers of taxpayers will become subject to the AMT unless the problems in the AMT are addressed. According to the new Joint

² The Bush tax proposal changes the AMT only with respect to the child tax credit (both the existing credit and the President's proposed increase in the credit). In September 2000, the Joint Tax Committee provided estimates for 2002 to 2010 showing that the Bush plan, including the AMT change related to the child credit, would increase the number of taxpayers being subject to the AMT by 12.2 million in 2010; this compares to the Joint Tax Committee's new estimate that H.R. 3 would result in 13.8 million additional taxpayers subject to the AMT in 2010 (and, as noted above, in 15 million additional taxpayers being subject to the AMT in 2011).

Tax Committee analysis, the number of taxpayers subject to the AMT is expected to rise under current law from 1.5 million taxpayers in 2001 to 20.7 million in 2011.

The income tax rate cuts in H.R. 3 (the legislation the Ways and Means Committee approved March 1) would further increase the number of people subject to the AMT, because the income taxes these people would owe under the regular income tax would now be lower than what they would owe under the AMT. The Joint Tax Committee estimates show that under the Ways and Means bill, the number of taxpayers affected by the AMT would rise to 35.7 million in 2011. In other words, the bill would result in an additional 15 million taxpayers being thrown into the AMT (i.e., 15 million taxpayers on top of the filers who would become subject to the AMT under current law). Under the Ways and Means bill, approximately one-third of all people who would pay income taxes would be subject to the AMT by 2011.³

The Joint Tax Committee estimates find it would cost \$292 billion over ten years just to keep these additional 15 million taxpayers from becoming subject to the AMT as a result of these tax-rate reductions. This estimate does not reflect the cost of addressing the underlying problems in the AMT that, if not fixed, will push the number of taxpayers subject to the alternative tax from 1.5 million to nearly 21 million by 2011 even in the absence of these tax cuts. Fixing this underlying problem will entail additional costs beyond the \$292 billion.

³ The Ways and Means Committee bill includes a small provision to address problems arising from the interaction of the AMT and refundable credits. However, this provision, which costs \$15 billion over ten years, does not address the fundamental problems that the current AMT structure creates and that the Bush tax cut would aggravate.