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# COST OF TAX CUT WOULD MORE THAN DOUBLE TO $5 TRILLION IN SECOND TEN YEARS

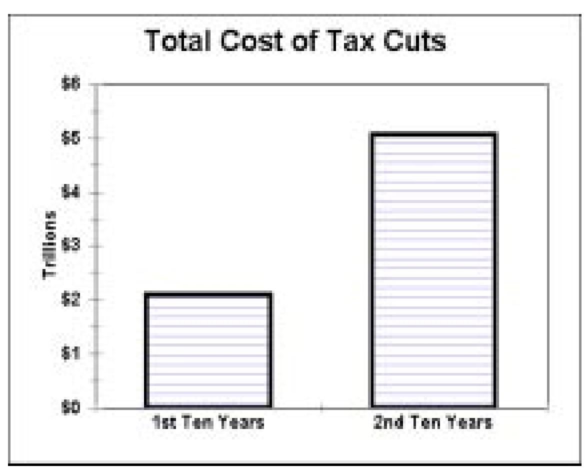
## Tax Cut Would Worsen Deteriorating Long-term Budget Forecasts

The full report can be viewed at http://www.cbpp.org/4-2-01tax.pdf

On April 2, the Center on Budget and Policy Priorities released a report, *Cost of Tax Cut Would More Than Double to $5 Trillion in Second Ten Years.* The report explains that because the Bush tax cuts (in the form the House of Representatives is passing them) would phase in slowly, their cost in the second ten years provides a better picture of their budgetary impact than their cost in the first decade. In that second ten-year period — 2012 to 2021 — the cost of the tax cuts would more than double, reaching $5 trillion. The report also notes that while budget projections for the next ten years have improved, *long-term* budget projections have worsened. As a result, the budgetary room for large, *permanent* tax cuts or spending increases has contracted, rather than expanded. A tax cut of the dimensions now being considered could cause significant budget problems in the future. The report's findings include:

- Congressional action to date has increased the cost of the tax cuts beyond what the President's budget shows. The total cost of three House bills — H.R. 3, H.R. 6, and H.R. 8 — as estimated by the Joint Committee on Taxation, plus the cost shown in the President's budget for the remaining components of the Bush tax plan, would be $1.8 trillion. After adding the Joint Tax Committee's estimate of the cost of modifying the Alternative Minimum Tax to prevent 15 million more taxpayers from becoming subject to the AMT by 2011 because of the Bush plan — a cost most observers agree will be incurred — the ten-year cost equals $2.1 trillion, not counting interest payments.

- The cost of the tax plan would double over the following ten years (2012-2021), rising from $2.1 trillion to $5 trillion, again before counting interest costs. All of the tax cuts would be fully in effect in the second ten years. This estimate generally assumes that once a tax cut is fully in effect, its cost will remain constant as a share of the economy; this is a standard assumption in projecting longer-term revenue costs. (In constant 2001 dollars, the cost would be $1.8 trillion in the first



ten years and $3.7 trillion in the second ten years. Thus, the cost doubles even when the effects of inflation are removed.)

The cost for the second ten years might be reduced by several hundred billion dollars if highly effective measures can be designed, enacted, and enforced to rein in the substantial income tax avoidance that the Joint Tax Committee has concluded will occur as a result of repeal of the estate tax. It is unclear, however, whether this is achievable.

- The tax cut's cost in the second ten years is so high because the House would delay implementation of key provisions so that only a portion of their cost appears in the initial ten years. For example, the House took a more costly approach to tax relief for married couples than the Administration proposed, but masked much of this increased cost by postponing full implementation of its most expensive marriage tax provision until 2009.

- The most serious "backloading" occurs in the House Ways and Means Committee bill to repeal the estate tax. That bill delays repeal of the estate tax until 2011, the last year in the budget window. The bill's cost in the first ten years is $186 billion, or 70 percent lower than the $662 billion the Joint Tax Committee estimated a broadly similar repeal proposal would cost if it were implemented immediately. The full cost of the Ways and Means estate tax repeal will therefore only be felt in the years after 2011, helping to explain why the cost of the Bush package as modified by the House is so much larger in the second ten-year period than in the first ten years.

- The high cost for the second ten-year period is of particular concern because that is when the costs associated with the retirement of the baby boom generation are increasingly felt. The Congressional Budget Office, the General Accounting Office, and outside analysts agree that unless Congress raises taxes or cuts programs, those deficits eventually will become too large for the budget or the economy to handle. The GAO recently reported that if the Social Security surplus is saved but the non-Social Security surplus is used for tax cuts or program increases, the total budget will slide back into deficit in 2019, with deficits rising rapidly in years after that and eventually reaching levels dangerous for the economy. A Bush tax cut whose costs mushroom in the second decade would risk aggravating this problem.

- Even more unsettling is the fact that the long-term budget forecast has *worsened* in recent projections, due to adoption of higher estimates for the rate of growth in health care costs over the long term. The Comptroller General (the head of General Accounting Office) recently testified that although the budget forecast for the next ten years has brightened, "the long-term fiscal outlook looks worse." The Medicare Trustees' recent report on the long-term financial status of Medicare reflects the same trends; it projects a long-term financing gap that is more than 60 percent larger than the Trustees projected a year ago.

- The deterioration in the long-term budget picture suggests that the room available for permanent tax cuts or spending increases has shrunk, not grown larger. Very large tax cuts — such as those contained in the President's tax plan as modified by the House, with a cost of $5 trillion over the second ten years — would exacerbate the long-term deficit problem the nation faces and make it still more difficult to maintain responsible budgets in the future.