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CENTER ON BUDGET AND POLICY PRIORITIES

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SENATE APPEARS POISED TO APPROVE TAX CUT WITH ACTUAL COST OF $660 BILLION

If, as appears likely, the Senate approves a dividend tax cut amendment offered today by Senator Don Nickles that relies on large budget gimmicks, the true cost of the tax bill that passes the Senate would be $660 billion or more through 2013. The Nickles amendment reduces its apparent cost by having the dividend tax cut (as well as some other tax cuts) expire artificially after a few years, but the clear intention is to extend these tax cuts indefinitely.

"The artificial expirations in the Nickles amendment reduce its 'official' cost to fit within the $350 billion limit imposed on the Senate," stated Center executive director Robert Greenstein. "The bill's true cost, though, will be close to double its 'official' cost. The House bill used similar gimmicks and its real cost is more than twice its advertised cost."

"While budget gimmicks are hardly new to Washington, they reached new heights with the 2001 tax cut," noted Greenstein, "and the gimmicks in the House and Senate bills are even more outrageous. Furthermore, the bill that emerges from conference could rely on gimmicks to an even greater degree."

Greenstein warned that the increasing reliance on gimmicks is putting the federal budget on a path toward "Enron-style accounting," in which the official budget projections are "universally seen as unreliable and even fraudulent because they are based on assumptions everyone knows to be false, such as that various major tax cuts will simply be allowed to expire."

Little Economic Benefit Predicted from Dividend Tax Cut

The Nickles amendment would exempt 50 percent of dividend income from taxation in 2003, with the exemption rising to 100 percent of dividend income in 2004. The exclusion would then expire at the end of 2006.

Assuming that the exclusion is extended after 2006 — as its supporters clearly intend — the cost of the dividend tax cut *alone* soars to at least $380 billion through 2013, with the package as a whole costing $660 billion. The cost may rise higher if offsetting tax increases in the Senate Finance Committee bill are dropped in the House-Senate conference, as Senate leaders apparently intend, and further gimmicks are added.

Recent independent analyses by Goldman Sachs and Economy.com have concluded that a dividend tax cut will do little to boost the economy and create jobs in the short term. Furthermore, data issued last week by the Congressional Budget Office show the budgetary situation is continuing to deteriorate. Federal income tax collections are on course to equal a smaller share of the economy this year than in any year since 1943 even without any new tax cuts, and if Congress passes "only" $350 billion in tax cuts, overall federal revenues this year will be on track to fall to their lowest level as a share of the economy since 1959.

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