CENTER ON BUDGET AND POLICY PRIORITIES

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TRUE COST OF NEW TAX LEGISLATION MAY REACH $1 TRILLION

The full report can be viewed at http://www.cbpp.org/5-22-03tax.htm

A new Center report, *New Tax Cut Law Uses Gimmicks to Mask Costs*, shows that the true cost of the "$350 billion" tax package approved by Congress last week may approach or even exceed $1 trillion over ten years if its provisions are extended, as the White House and Congressional Republican leaders say they intend to do. The report also shows that the bulk of the bill's benefits would go to high-income households, while millions of lower-income households would receive no tax cut this year. Specifically, the report finds that the bill:

- **Makes massive use of gimmicks to conceal its true cost.** Every provision in the bill except one officially expires between the end of 2004 and the end of 2008. However, the bill's supporters have stated they will seek to extend most of these provisions in future years. For example, House Speaker Dennis Hastert stated on May 22: "The $350 [billion] number takes us through the next two years, basically. But also it could end up being a trillion-dollar bill, because this stuff is extendable."

  This tactic of passing temporary tax cuts and then regularly extending them is not new, but the 2001 tax cut and now the new tax bill employ it on a vastly greater scale than before, according to a new analysis by Brookings economists William Gale and Peter Orszag. Between 1996 and January 2001, extending all of the temporary tax cuts then in existence would never have cost more than $22 billion in the tenth year. With enactment of the new tax bill, the cost of extending all expiring tax provisions would be $430 billion in the tenth year.

- **Would cost $1 trillion or more if it is extended.** If the bill's provisions (except the one providing relief through the Alternative Minimum Tax) are extended, the cost through 2013 will be $807 billion to $1.06 trillion, depending on how one measures the cost of extending the bill's business depreciation tax cut. Also, the bill will raise the cost of interest payments on the national debt by $300 billion to $400 billion through 2013 if it is extended. As a result, the bill could increase the deficit over that period by $1.1 trillion to $1.5 trillion.

Cost of Bill Through 2013 If Tax Cuts Are Extended (in billions of dollars)

Dividends and capital gains ***[expires 2008]***	*325*
Top-bracket rate reductions	74
Child tax credit ***[expires 2004]***	90
10% bracket ***[expires 2004]***	45
Tax breaks for married couples ***[expires 2004]***	55
Expand §179 business expensing ***[expires 2005]***	*35*
Increase AMT exemption ***[expires 2004]***	18
Expand bonus depreciation ***[expires 2004]***	*145-400*
State fiscal relief	20
TOTAL	*807-1,062*

Source: Joint Committee on Taxation, except estimates in italics, which are derived by the Center on Budget and Policy Priorities.

- **Provides a majority of households with less than $100 this year.** Some 53 percent of all U.S. households — or 74 million households — will receive a tax cut of $100 or less in 2003 from the bill, according to analysis by the Urban Institute-Brookings Institution Tax Policy Center. In addition, 36 percent of households — or 50 million households — will receive no tax cut whatsoever in 2003.

  Among the households that will not receive any tax cut this year are millions of filers who do pay income tax. Single filers in the current 10-percent bracket who do not claim children will receive no tax reduction from the legislation unless they have dividend or capital gains income. (Few of these filers have such income.)

2003 Tax Cut for Households at Different Income Levels	
Bottom 50 million households	$0
Bottom 74 million households	$100 or less
Middle fifth of households	$217 (average)
Households earning $1 million or more	$93,500 (average)

  The average tax cut in 2003 for households in the middle of the income spectrum (i.e., the middle fifth of households) will be $217.

- **Provides lavish benefits to high-income households.** In contrast to the small or non-existent tax cuts that lower-income households will receive, tax filers who make $1 million or more per year will receive an average tax cut in 2003 of $93,500, according to the Tax Policy Center.

  Another sign of the bill's priorities is that it accelerates all of the child tax credit and marriage penalty relief provisions of the 2001 tax-cut legislation that benefit middle- and upper-income families, but none of the comparable provisions of that legislation that benefit low- and moderate-income working families.

- **Is likely to promote tax sheltering.** The bill's capital gains and dividend provisions are likely to lead to increased use of tax shelters by wealthy taxpayers and corporations. For example, the capital gains tax cut gives individuals greater incentive to use tax shelters to convert income normally taxed at the regular individual income rates into income that can be taxed at the lower capital gains rate. Furthermore, while the Senate's version of the tax bill contained provisions designed to curb corporate tax shelter abuses, those provisions were dropped from the final bill.

- **Is likely to prove inefficient at stimulating the economy in the near term.** Because the bill is so skewed to high-income filers, it is likely to prove inefficient in boosting the economy in the near term. High-income households are likely to spend (rather than save) a smaller share of their tax cuts than households of more modest means. Only when tax cuts are spent do they boost the economy in the near term.

- **Intensifies long-term budgetary problems.** As a result of the bill and the 2001 tax cut, federal revenues will drop to their lowest level as a percentage of the economy since 1959. This raises troubling questions about the adequacy of the revenue base, especially in light of the baby boomers' approaching retirement.