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

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Gimmicks Will Make Tax Package Even Poorer Stimulus But No Less Costly

The full report can be viewed at http://www.cbpp.org/4-29-03tax2.htm

A new report from the Center on Budget and Policy Priorities, *Missing the Point,* describes various gimmicks the Administration and some Congressional leaders have been promoting as a way to squeeze the Administration's $726 billion tax-cut proposal into a package that will officially meet the $550 billion limit set by Congress (or into the $350 billion target that applies initially in the Senate). These gimmicks would *not* reduce the package's long-term cost, the report explains. The gimmicks include:

- **Having tax cuts expire after a few years, which would do nothing to reduce costs if, as expected, the tax cuts are subsequently extended.** House Ways and Means Committee Chairman Bill Thomas and some Administration officials have proposed having various parts of the package expire after just a few years. Under Chairman Thomas' plan, for example, all provisions except those most heavily geared to the affluent would expire in 2005. For example, the Child Tax Credit would rise to $1,000 in 2003, but then drop back to $700 in 2006. On paper, this maneuver helps the package fit within the House's $550 billion target. But it is a gimmick, since the clear intention is to extend these provisions in 2005. (Anyone who opposed such an extension at that time would likely be branded as someone who favored increasing taxes on the middle class.)

- **Phasing in pieces of the plan more slowly, which would make the plan less stimulative now but no less costly over the long term.** The Administration and some Congressional leaders have been recommending phasing in the proposed elimination of the taxation of dividends, in order to reduce the cost of the package and help it fit within budget targets. Such a step would have no impact on the measure's long-term cost.

  Both of these first two types of gimmicks — artificial expiration dates and phase-ins — were used to reduce the ten-year cost of the 2001 tax cut so it would fit within the budget targets that applied that year. The artificial sunsets gimmick already has been recycled by the Thomas plan, and the phase-in gimmick may well be recycled in the weeks ahead as well.

- **Using "offsets" that already have been used to pay for other legislation.** To keep their overall cost within the $550 billion or $350 billion limit, the forthcoming tax-cut packages may contain offsetting measures that raise revenues or reduce spending. Some of these offsets, however, may be measures that the Senate or House has already passed. These same offsets may be put into the reconciliation bills as a way to pack more tax cuts into those bills and then passed a second time.

For example, a Senate Finance Committee Republican staff member has told *Congress Daily* that consideration is being given to taking revenue-raising measures that the Senate passed in April to offset the costs of faith-based legislation (known as the "CARE" bill) and using these offsets again in the reconciliation bill. If such offsets are enacted as part of the reconciliation bill, they will have to be removed from the faith-based legislation. But that would mean that unless other offsets were found for the CARE bill, that legislation — which the Administration also is insisting upon — would further increase the deficit.

- **Moving other tax proposals separately in order to make room for the dividend tax cut.** Under this strategy, the dividend tax cut would remain in the package, but proposals that are more popular and consequently less likely to need protection from a filibuster in the Senate — such as acceleration of tax relief for married couples and expansion of the Child Tax Credit — would be removed from the package and moved as separate legislation. (Tax cuts moved outside the reconciliation package do not have to fit under the $550 billion ceiling, although they may need 60 votes in the Senate to overcome a filibuster.) Ironically, analyses by a range of economists indicate that the dividend tax cut, which this maneuver would be designed to protect, would provide significantly less immediate stimulus to the economy than the provisions that would be removed from the package.

These various gimmicks and maneuvers represent ways that the Administration and the Congressional leadership could appear to be complying with the limits the Congressional budget resolution set while pushing legislation that effectively breaches those limits by large amounts. Such maneuvers technically would meet the letter of the budget that Congress adopted. But they would violate its spirit, make the nation's fiscal policy more reckless, and render our economic policies less rational.