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   http://www.cbpp.org

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House Passing Additional Tax Cuts Without Offsets

> The full report can be viewed at http://www.centeronbudget.org/8-1-01tax.htm

On August 1, the Center on Budget and Policy Priorities released a report, *House to Consider Additional Tax Cuts Without Offsets*. The report explains that despite clear signs that the enacted package of $1.35 trillion of tax cuts is already straining the budget, the House of Representatives continues to press ahead with more tax cuts. Tax breaks in energy legislation that the House passed on August 1, combined with other tax breaks the House passed earlier, raise to $61 billion the amount of revenue losses between 2002 and 2011 that the House has adopted beyond the $1.35 trillion package. In combination with that package, this $61 billion exceeds by $41 billion the total amount set aside for tax cuts in the Congressional budget plan. Yet the House has rejected proposals to offset these additional tax cuts. The findings of the Center's report include:

- Passage of additional tax cuts increases the likelihood that in the years ahead, the federal budget will be in deficit outside the Social Security and Medicare trust funds. The added tax cuts thus increase the likelihood that it will be necessary to dip into trust fund surpluses to cover these deficits. Recent Democratic and Republican analyses alike have shown that the combined effect of the enacted tax cuts, other proposals assumed in the Congressional budget plan (such as a prescription drug benefit), and the slowdown in the economy will sharply reduce or eliminate the surplus outside the Social Security and Medicare Hospital Insurance trust funds in coming years.

- The cost of the tax-cut package enacted in early June will soar to $4.1 trillion in the decade after 2011, assuming the tax cut is extended. It is during this period that the baby boom generation begins to retire and Social Security and Medicare costs mount. Enacting more tax cuts now will only push the costs of tax cuts in the second ten years above the $4.1 trillion level and compound the fiscal challenges the retirement of the baby boomers will pose.

The Center's report concludes that at the very least, any new tax cuts should be paid for by scaling back provisions of the enacted tax-cut package or providing offsetting revenues in other ways, such as closing unproductive tax breaks. Rejecting this approach, as the House has done, will both exacerbate short-term budget problems and intensify the long-term fiscal difficulties the nation confronts.