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President Obama's Deficit-Reduction Package and Other Proposals in the 2014 Budget

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Overview

The President's 2014 budget is presented in two parts. One part includes the package of deficit-reduction policies that the President included in his last offer to Speaker Boehner during the "fiscal cliff" negotiations in December 2012. This package would reduce the deficit by $1.8 trillion over the next decade and go somewhat beyond stabilizing the debt as a share of the economy, setting it on a slight downward path. When coupled with the deficit-reduction steps that the President and congressional leaders already have enacted, this package would bring total deficit reduction achieved to $4.5 trillion over the decade.

The Administration has said that Congress could consider this deficit-reduction offer separately from the other proposals in the President's 2014 budget.

While much attention in the coming weeks will focus on the deficit-reduction package, the rest of the President's budget includes important proposals that also deserve serious consideration. These include proposals to expand access to high-quality early education, funding to upgrade the nation's transportation infrastructure, and measures such as the "Pathways Back to Work" fund to help people struggling in today's labor market to prepare for and find jobs. Taken together, the proposals are fully paid for and actually reduce the deficit slightly.

Deficit-Reduction Package Includes Significant Concessions

The deficit-reduction package reflects a compromise position. The proposals in the offer — such as substantial savings in Medicare, the adoption of an alternative cost-of-living adjustment affecting Social Security, and further cuts to non-defense discretionary programs — were made in the context of negotiations where both the President and Speaker Boehner were making significant concessions.

It is unusual for a President to include these kinds of compromise policies in his budget. Typically, the President's budget would include policies that are more akin to an *opening* bid in a negotiation — that is, the President's budget generally reflects his *preferred* policies. This budget, in contrast, reflects the President's position at a stage of the negotiations after several rounds of offers had been made. This budget differs significantly from the approach taken in earlier Obama budgets.

As it stands, the package makes tough policy choices while largely adhering to the principle, as enunciated by the Bowles-Simpson commission, that deficit reduction should not increase poverty or inequality. Nevertheless, the budget's substantial spending cuts, both in entitlements and discretionary programs, would have real-world consequences for millions of individuals and families. Policymakers should consider those proposals only as part of a package that both replaces sequestration and reduces the deficit enough to stabilize the debt, and that includes measures that raise revenue in a progressive manner. To ensure that such a package is balanced, policymakers have little room to cut further into programs without jeopardizing services on which millions of families of modest means rely and shortchanging funding for investments important to future economic growth such as education, research, and infrastructure.

Key Elements of the President's Budget: The Deficit-Reduction Package

The Center on Budget and Policy Priorities has for several years analyzed budget proposals using an alternative baseline that the Committee for a Responsible Federal Budget also uses. The baseline provides a benchmark for measuring proposed deficit-reduction packages on an apples-to-apples basis. (For more information on this alternative baseline, see the Appendix.) We calculated the budget figures used in this analysis in the same manner as our prior analyses of deficit-reduction packages, including the budget resolutions from House and Senate Budget Committee Chairs Paul Ryan and Patty Murray[1] and the original deficit-reduction plan from Alan Simpson and Erskine Bowles when they were co-chairs of the presidential fiscal commission.

The President's budget replaces sequestration with a more balanced mix of spending cuts and revenue increases that secures $1.8 trillion in deficit reduction over the ten-year budget window — significantly more than sequestration. Indeed, it includes enough additional deficit reduction to put the nation on a more sustainable fiscal course. In total, it would reduce the deficit to 1.7 percent of gross domestic product (GDP) by 2023. The budget not only would stop the debt from rising as a share of the economy, it would put the debt-to-GDP ratio on a modest downward path, with debt held by the public dropping from the 2013 level of 77 percent of GDP to 73 percent of GDP by the end of the decade.

The President's deficit-reduction package achieves the $1.8 trillion in deficit reduction through a set of revenue increases and spending reductions. The savings from this package would come on top of the $2.75 trillion in deficit reduction over the same ten-year period that policymakers have enacted since 2010, when they began taking steps to reduce the deficit after the Bowles-Simpson commission finished its work.[2] As Table 1 shows, the combined effect of the budget's deficit-reduction package and the previously enacted measures would be to reduce deficits by $4.5 trillion over the decade.

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[1] See for example Richard Kogan, *An Apples-to-Apples Comparison of the Deficit-Reduction Figures in the House and Senate Budget Plans*, Center on Budget and Policy Priorities, March 19, 2013, at http://www.cbpp.org/files/3-19-13bud2.pdf.

[2] See CBPP, *Most Deficit Savings Have Come from Program Cuts*, http://www.offthechartsblog.org/most-deficit-savings-have-come-from-program-cuts/.

The President's additional budget proposals, which the Administration views as separate from the deficit-reduction package, are more than offset (reducing the deficit slightly).

The deficit-reduction package also includes $50 billion in 2014 funding increases for infrastructure improvements designed to bolster the economy in the short run and invest in the nation's long-term economic health by addressing well-documented infrastructure needs. (See Box 1 on page 5.) The March 2013 jobs report issued last week provides fresh evidence that the economy, though continuing to improve overall, still struggles to produce enough new jobs to lift employment rates.

The approach of gradually reducing the debt ratio while investing in needed infrastructure improvements in the near term stands in stark contrast to the austerity-dominated House Republican budget, which would balance the budget by the end of the decade through very large budget cuts that begin right away. That approach would slow the recovery by imposing significant near-term economic headwinds, in addition to those already in place due to the expiration of the payroll tax cut and the 2013 sequestration cuts.[3]

Table 1

Existing Deficit Reduction Plus Effects of President Obama's 2014 Budget
(Cumulative 10-year totals, 2014-2023, in trillions of dollars)

	Policy Savings	Interest Savings	Total
Already enacted:			
Discretionary programs, relative to 2010 baseline	1.6	0.3	1.9
ATRA ("fiscal cliff" bill, January 2013)	0.7	0.1	0.8
Total deficit reduction to date	**2.3**	**0.5**	**2.8**
Deficit-reduction package in President's budget	1.5	0.2	1.8
Total, enacted and proposed deficit-reduction package	**3.9**	**0.7**	**4.5**
Additional policies in budget	0.1	-*	0.1
Total, enacted and all proposals in the President's budget	**3.9**	**0.6**	**4.6**

*Increases interest costs by less than $50 billion.
May not add due to rounding.
Source: CBPP analysis of *Fiscal Year 2014 Budget of the United States Government,* summary tables

Health Care Programs

The President's budget includes $401 billion in savings in mandatory health care programs — $371 billion from Medicare, $22 billion from Medicaid, and $8 billion from the Federal Employees Health Benefits Program.

More than three-quarters of the Medicare savings stem from reductions in payments to Medicare providers. The largest single proposal — raising $123 billion over ten years — would secure the same low prices for drugs prescribed to low-income Medicare beneficiaries that *Medicaid* pays for

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[3] Joel Friedman and Robert Greenstein, *Commentary: Why Balancing the Budget by the End of the Decade Is Not the Right Goal*, Center on Budget and Policy Priorities, March 20, 2013, at http://www.cbpp.org/cms/?fa=view&id=3935.

those drugs. Due to opposition from the pharmaceutical industry, this drug rebate proposal faces stiff opposition on Capitol Hill. If this sound proposal is not adopted, achieving the Administration's level of Medicare savings will prove very difficult.

This proposal and most of the other Medicare provider proposals were in last year's budget, but there are a few new ones as well. These include reducing payments to Medicare Advantage plans to correct inaccuracies in Medicare's "risk adjustment" system, changing payments for clinical laboratory services, and implementing bundled payments for post-acute care services.

The budget also includes earlier Administration proposals for further structural changes in Medicare. The budget would increase the income-related premiums paid by upper-income beneficiaries and gradually expand those premiums to cover a larger fraction of beneficiaries. It would also increase cost-sharing for *new* beneficiaries by raising the deductible for physician services, introducing co-payments for certain home health care services, and introducing a premium surcharge for those who purchase Medigap supplement plans that provide near-first-dollar coverage (which encourages greater utilization of health care services). Finally, the budget would strengthen the Independent Payment Advisory Board and lower Medicare's target spending growth rate per beneficiary, now set at the rate of GDP growth per capita plus 1 percentage point, to GDP growth per capita plus *0.5* percentage points. The savings from these proposals would grow substantially beyond the ten-year budget window.

The budget also proposes cancelling the 2-percent across-the-board Medicare sequestration and the scheduled 24-percent cut in physician payments required by Medicare's sustainable growth rate (SGR) formula. Thus, a portion of the proposed savings would effectively replace the Medicare savings from the sequestration and SGR cuts.

The budget achieves *Medicaid* savings largely by reducing payments for prescription drugs and durable medical equipment and curbing fraud and abuse. It does not include two prior Administration proposals that would have significantly shifted costs to states — establishing a "blended rate" for Medicaid and the Children's Health Insurance Program and restricting states' use of provider taxes to help finance their Medicaid programs. The Administration now recognizes that shifting costs to states could discourage them from taking up health reform's Medicaid expansion by effectively raising states' share of the expansion's cost. This change in policy affirms that the federal government will continue to pick up nearly all of that cost, as the health reform law requires.

Chained CPI

The budget proposes to use a different measure of inflation, the chained Consumer Price Index (CPI), to adjust benefits in certain programs and key parameters of the tax code (such as the tax brackets, personal exemptions, and standard deductions). The chained CPI fully takes into account consumers' ability to substitute between goods in response to changes in relative prices. It also adjusts for a bias in the regular CPI (the index to which those automatic adjustments are now linked) that results from using small samples in the local indexes that combine to form the national CPI.

Box 1: Higher 2014 Deficit Appropriate Given Weakness of Economy

Some have noted that while the President's budget would shrink deficits substantially over the next decade, putting the debt on a modest downward path as a share of the economy, it nonetheless would result in a somewhat higher deficit in *2014* than under current law (with the sequestration cuts remaining in place). This is a positive, not a negative, element of the plan.

Stabilizing deficits and debt over the longer term is an important goal. The debt cannot grow faster than the economy over many years without impairing future productivity growth and, ultimately, living standards. In a crisis, international credit markets might refuse to lend to the U.S. public or private sectors at a reasonable price. But, given the economy's current weakness, too much deficit reduction too soon would exert a drag on growth, slowing job creation and a return to full employment.

Job creation in March was disappointing, and the drop in the unemployment rate over the past two months (to a still very high 7.6 percent) reflected people's decisions to stop looking for work, not expanded job opportunities. Nearly two out of every five unemployed people have been looking for work for more than six months, many for much longer. Some 22 million people who want to work can't find a job or can only find a part-time job when they want full-time work.

That is why former Office of Management and Budget and CBO director Peter Orszag, former Federal Reserve Board Vice Chairman Alan Blinder, and many other economic and budget experts have said that the right mix of policies is to shore up the still-fragile recovery and increase employment in the short term while enacting serious deficit-reduction measures that will phase in gradually as the economy strengthens.

The President's budget takes this approach. It replaces sequestration — which includes substantial cuts in 2013 and 2014 — with a more balanced deficit-reduction package that phases in spending cuts and revenue increases more gradually, while still shrinking deficits substantially over the decade. The deficit-reduction package also includes $50 billion in infrastructure funding in 2014, which will boost the economic recovery in the intermediate term while complementing private investment in boosting productivity and growth over the longer term. In addition, other proposals in the budget call for additional investment in infrastructure and support for employment-boosting initiatives.

CBO estimates that sequestration will shrink GDP by 0.6 percent by the end of 2013 and cost 750,000 jobs. The approach in the President's budget — replacing those ill-timed cuts with a better-timed package that achieves more deficit reduction by the end of the decade and more growth and jobs now — is sound policy.

The Congressional Budget Office (CBO) assumes that the chained CPI will grow by about 0.25 percentage points per year less rapidly than the regular CPI.

While the budget would apply the chained index to the computation of cost-of-living adjustments (COLAs) in Social Security and federal retirement programs, it exempts means-tested programs, notably Supplemental Security Income for very poor seniors and people with disabilities.

The budget also provides special protection from the switch to the chained CPI for the oldest seniors and others who receive Social Security for a very long time. That would take the form of a special increase — equal to 5 percent of the *average* retiree benefit, or about $750 a year in today's dollars — for long-term recipients, phased in gradually for elderly beneficiaries between ages 76 and 85 and for disabled beneficiaries who have been on the rolls for 15 years or more. The adjustment would start in 2020.

A laudable feature of the proposed benefit "bump" is that it gives more help to seniors receiving smaller Social Security benefits. All beneficiaries would receive the same basic *dollar* increase, which would translate into different *percentage* increases in benefits — 5 percent for an average beneficiary, about 10 percent for a low-paid worker, and about 2 percent for those at the top. Both the benefit "bump" and this progressive feature were part of both the Bowles-Simpson and Domenici-Rivlin deficit-reduction plans.

The chained CPI, which would take effect in 2015, contributes $230 billion in savings over the 2015-2023 period — $130 billion in benefit reductions and $100 billion from additional revenue.

Cuts in Discretionary Program Funding

The budget proposes to replace sequestration for all years — 2013 through 2021 — with other deficit-reduction measures. While most of the proposed deficit reduction is in the form of higher revenues and lower entitlement spending, the budget also reduces funding for discretionary programs by $200 billion below the already austere caps set in the 2011 Budget Control Act (BCA). The $200 billion in proposed cuts are evenly split between defense and non-defense programs, consistent with the President's December offer to Speaker Boehner. Non-defense discretionary programs include a broad set of government functions, such as education, public health, law enforcement, veterans' health care, housing supports for low-income families, and scientific and medical research.

The cuts in non-defense discretionary program funding are ill-advised. The BCA funding caps already significantly constrain this area of the budget. In fact, under the BCA caps, spending for non-defense discretionary programs is on track to reach, by 2016, its lowest level on record as a share of the economy (these data go back to 1962). This area of the budget, which has been cut significantly in recent years and is not a driver of longer-term deficits, would be cut still more deeply under the President's budget.

That said, the additional cuts in the President's budget do not take effect until 2017, by which time the economy is expected to have recovered. Also, while non-defense and defense discretionary spending would be lower under the President's budget than under the BCA caps, they would be substantially above the extremely low levels to which they will fall if sequestration remains in place.

Upper-Income Revenue Increases

The deficit-reduction component of the budget includes two proposals that together would raise $583 billion in revenues from upper-income taxpayers.

- **Limit on tax deductions and exclusions.** This proposal would affect only taxpayers in tax

Box 2: Spending Outside Social Security and Medicare Would *Fall* as a Share of GDP Under Obama Budget

Under the Obama budget, including both the deficit-reduction package and the rest of the budget proposals, federal spending outside Social Security and Medicare would fall as a share of GDP.

- Non-defense discretionary spending would fall from 3.7 percent of GDP in 2013 to 2.5 percent in 2023, the lowest level on record with data back to 1962.
- Spending for mandatory programs other than Social Security and Medicare — a budget category that includes Medicaid and the costs of the health reform law — would decline from 5.4 percent of GDP in 2013 to 5.2 percent in 2023.
- Entitlement and mandatory programs other than Social Security, Medicare, and Medicaid would fall from 3.8 percent of GDP in 2013 to 3.2 percent in 2023.

brackets higher than 28 percent — roughly the top 2 percent of households. Under current tax policy, these very high-income households receive a larger benefit than other taxpayers from tax deductions (such as for mortgage interest and charitable giving) and exclusions (such as for employer-provided health insurance). This proposal would raise $529 billion over ten years by limiting the value of itemized deductions, above-the-line deductions, and some tax exclusions to 28 cents on the dollar, bringing the tax benefits that the highest-income households face more in line with the benefits of upper-middle-income households.

The idea of an across-the-board limit on tax expenditures has bipartisan support. During last year's campaign, Governor Romney called for limiting these tax breaks, and Speaker Boehner expressed support for a limit during his last budget negotiation with President Obama, proposing $1 trillion in tax increases to be raised largely by reducing tax expenditures. A number of different approaches to limiting tax expenditures have been floated, but the President's proposal has the strongest design of those that have been discussed because it retains incentives at the *margin* for deductible expenditures, particularly charitable giving. Other options tend to impose a hard cap on tax expenditures that an individual can claim, which eliminates all incentives for further deductible expenditures once an individual reaches the cap.

Retaining marginal incentives for deductible expenditures is particularly important in the case of charitable giving. The President's proposal would leave in place a tax subsidy for unlimited amounts of charitable giving by high-income filers, providing 28 cents on the dollar for additional amounts of charitable giving. For this reason, estimates from the Urban-Brookings Tax Policy Center suggest that such a limit would have only a modest impact on total charitable giving, reducing it by roughly 2 to 3 percent.[4]

- **Buffet Rule.** The Buffett Rule is the principle that people at the top of the income scale

[4] CBPP calculation based on estimates from the Urban-Brookings Tax Policy Center in Joseph Cordes, "Effects of Limiting Charitable Deductions on Nonprofit Finances," February 28, 2013, http://www.urban.org/taxandcharities/upload/cordesv5.pdf.; and Giving USA Foundation; *Giving USA 2012: The Annual Report on Philanthropy for the Year 2011*, http://store.givingusareports.org/2012-Giving-USA-The-Annual-Report-on-Philanthropy-for-the-Year-2011-Executive Summary-P43.aspx.

should not pay less of their incomes in taxes than middle-income households. Such inequities should be addressed by reducing the ability of high-income taxpayers to use tax breaks to reduce their taxes. The Administration proposes to implement the Buffett Rule with a "fair share tax" that would raise $53 billion in revenues over ten years by ensuring that those with annual incomes above $1 million generally pay at least 30 percent of their income in taxes (with protections for charitable giving).

Other Savings

The deficit-reduction component of the President's budget achieves $202 billion in savings from cuts in several mandatory spending programs outside of health care and Social Security and from additional fees and revenues. The savings come from requiring federal workers to contribute more toward retirement, cuts in farm subsidies, improvements in program integrity achieved by providing additional resources to reduce errors and fraud, and increased fees in areas such as the Transportation Safety Administration and the Pension Benefit Guarantee Corporation. The total also includes additional revenues from increased IRS enforcement.

Proposals Outside the Deficit-Reduction Package

While much attention in the coming weeks will focus on the deficit-reduction package, the rest of the President's budget includes important proposals that also merit serious consideration. These include proposals to expand access to high-quality early education, funding to upgrade the nation's transportation infrastructure, and measures such as the "Pathways Back to Work" fund to help people struggling in today's labor market to prepare for and find jobs. Taken together, the proposals are slightly more than offset, reducing the deficit over ten years by a small amount.[5]

A complete analysis of the proposals in the budget is beyond the scope of this paper, so we highlight here several key proposals.

Expanding Access to Preschool

The President's budget includes an initiative to expand high-quality early education with an emphasis on ensuring that low- and moderate-income children attend early education programs that put them on a path to success in school.

The proposal includes three main components: $75 billion in mandatory funding over ten years for states to expand access to preschool for children in families under 200 percent of the poverty line; $15 billion in mandatory funding over the next ten years to extend the evidence-based home visiting program now funded through 2014 under the Affordable Care Act; and $1.4 billion in 2014 to expand high-quality early education for infants and toddlers through partnerships between Early Head Start and child care providers. (The budget also includes additional funding for discretionary and mandatory child care funding.)

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[5] For these proposals, the budget achieves modest net savings by assuming future war costs that are somewhat below the levels reflected in the CBPP baseline, which mirrors the CBO war drawdown path.

Under the preschool component of the proposal, states would use these funds to expand access to high-quality preschool to four-year-olds with incomes under 200 percent of the poverty line. States would be required to contribute their own funds to the initiative as well, with the state share of the costs growing over time. States that already offer universal preschool to low-income four-year-olds could use the funds to expand full-day kindergarten for low-income students or, if full-day kindergarten is already in place, to expand preschool for low-income three-year-olds. States would have a financial incentive to increase access to high-quality preschool for middle-income students as well.

The other two components of this initiative are also important. Evidence-based home visiting programs work with pregnant women and new parents, in their homes, to help the parents foster healthy child development through good nutrition, effective parenting, and other strategies; identify any health or developmental issues their child may have; and connect to needed help, including high-quality early education programs.[6] In addition, the investment in improving early learning and child care programs for infants and toddlers should help those children get off to a better start so they can be more successful in preschool and later in elementary school.

Taken together, this initiative is based on an extensive body of research that shows that children with access to high-quality early education are better prepared for school and have better educational outcomes. Some studies have documented other important positive impacts, including improved health and a reduced likelihood of being involved with the criminal justice system.[7]

The preschool initiative is financed by an increase in taxes on tobacco products. This financing mechanism is sound policy, providing needed resources while also reducing cigarette smoking and other tobacco use. Cigarette smoking is the leading cause of preventable disease in the United States, accounting for about 20 percent of all deaths each year; 50 percent of adult smokers die prematurely from tobacco-related disease.[8] Higher tobacco taxes reduce tobacco consumption, particularly among teenagers, leading to fewer premature deaths.[9] Tobacco taxes are regressive, because low-income people smoke more than people at higher income levels and because the tax itself is based on consumption not income. However, low-income people also benefit disproportionately from the health benefits (principally lower rates of smoking-related disease and death) of a higher tobacco tax because they are more likely to quit in response to higher taxes.[10]

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[6] For information on home visiting programs that have been shown to have positive impacts, see http://mchb.hrsa.gov/programs/homevisiting/models.html.

[7] Pianta et al, "The Effects of Preschool Education: What We Know, How Public Policy Is or Is Not Aligned With the Evidence Base, and What We Need to Know," Psychological Science in the Public Interest, 2009, http://www.psychologicalscience.org/journals/pspi/pspi_10_2.pdf.

[8] US Surgeon General, "Preventing Tobacco Use Among Youth and Young Adults," 2012, http://www.surgeongeneral.gov/library/reports/preventing-youth-tobacco-use/full-report.pdf; Center for Disease Control and Prevention, "Health Effects of Cigarette Smoking," http://www.cdc.gov/tobacco/data_statistics/fact_sheets/health_effects/effects_cig_smoking/index.htm.

[9] US Surgeon General, "Preventing Tobacco Use Among Youth and Young Adults," 2012, http://www.surgeongeneral.gov/library/reports/preventing-youth-tobacco-use/full-report.pdf.

[10] Matthew Farrelly, et al., "Response by Adults to Increases in Cigarette Prices by Sociodemographic Characteristics," Southern Economic Journal, Vol 68 No. 1, 2001, pp. 156-165; Jonathan Gruber and Botond Koeszegi, "Tax Incidence

Investing in high-quality early education and reducing smoking can improve the nation's overall economic well-being by raising the skills of the future workforce and preventing premature death from cutting short the lives of people who otherwise would be contributing to the economy.

Infrastructure Investment

The budget proposes a six-year reauthorization of the Surface Transportation Act, which Congress has continued by short-term extensions for some time. Combined with other infrastructure financing initiatives, infrastructure spending would increase by $128 billion over the decade. In addition, the Administration proposes America Fast Forward (AFF) bonds, similar to the successful Build America Bonds program. Under AFF, infrastructure and other development bonds issued by state and local governments are subsidized by having the federal government pay 28 percent of the interest on those bonds. This approach subsidizes state and local infrastructure financing more efficiently than the traditional approach of making the interest tax-free to investors in those bonds, while also encouraging more investors to buy them (because they would be attractive to investors with no tax liability, such as pension funds).

Unemployment Insurance Reforms

The budget includes an important proposal from the previous Obama budget to reform the financing of the unemployment insurance (UI) system in order to strengthen its soundness and solvency and reduce the need for state UI systems to borrow from the federal government in future recessions. This proposal would reduce the deficit by $51 billion over ten years and leave states better prepared for a future downturn.

Under current law, states that have borrowed from the federal government in recent years to pay UI benefits must now pay interest on, and start repaying, those loans. The proposal would grant states relief in 2014 and 2015, but would require an increase in the minimum UI tax base in subsequent years in order to produce larger state UI trust fund surpluses when the economy is healthy, so that states are better prepared to pay UI benefits in the next recession without having to rely as heavily on borrowing from the federal government.

Maintain the Earned Income Tax Credit and Child Tax Credit

In 2009, policymakers enacted several important improvements to the Earned Income Tax Credit (EITC) and Child Tax Credit (CTC) that make them more effective at promoting and rewarding work and reducing child poverty. The EITC changes reduced marriage penalties in the EITC and expanded the credit for families raising more than two children, recognizing the higher costs these families face. The CTC changes ensured that more low-income families could benefit from the credit. Together, these improvements lifted 1.5 million people out of poverty in 2011, including 800,000 children.

When Individuals are Time-Inconsistent: The Case of Cigarette Excise Taxes," Journal of Public Economics 88 (2004): pp. 1959-1987

Policymakers extended these improvements through 2017 in the "fiscal cliff" bill enacted in early January but did not make them permanent (the bill made many other expiring tax breaks permanent). The President's budget would make these improvements permanent. It also would permanently extend the American Opportunity Tax Credit, which helps low- and middle-income students pay for college.

Additional Revenue Proposals

To ensure that the proposals outside of the deficit-reduction package do not increase the deficit, the budget includes some additional revenue raisers and spending reductions. Many of the revenue-raising provisions were in previous budgets, such as eliminating the "carried interest" tax break that allows investment fund managers to pay taxes on a large part of their income at the lower capital gains rate, imposing a fee on large financial institutions, and reinstating Superfund taxes. Two new proposals of note would:

- **Restore the estate tax to 2009 levels.** The budget would save $72 billion by restoring, starting in 2018, the estate tax rules that were in place in 2009, under which the first $3.5 million of an estate for an individual — effectively the first $7 million for a couple — was entirely exempt from the tax, with only the estates of the wealthiest one-quarter of 1 percent of people who died subject to any estate tax at all. The "fiscal cliff" deal enacted at the start of this year made permanent a provision that eviscerates still more of the estate tax, exempting the first $5.25 million of an individual's estate ($10.5 million for a couple) and lowering the estate tax rate, and thereby providing tens of billions of dollars of additional tax cuts to the estates of the wealthiest one-quarter of 1 percent of Americans who die. The Obama budget would end these additional estate tax cuts.

- **Close an IRA loophole.** The budget closes a tax loophole that allows some wealthy private-equity managers to accumulate millions in tax-preferred retirement accounts, despite yearly contribution limits, by undervaluing the equity interests they transfer into such accounts. Tax experts have commented that this is apparently how Governor Romney accumulated an IRA worth tens of millions of dollars, as disclosed on his tax returns during his candidacy for President. The President's budget addresses this loophole by limiting the amount that a taxpayer can accumulate in an IRA, a defined benefit plan, or a defined contribution plan to $3 million. This proposal saves $9 billion in revenue over ten years.

The budget also indicates that the President supports reforms to corporate taxes that are "revenue neutral." The Administration's revenue-neutral approach would require expiring corporate tax breaks — known as "tax extenders" — to be paid for. As part of that approach, the budget documents present specific proposals to reduce a number of specific business tax breaks (such as ending some features of the tax code that encourage multinational corporations to avoid taxes by shifting profits to tax havens), and to make permanent a number of corporate tax extenders (such as the tax credit for research and experimentation, which the Administration also proposes to expand).

Appendix
Differences Between Administration and CBPP Current Policy Baselines

Our analysis shows that the President's budget would reduce deficits by $1.8 trillion over the next decade. For the purpose of this analysis, we accept the OMB estimates of the budgetary effects of the President's proposed policies but measure them from a baseline that uses policy concepts that we think better reflect current policy than the Administration's baseline. (In a few weeks, CBO is expected to issue its own estimates.)

CBPP and the Committee for a Responsible Federal Budget (CRFB) use the same baseline as the starting point for budgetary analysis because we both find it analytically sound. We have called this starting point a "current policy" baseline and CRFB calls it a "realistic" baseline. Specifically, the CBPP/CRFB baseline uses CBO's estimates of revenues and spending under current law and then makes the following adjustments:

- Future emergency funding will be at its historical average, as allowed by the Budget Control Act of 2011 (BCA), rather than continue each year at the 2013 levels associated with Hurricane Sandy.

- War funding will fall to about one-third its present level by 2015 but will not fall further, in accordance with an alternative outlined by CBO.

- Sequestration will be cancelled but discretionary funding will continue to be constrained by the funding caps established by the BCA. Sequestration does not seem to be anyone's preferred policy: the Administration calls for its cancellation; so does the Senate-passed budget plan; and while the House-passed budget plan ends up below the post-sequestration levels in total, it calls for cancelling the defense sequestration and imposing cuts that put non-defense programs far below the post-sequestration levels. Other plans, such as the recent Bowles-Simpson proposal, also start from a baseline that assumes cancellation of sequestration. Further, including sequestration in the baseline would require adding the savings to the total of already enacted-deficit reduction, raising it to $4 trillion. That is a calculation that no one has embraced.

- Relief from the deep cuts in physician payments required by Medicare's sustainable growth rate (SGR) formula will be granted.

- The American Opportunity Tax Credit and the improvements in the Child Tax Credit and the Earned Income Tax Credit, enacted in 2009, extended in 2010 and extended again this year through 2017, will continue thereafter, but other expiring tax provisions will expire on schedule.

The President's budget relies on a similar baseline, when it is presenting its $1.8 trillion deficit-reduction offer to Speaker Boehner. For instance, the Administration does not count war savings in that total, nor does it count the cancellation of sequestrations a cost for that purpose. Thus, we would show the same policies as achieving $1.8 trillion in savings over that period relative to the CBPP/CRFB baseline, and would say that the package offer to Speaker Boehner saves $1.8 trillion, just as the Administration does.