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

May 30, 2012

# JOINT TAX COMMITTEE: RAISING THRESHOLD FOR BUSH TAX CUTS FROM $250,000 TO $1 MILLION WOULD LOSE $366 BILLION — NEARLY HALF THE REVENUE

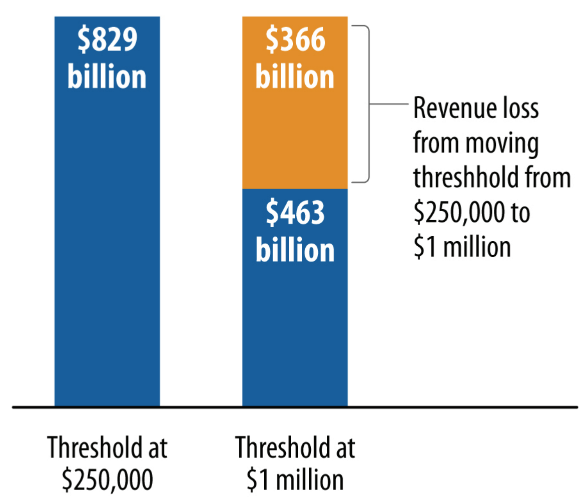
## Revenue Loss Would Worsen Deficits and Increase Threats to Low-Income and Other Programs

By Chuck Marr and Chye-Ching Huang

House Minority Leader Nancy Pelosi's proposal to extend President Bush's income tax cuts for households making up to $1 million a year would lose nearly half of the revenue that President Obama's proposal to extend the tax cuts only for households making up to $250,000 would raise, according to new estimates from Congress' Joint Committee on Taxation (JCT). The higher threshold would raise 44 percent — or $366 billion — less in revenue over the coming decade than the lower threshold. Citizens for Tax Justice has released estimates showing a virtually identical percentage revenue loss.

**Raising Threshold for Extending Bush Tax Cuts Would Cost $366 Billion Over First Decade**

Revenues saved compared to continuing all Bush tax cuts, 2013-2022, billions*




*Excludes additional savings from reduced interest on the debt. Savings exclude any reductions in estate tax cuts.

Source: Joint Committee on Taxation

This means that policymakers ultimately would need to find $366 billion *more* in deficit savings to offset the cost. That would make key programs ranging from Medicare to Medicaid and other low-income programs to education, basic research, food safety, defense, and homeland security significantly more vulnerable to deep cuts. The Obama proposal to extend income tax cuts only for those with incomes up to $250,000 would achieve $829 billion in much-needed deficit reduction over the next ten years, according to JCT (and $965 billion in *total* deficit reduction when debt-service savings are included).

Nor, despite common misconceptions, would the $1 million threshold end the Bush tax cuts for people making over $1 million. In fact, millionaires would benefit substantially from the Pelosi proposal; they would receive roughly *half* of the tax cuts from raising the threshold from $250,000 to

$1 million, according to Citizens for Tax Justice, because they would continue to get the full benefit of the Bush tax cuts on all of their income between $250,000 and $1 million.[1]

After last year's Budget Control Act (BCA), which locked in more than $1 trillion in cuts to defense and nondefense spending over the next decade (relative to fiscal year 2010 levels adjusted for inflation) and produced additional savings in interest payments, policymakers will still need to find more than $3 trillion in additional ten-year budget savings to stabilize the federal debt by the latter part of the decade so that it doesn't grow faster than the economy. That goal ultimately will require wrenching policy choices. But letting the tax cuts expire on schedule for people making over $250,000 (about the top 2 percent of taxpayers) would be a sound first step, especially given the dramatic cuts in tax rates at the top in recent decades and the large increase in income inequality.

Extending tax cuts for high-income people also is a poor way to support the economic recovery. An economy in a recession or the early stages of recovery needs more spending, not more saving.[2] But research shows that high-income taxpayers save, rather than spend, a greater share of any tax cut they receive than low- and moderate-income households. That's why the Congressional Budget Office (CBO) has noted that legislation to extend most of the Bush tax cuts while letting tax cuts exclusively for high-income taxpayers expire would deliver a higher bang-for-the-buck as stimulus — that is, more stimulus per dollar of fiscal cost — than a package that *also* allows tax cuts for those at the top to continue.[3]

## Raising Threshold Loses Nearly Half of Potential Revenue Gains and Gives Millionaires Large New Tax Cuts

Letting the Bush income tax cuts expire for people making over $250,000, as President Obama has proposed, would raise $829 billion over ten years, according to JCT, Congress' official scorekeeper on tax legislation. Raising the income threshold from $250,000 to $1 million would reduce those savings by 44 percent, or $366 billion over the next ten years, JCT reported. That would put intense additional budget pressure on vulnerable populations and core government functions and also would make it much harder to stabilize the debt as a share of gross domestic product (GDP), as explained below.

Despite misconceptions to the contrary, raising the threshold to $1 million would not deny continuing tax cuts for those who earn more than $1 million a year. In fact, millionaires would receive fully *half* of the benefits of raising the threshold. That's because they would receive a tax cut on that portion of their income between $250,000 and $1 million — which would continue to be

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[1] Citizens for Tax Justice, "Minority Leader Pelosi's 'Middle Class' Tax Plan Benefits Millionaires, According to New Citizens for Tax Justice Estimate," May 23, 2012, http://ctj.org/taxjusticedigest/archive/2012/05/minority_leader_pelosis_middle.php.

[2] Chuck Marr, "Letting High-Income Tax Cuts Expire Is Proper Response to Nation's Short- and Long-Term Challenges," Center on Budget and Policy Priorities, July 26, 2010, http://www.cbpp.org/cms/index.cfm?fa=view&id=3241.

[3] Douglas Elmendorf, Director, Congressional Budget Office, "Policies for Increasing Economic Growth and Employment in 2012 and 2013," Testimony to the Senate Budget Committee, November 15, 2011, at p 34 http://www.cbo.gov/sites/default/files/cbofiles/attachments/11-15-Outlook_Stimulus_Testimony.pdf.

taxed at the Bush rates, rather than at the rates scheduled to return after December 31 under current law.[4]

In the same vein, even extending the tax cuts for households making up to $250,000 would give millionaires a tax cut — in this case, on the first $250,000 of their incomes — compared to letting all of the tax cuts expire. In fact, in dollar terms, millionaires will receive *larger* tax cuts than middle-income households even if the threshold is set at $250,000. The disparity will grow substantially if the threshold is set at $1 million.

## Loss of Substantial Revenue Savings Would Likely Force Even Larger Program Cuts

There is broad bipartisan consensus, and a strong economic case, that policymakers should stabilize the debt as a share of the economy over the next decade. Stabilizing the debt requires more than $3 trillion in deficit reduction over the next ten years[5] — on top of the deficit reduction already scheduled to take place over the next decade under the BCA's strict limits on funding for discretionary programs.

Achieving this $3 trillion in additional savings solely on the spending side of the budget would require enormous cuts. The impact would be particularly severe given that they would largely have to come from just *half* of the budget. Consider the following:

- Both parties have signaled that they will make no changes to Social Security that affect current retirees or those nearing retirement (with the possible exception of modifying the inflation index that is used to make annual cost-of-living adjustments, which would yield relatively small savings in the initial decade).

- Big additional *near-term* Medicare savings, beyond those enacted as part of health reform, are unlikely.[6] Even the radical Medicare changes that some have proposed, such as House Budget Committee Chairman Paul Ryan's "premium support" proposal, would not take effect until 2023.[7]

- Policymakers are highly unlikely to cut defense spending below the levels set by the BCA caps, particularly since many policymakers are calling for *increases* above those cap levels.

These items account for roughly half of federal non-interest spending.

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4 "Policy Basics: Marginal and Average Tax Rates," Center on Budget and Policy Priorities, April 30, 2012, http://www.cbpp.org/cms/index.cfm?fa=view&id=3764.

5 For example, according to CBO estimates, the Obama Administration's fiscal year 2013 budget contains $3.4 trillion in deficit reduction over the next ten years (relative to a current policy baseline) and stabilizes the debt in the latter years of the decade. (CBPP's current policy baseline adjusts CBO's alternative fiscal scenario to account for phasing down the war in Afghanistan.)

6 Henry Aaron, Judith Solomon, and Paul N. Van de Water, letter to the Honorable Phil Gingrey, M.D., April 18, 2012, http://www.cbpp.org/cms/index.cfm?fa=view&id=3746.

7 Paul Van de Water, "Medicare in the Ryan Budget," Center on Budget and Policy Priorities, March 28, 2012, http://www.cbpp.org/cms/index.cfm?fa=view&id=3731.

The two main remaining categories of spending are nondefense discretionary programs — which include a wide variety of public services such as education, law enforcement, veterans' health care, environmental protection, and biomedical research and which make up another one-sixth of federal spending — and other mandatory programs, mostly targeted to low-income families and individuals. The BCA already imposed substantial cuts in nondefense discretionary spending; large additional cuts would be painful to achieve. And the low-income assistance programs serve the nation's poorest and most vulnerable people, and do so at a time when poverty has risen (and is well above poverty levels in most other Western nations) and inequality is at strikingly high levels. By forgoing $366 billion in revenue, maintaining all of the Bush tax cuts on the first $1 million of wealthy households' incomes ultimately would likely lead to much deeper cuts in these other parts of the budget.