



HOUSE BUDGET COMMITTEE

Democratic Caucus

The Honorable John M. Spratt Jr. # Ranking Democratic Member

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The Real Cost of The Republican Tax Cuts

Dear Democratic Colleague:

Democrats argued earlier this year that the Republican tax cut would cost far more than its stated price tag of \$1.35 trillion. Merely adding the inevitable increase in the federal government's debt service cost raised that tally to \$1.7 trillion. But now we are beginning to see that the true cost of the Republican tax-cutting agenda is much larger — totaling about \$3.1 trillion through 2012, or as much as \$3.5 trillion if the House Republican stimulus bill is enacted into law.

The reason is that the Republican tax cut advocates ignore known, compelling demands for future tax cuts. There are three primary examples.

First, the tax code is replete with “extenders” — tax benefits that expire in the near future, but that everyone understands will ultimately be renewed. The Joint Committee on Taxation has estimated that the cost of renewing the most prominent extenders from 2002 through 2011 would be about \$142 billion. A reasonable extrapolation of this figure through the new ten-year budget window of 2003 through 2012 would be about \$174 billion.

Second, the individual alternative minimum tax (AMT) will balloon in just a few years, driven largely by inflation and income growth relative to its unindexed exemption. Even before the enactment of the Republican tax cut, the number of taxpayers burdened — both financially and in terms of paperwork — by the AMT was projected to grow tenfold by 2010, from today's 1.5 million to about 17.5 million. Every responsible tax authority had held that the AMT problem must be addressed. Then, the Republican tax cut made the problem even worse. It doubled the number of taxpayers likely to be affected by the AMT in 2010 to an estimated 35.5 million — or about one in three taxpayers. The cost merely of holding the AMT back to its impact before the enactment of the Republican tax cut is likely to be about \$268 billion over 2003-12. From that base, indexing the AMT, which would limit the affected population in 2010 to about 8.0 million, would cost about a further \$241 billion.

And third, the measured cost of the Republican tax cut was artificially limited by sunseting all of its provisions by the end of 2010, before the close of the ten-year budget window. Some provisions were terminated even well before 2010. On the reasonable presumption that future Congresses will not be willing tacitly to take back tax cuts that are already in effect, the cost of the enacted tax cut is understated by \$113 billion over 2002-2011, and about \$373 billion over 2003-2012. (Because the blanket sunset provision implicitly sets the cost of the tax law to zero in 2012, legislation to extend the law must bear the full cost of the tax cut in that year.)

Taking these three factors together adds an estimated \$1.056 trillion in revenue losses over the ten years 2003-2012, plus an additional \$143 billion in debt service costs, for a total hit on the budget of about \$1.198 trillion. This worsening of the impact of the enacted tax cut, plus the likely implications of the economic slowdown, dashes virtually all hope that the nation could pay off its publicly held debt before the retirement of the baby-boom generation on Social Security benefits beginning in 2008.

But the damage might not end there. The House Republicans have passed a stimulus bill that would cost \$184 billion over the four years 2002-2005. As passed, the bill would raise modest amounts of revenue over the succeeding few years. But it would do so by sunseting generous depreciation tax breaks for corporations — the exact tax breaks that the Administration has insisted must be made permanent. If the President got his way, the House Republican stimulus bill would cost about \$338 billion over the ten years 2002-2011, and \$283 billion over 2003-2012 (omitting the most expensive first year). With debt service, this stimulus bill would bring the total cost of the Republican tax-cutting agenda to \$3.5 trillion through 2012.

The Republican tax program is costly and misguided. The President began by arguing for tax cuts to send the surplus out of Washington. But now that the budget is back in deficit, Republicans argue for still more tax cuts on the grounds that they would strengthen the economy and raise more surplus. It is time for the nation to return to the prudent and sound economic management that brought the record-long expansion and the budget surpluses of the 1990s.

Sincerely,

John M. Spratt, Jr.
Ranking Democratic Member

THE REAL COST OF REPUBLICAN TAX CUTS

ENACTED TAX CUT	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2003-12</u>	<u>2002-11</u>
Revenue Cost	74	38	90	107	107	135	151	160	167	187	129	0	1,234	1,272
Resulting Net Interest	0	4	8	14	21	29	38	49	60	73	86	94	472	382
TOTAL	74	41	98	122	128	164	189	208	228	260	215	94	1,706	1,653
IMPENDING TAX COSTS	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2003-12</u>	<u>2002-11</u>
Tax Extenders	0	1	2	4	9	13	17	20	22	25	29	33	174	142
AMT for Enacted Tax Cut	0	0	0	0	2	12	22	30	39	48	54	60	268	208
Plus Index AMT Law From 2001	0	1	2	4	9	14	18	24	32	38	46	55	241	186
Sunset of Enacted Tax Cut	0	0	1	1	1	1	2	1	2	3	100	260	373	113
IMPENDING POLICY	0	1	5	9	21	40	59	75	95	114	229	408	1,056	649
Resulting Net Interest	0	0	0	1	1	3	6	10	15	22	32	52	143	91
SUBTOTAL	0	1	5	10	22	44	65	86	110	136	261	460	1,198	740
House Stimulus Tax Cuts	0	70	63	49	2	(19)	(16)	(12)	(7)	(3)	1	1	59	128
Make House Stimulus Permanent	0	0	0	0	33	44	37	31	26	22	18	14	224	210
Impending Policy (Above)	0	1	5	9	21	40	59	75	95	114	229	408	1,056	649
IMPENDING POLICY TOTAL	0	71	69	58	55	65	79	95	114	133	248	423	1,339	987
Resulting Net Interest	0	2	5	9	13	17	22	28	35	44	57	78	309	232
TOTAL	0	72	74	68	68	82	101	123	149	177	305	501	1,648	1,219
GRAND TOTAL	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2003-12</u>	<u>2002-11</u>
Policy	74	108	159	166	162	200	231	255	281	320	378	423	2,574	2,259
Resulting Net Interest	0	5	13	24	34	46	60	77	95	117	142	172	781	614
GRAND TOTAL	74	114	172	189	196	246	291	331	377	437	520	595	3,354	2,873

GRAND TOTAL, 2001-2012 2001-12
3,542

House Budget Committee Democratic staff estimates, based on Joint Tax Committee and Treasury data.
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