

TAX FEATURES

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Congress Agrees on \$792 Billion Tax Bill Cutting \$7,396 Per Household Over 10 Years

President Clinton Has Other Plans for Surplus; Promises Veto

The tax bill agreed upon in conference by the Senate and House, designated H.R. 2488 and titled the Taxpayer Refund Act of 1999, would return an average of \$7,396 to each household in America over the next ten years if the President signed it into law.

Of the \$2.9 trillion surplus that the Congressional Budget Office predicts will accrue during those ten years, this bill proposes to return 27.4 percent of it to the taxpayers. The majority of the tax relief occurs in the later years because the surplus is predicted to be the largest then. Ninety percent of the bill's benefits would go to individuals, ten percent to business.

Benefits to Individual Taxpayers

Of the tax bill's \$792 billion in tax relief, \$713 billion would go to individual taxpayers. (See Table 1 on page 2 for year-by-year estimates of the bill's impact.)

Lowering the Income Tax Rates

An estimated \$283 billion of the bill's promised tax relief comes from cutting each of the current individual income tax rates by one percentage point. In other words, the tax code would still separate income into five

brackets with different tax rates, but instead of 15 percent, 28 percent, 31 percent, 36 percent and 39.6 percent, the new rates would be 14 percent, 27 percent, 30 percent, 35 percent and 38.6 percent. The cut in the four highest rates would not occur until 2005, while the lowest rate would drop from 15 percent to 14.5 percent in 2001, then to 14 percent in 2003.

Tax Relief for Families

The next largest broad-based provision addresses the so-called marriage penalty, aiming to provide tax relief to some middle income married taxpayers. The bill would gradually widen the lowest bracket for married filers until it was double that for single filers. The standard deduction for married couples filing jointly would also rise to twice the level of the standard deduction for single taxpayers. The marriage penalty change accounts for \$112 billion of the bill's tax relief, and other family-related provisions, especially increasing the EITC bracket by \$2,000 and increasing the dependent care tax credit, bring the total relief in this category to \$123 billion.

See Congressional Tax Cut on page 3

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A Responsible Social Security Reform Plan That Cares About Dollars and Sense

Representative Charlie Stenholm (D-TX)

Table 1
Estimated Impact of the Taxpayer Refund Act of 1999's Major Provisions, FY 2000 – 2009
\$Millions

Provision*	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2000-04	2000-09
Broad-based and Family Tax Relief:												
Individual Income Taxes: 15% rate cut to 14.5% 2001–2002, 14% thereafter; all other rates including AMT cut by 1 percentage point in 2005; widen 14% bracket for non-joint returns by \$3,000 in 2006; sunset in 2009	—	-7,927	-11,585	-20,207	-25,176	-37,718	-50,819	-54,740	-57,297	-17,105	-64,895	-282,574
Marriage Penalty: Standard deduction for joint return set at two times single standard deduction, phased in over 5 years; increase width of 14% bracket to 2 times the single bracket, phased in over 4 yrs beginning 2005	—	-748	-1,841	-2,827	-3,921	-8,163	-17,724	-22,076	-27,563	-28,018	-9,337	-112,881
Other Family-related provisions	-6	-22	-120	-350	-383	-408	-895	-2,552	-2,507	-2,540	-880	-9,784
Individual AMT: Allow nonrefundable personal credits starting 1999; repeal limit on foreign tax credits starting 2002; pay 80% of AMT liability in 2005, 70% in 2006, 60% in 2007, then repeal; thereafter unused AMT credit carryovers can offset 90% of regular tax (repeal eliminates AMT marriage penalty); sunset after 2008	-980	-1,028	-1,529	-2,190	-3,465	-5,369	-9,081	-15,098	-30,835	-33,275	-9,192	-102,850
Total Broad-based and Family Tax Relief	-986	-9,725	-15,075	-25,574	-32,945	-51,658	-78,519	-94,466	-118,202	-80,938	-84,304	-508,089
Savings and Investment Tax Relief:												
Capital Gains Relief: Reduce long-term capital gains rates from 20% and 10% to 18% and 8%; reduce the rate at which section 1250 deductions are recaptured from 25% to 23%; indexing for assets purchased after, and for inflation occurring after 12/31/99; on 1/1/00, mark-to-market assets purchased before 2000 to qualify for indexing; sunset the rate reductions and indexing on 12/31/08	-1,233	15,505	-4,318	-5,874	-6,517	-7,129	-7,759	-8,091	-7,578	517	-2,437	-32,477
Individual Retirement Arrangements: Set annual contribution limits for all IRAs to \$3,000 for 2001–2003, \$4,000 for 2004–2005, \$5,000 for 2006–2008, and \$2,000 for 2009 and thereafter	—	-618	-1,324	-1,532	-2,391	-3,335	-4,096	-4,885	-5,347	-3,900	-5,865	-27,429
Other Savings and Investment Tax Relief	-43	-182	-347	-82	462	-370	-1,585	-2,057	-1,792	-1,400	-194	-7,398
Total Savings and Investment Tax Relief	-1,276	14,705	-5,989	-7,488	-8,446	-10,834	-13,440	-15,033	-14,717	-4,783	-8,496	-67,304
Corporate AMT: Repeal 90% limit on foreign tax credit and net operating losses in 2002; allow AMT credit carryover to reduce minimum tax by 50% but not below regular tax starting 2005	—	—	-403	-774	-620	-1,193	-1,443	-1,299	-1,169	-1,052	-1,797	-7,952
Education Savings Incentive Provisions	-202	-708	-1,057	-1,250	-1,146	-1,129	-1,252	-1,383	-1,506	-1,622	-4,368	-11,262
Health Care Provisions:												
Health Insurance: Provide an above-the-line deduction for health insurance expenses: 25% 2002–2004, 35% in 2005, 65% in 2006, 100% thereafter	—	—	-444	-1,379	-1,477	-1,803	-3,137	-5,878	-8,299	-8,848	-3,300	-31,264
Other Health Care Provisions	-181	-277	-427	-768	-877	-1,010	-1,326	-2,017	-2,773	-2,943	-2,530	-12,600
Total Health Care Provisions	-181	-277	-871	-2,147	-2,354	-2,813	-4,463	-7,895	-11,072	-11,791	-5,830	-43,864
Estate and Gift Tax Relief:												
Phase in repeal of estate, gift, and generation-skipping transfer taxes: starting 2001, unified credit becomes a true exemption, 5% "bubble" and rates over 53% repealed; in 2002, repeal rates over 50%; in 2003–2006, cut all rates 1 percentage point a year; in 2007, cut rates 1.5 percentage points; in 2008, cut rates 2 percentage points; proportionately reduce state tax credit rates; starting 2009, repeal all these taxes; carryover basis applies to transfers at death starting 2009, for estates with total fair market value of \$2 million or more and spouse transfers of \$3 million or more	—	—	-4,166	-5,612	-6,379	-7,403	-8,431	-9,540	-10,902	-12,889	-16,157	-65,322
Other Estate and Gift Tax Provisions	-3	-15	-21	-29	-30	-30	-31	-32	-34	-36	-98	-261
Total of Estate and Gift Tax Relief Provisions	-3	-15	-4,187	-5,641	-6,409	-7,433	-8,462	-9,572	-10,936	-12,925	-16,255	-65,583
Distressed Communities and Industries Provisions	-81	-215	-345	-388	-400	-405	-427	-516	-198	-108	-1,429	-3,083
Small Business Tax Relief Provisions	-1,038	-1,900	-1,387	-970	-188	-1,221	-948	-1,187	-446	-1,131	-5,489	-10,420
International Tax Relief Provisions:												
Interest Expense: Allocate interest expense on worldwide basis	—	—	-825	-2,641	-2,839	-3,052	-3,281	-3,527	-3,792	-4,076	-6,305	-24,033
Other International Tax Provisions	—	—	-164	-593	-354	-410	-714	-1,008	-1,502	-2,438	-1,111	-7,184
Total of International Tax Relief Provisions	—	—	-989	-3,234	-3,193	-3,462	-3,995	-4,535	-5,294	-6,514	-7,416	-31,217
Tax-Exempt Organization Provisions	-9	-14	-16	-187	-256	-245	-249	-253	-255	-259	-483	-1,750
Real Estate Tax Relief Provisions	-38	-111	-109	-358	-561	-781	-1,004	-1,219	-1,449	-1,682	-1,178	-7,315
Pension Reform Provisions:												
Expanding Coverage	—	-292	-576	-752	-870	-1,031	-1,203	-1,379	-1,566	-1,761	-2,490	-9,433
Enhancing Fairness for Women	—	-241	-438	-450	-450	-471	-508	-553	-595	-594	-1,580	-4,302
Other Pension Reform Provisions	-5	-47	-96	-124	-133	-136	-143	-148	-151	-157	-404	-1,139
Total of Pension Reform Provisions	-5	-580	-1,110	-1,326	-1,453	-1,638	-1,854	-2,080	-2,312	-2,512	-4,474	-14,874
Miscellaneous Provisions	-63	-157	-241	-288	-413	-419	-489	-559	-574	-584	-1,160	-3,793
Extensions Expiring Provisions:												
R&E: Research tax credit, and increase AIC rates by 1 percentage point (through 6/30/04)	-1,657	-1,853	-2,226	-2,537	2,238	-1,340	-707	-433	-127	—	-10,510	-13,115
Subpart F: Exemption from Subpart F for active financing income (through 12/31/04)	-187	-827	-992	-1,190	-1,369	-1,156	—	—	—	—	-4,565	-5,721
Extending Other Expiring Provisions	-310	-458	-450	-291	-177	-104	-71	-68	-70	-70	-1,686	-2,068
Total of Extensions of Expiring Provisions	-2,154	-3,138	-3,668	-4,018	-3,784	-2,600	-778	-501	-197	-70	-16,761	-20,904
Revenue Offset Provisions	763	1,056	737	589	431	367	382	393	403	411	3,577	5,535
NET TOTAL	-5,273	-1,079	-34,710	-53,054	-61,737	-85,464	-116,941	-140,105	-167,924	-125,560	-155,863	-791,875

* Complete details are too lengthy for this presentation. See the source document by searching for H.R. 2488 at <http://thomas.loc.gov/>.

Source: Joint Tax Committee Document JCX-61-99-R and Tax Foundation.

Congressional Tax Cut *from page 1*

Gradually Repealing the Individual Alternative Minimum Tax

Reforming the individual alternative minimum tax (AMT) is the third-largest component of the tax cut, accounting for \$103 billion. Compared to smaller provisions like the capital gains cut and the estate tax repeal, it has gotten little attention in the press because when it was first adopted in 1986, it only affected a small number of wealthy taxpayers. It functions as a parallel tax system, requiring high-income filers to figure out what they owe using two different methods, then to pay the higher amount. However, the threshold of income necessary to trigger the AMT is the same every year, and as the economy has boomed, more and more people are earning enough money to fall into it.

H.R. 2488 would immediately allow a variety of credits to be applied in the AMT calculation and would eventually repeal the entire system in 2008.

Gradually Eliminating Estate Taxes

Estate tax relief would provide \$66 billion of the bill's tax relief. The top statutory rate is currently 55 percent, and a 5 percent "bubble" makes it 60 percent for some estates. The bubble would be eliminated, and the top statutory rate would slowly drop between one and two percentage points each year until 2009 when the estate tax would be repealed.

After repeal, the taxation of transferred assets would revert to normal tax law affecting income and capital gains. No longer would people who sold inherited capital assets be able to compute their gain from the date they inherited the asset. This is known as "stepping up" the basis. Instead they

new above-the-line deduction for health insurance expenses, 25 percent in 2002 and eventually increasing to 100 percent in 2007.

Tax Relief by State

People in high-income, high-tax states would save the most, as is the case with most federal income tax cuts. (see Table 2 below).

Everything Old Is New Again!

Sometimes a current tax debate makes old studies newly relevant. Here are a few Tax Foundation titles that H.R. 2488 has brought back into the public eye:

- ◆ Hintz, Claire M. Background Paper #24: *Spending the Surplus: Tax Reduction Options*. April 1998. 16pp.
- ◆ Foster, J.D., Ph.D. Background Paper #21: *Promoting Trade, Shackling Our Traders*. November 1997. A consideration of the structure of U.S. international tax policy, its consequences, and its justifications, all in the reflected light of free trade principles. 16 pp.
- ◆ Hall, Arthur, Ph.D. Background Paper #17: *The Concept of Income Revisited: An Investigation into the Double Taxation of Saving*. February 1997. Examines the economic and legal definition of "income" for tax purposes, comparing Irving Fisher's concept of "yield" income with Robert Haig and Henry Simons' concept of "accretion" income. 39 pp.
- ◆ Moody, J. Scott and Arthur Hall, Ph.D. Special Report No. 53: *Growth of the Earned Income Tax Credit*, September 1995. 8pp.
- ◆ Fleenor, Patrick and J.D. Foster, Ph.D. Background Paper #9: *An Analysis of the Disincentive Effects of the Estate Tax on Entrepreneurship*. June 1994. Examines the disincentive effect of federal transfer taxes, and provides case studies. 23pp.
- ◆ Fleenor, Patrick. *A History and Overview of Estate Taxes in the United States*. January 1994. 18 pp.

would also have to pay tax on the "carry-over" gain accrued during the lifetime of the person who had willed them the asset.

Tax Deductible Health Insurance

Health care provisions account for \$44 billion in relief. The bulk of that comes from a provision that creates a

The first column shows the Tax Foundation's calculation of how much the total bill would save taxpayers in each of the 50 states and the District of Columbia. The second column uses Census Bureau data to compute a dollar amount per household.

Continued on page 6

Table 2
Taxpayer Refund Act of 1999's Estimated Tax Reduction by State
FY 2000 - 2009

	Total (\$Millions)	Per Household		Total (\$Millions)	Per Household		Total (\$Millions)	Per Household	Total (\$Millions)	Per Household	
U.S.	\$ 791,875	\$ 7,396									
Alabama	\$ 9,270	\$ 5,347	Indiana	\$ 16,125	\$ 6,930	Nebraska	\$ 4,186	\$ 6,350	South Carolina	\$ 9,034	\$ 5,984
Alaska	1,690	6,448	Iowa	8,293	7,532	Nevada	5,154	6,650	South Dakota	1,728	5,699
Arizona	10,742	5,487	Kansas	6,575	6,361	New Hampshire	3,618	7,545	Tennessee	12,271	5,494
Arkansas	4,765	4,628	Kentucky	7,907	5,154	New Jersey	30,069	9,571	Texas	47,740	5,935
California	98,747	7,659	Louisiana	8,586	5,057	New Mexico	3,422	4,535	Utah	4,198	4,651
Colorado	11,677	6,981	Maine	2,942	6,115	New York	71,709	10,496	Vermont	2,576	10,787
Connecticut	16,810	13,537	Maryland	17,265	8,436	North Carolina	19,646	6,379	Virginia	18,733	6,832
Delaware	2,287	7,636	Massachusetts	21,704	9,188	North Dakota	1,315	5,188	Washington	16,527	7,055
Florida	57,350	9,410	Michigan	27,721	7,585	Ohio	29,701	6,942	West Virginia	3,164	4,571
Georgia	19,348	6,143	Minnesota	15,150	8,085	Oklahoma	6,609	5,057	Wisconsin	16,687	8,135
Hawaii	3,225	6,419	Mississippi	5,095	4,680	Oregon	8,727	6,452	Wyoming	1,320	6,206
Idaho	3,929	7,091	Missouri	14,705	6,870	Pennsylvania	32,723	7,118	Dist. of Columbia	2,171	10,962
Illinois	41,901	9,125	Montana	2,499	6,635	Rhode Island	2,539	6,702			

Source: Tax Foundation

A Responsible Social Security Reform Plan That Cares About Dollars And Sense

Rep. Charlie Stenholm (D-TX)

Any student of recent national domestic policy has heard a great deal of discussion over the last couple of years about “saving” Social Security. Initially, many of us experienced a sense of relief that some politicians seemed to be recovering from their “Third Rail Phobia.” Unfortunately, that optimism has been replaced recently by disappointment. The debate over Social Security reform is being dominated by how best to spend the projected budget surpluses in order to preserve—or even increase—unaffordable benefit promises while making Social Security appear financially sound on paper.

Allowing individuals to invest two percent of their current payroll tax in an individual security account offers a much better deal to both beneficiaries and future taxpayers, improving rates of return and increasing retirement income.

The opportunities afforded by a strong economy and projected budget surpluses are the very reasons Social Security reform should be seriously debated and enacted now in the 106th Congress. However, while surpluses may be an integral element of the Social Security reform debate, they alone should not dictate the deliberations or give false hope about the difficulties which lie ahead. This discussion of

numbers, particularly if it remains short-sighted, is not a substitute for consideration of comprehensive policies that bring Social Security liabilities in line with future revenues, nor do the numbers alone reflect other policy options now available to lawmakers, and which are of growing interest to the public.

Most of the discussion about saving Social Security has focused on restoring the solvency of the Social Security trust fund as the primary objective and, in the process, has overlooked the most formidable challenges facing Social Security. While restoring actuarial balance to the Social Security Trust Fund is imperative, it is only a first step and one measure of the financial stability of any given Social Security reform plan. A truly responsible proposal must control the costs of the Social Security program over the long term and address the cash shortfalls that will create tremendous liabilities on general revenues beginning in 2014. If we do not address the pressures on the rest of the budget caused by the growth in the costs of Social Security, future Congresses will be forced to cut other important government programs or raise additional taxes to meet the obligations looming with the baby boom retirement.

According to the Congressional Budget Office (CBO), the percentage of our national income consumed by Social Security will increase by 50 percent

between now and 2030. CBO projects that by 2030, the share of federal revenues consumed by Social Security will be nearly 30 percent of total revenues. Compare that to the fact that spending on Social Security accounts for slightly less than 20 percent of total federal revenues today and the magnitude of the problem emerges. Absent other prophylactic measures, these rapidly escalating costs will create tremendous pressure on

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future Congresses to increase taxes to meet this growing burden.

Under current law, the U.S. Treasury must find \$7.4 trillion from general revenues between 2014 and 2034 to convert the existing IOUs in the Social Security Trust Fund into cash benefits

The 21st Century Retirement Security Act would reduce the \$7.4 trillion liability facing general revenues between 2014 and 2034 by approximately \$3.8 trillion.

for Social Security recipients. These general fund liabilities will be more than \$200 billion a year by 2020 and more than \$800 billion in 2030 alone. After adjusting for inflation, the amount of general revenues that will need to be provided to the Social Security system in 2030 to provide promised benefits will be greater than all non-defense discretionary spending totaled together last year. These tremendous general revenue costs will be funded out of personal and corporate income taxes.

Representative Jim Kolbe (R-AZ) and I have sponsored a fiscally responsible plan that attempts to deal honestly with these costs and liabilities. The legislation we have proposed, the 21st Century Retirement Security Plan, would restore the long-term solvency of the Trust Fund, reduce future liabilities and increase individual control over retirement income, all without increasing taxes. Our legislation diverts two percent of the 12.4 percent payroll tax into individual accounts. Funding a portion of future retirement income in advance through individual accounts makes it possible to make progressive reductions in the government guaranteed benefits for middle and upper income workers. We also reduce liabili-

ties by gradually phasing in other reforms that will make Social Security accurately reflect our longer work lives, our increased life expectancy, and our cost of living.

The 21st Century Retirement Security Act restores the costs of the Social Security system to sustainable levels. The costs of the Social Security system will never exceed 15.7 percent of payroll, even when counting the individual accounts (which other plans exclude in their cost calculations). Under current law, the costs of the Social Security system will reach 19.6 percent of payroll by 2075 and will continue growing. Our proposal and a similar bipartisan proposal in the Senate will do more to control the costs of the Social Security system than any other proposal currently in the public arena.

Because our plan advance-funds future liabilities and addresses tough choices, it will dramatically reduce the general fund liabilities that exist under current law. By contrast, the leading plans proposed from the left and the right leave this liability in place and actually increase these general fund liabilities for the next fifty years.

According to estimates prepared by the Social Security Administration's actuaries, the 21st Century Retirement Security Act would reduce the \$7.4 trillion liability facing general revenues between 2014 and 2034 by approximately \$3.8 trillion, a reduction of more than 50 percent.

Such large numbers over multi-year periods are hard to digest. Let's look at the year 2030. Under current law, the general revenue will face an \$814 billion liability in that year alone. Our plan would reduce that burden by more than half a trillion dollars to just \$272 billion. These reductions in general fund liabilities will do more to reduce the tax burdens on future taxpayers than the tax bill currently being debated in Congress.

The tough choices that are contained in our plan to control program costs (reducing guaranteed benefits for upper income workers, adjusting benefits to reflect life expectancy) must be viewed in context of the lower tax burdens and resources that would be freed for other priorities. Likewise, any



evaluation of "free lunch" plans that claim to save Social Security without tackling tough choices must consider the problems these plans shunt onto the rest of the budget—problems that will be left for future Congresses and future taxpayers to resolve. We can responsibly tackle some difficult choices today or we can leave a far more dangerous fiscal time bomb to

These so-called "free lunch" plans which suggest it is possible to save Social Security without any pain actually have tremendous hidden costs that will cause very real pain.

explode on future generations. A plan that restores the Social Security Trust Fund to 75-year actuarial balance, but does not address the budgetary pressures created by these growing costs and general fund liabilities, does no favors for future generations.

I learned a long time ago that if something sounds too good to be true, it probably is. There is no free lunch. We cannot afford to meet all of the

promises in current law without finding additional resources elsewhere. Proponents of plans that claim to preserve benefits at levels promised under current law, or even suggest that benefits will be increased above current law, must explain where the money will come from to fund these promises.

These so-called "free lunch" plans which suggest it is possible to save Social Security without any pain actually have tremendous hidden costs that will cause very real pain. Scrutiny of these "free lunch" approaches reveals that they fund their promises by placing a tremendous burden on future taxpayers. Congress and the President must honestly address the fiscal challenges posed by the Social Security system, instead of ignoring hidden costs and pretending that we can meet these challenges without tough choices.

Nor is it all a matter of tough choices without rewards. The potentials created by our establishment of personal accounts are significant. Allowing individuals to invest two percent of their current payroll tax in an individual security account offers a much better deal to both beneficiaries and future taxpayers than current law. Such a strategy would improve rates of return, and increase retirement income relative to a plan that restores solvency purely through benefit cuts or tax increases. Individual accounts provide all Americans the opportunity to create wealth, and provides individuals with ownership of and control over their retirement assets.

As we tackle the tough choices that will be necessary to enact credible Social Security reforms, Congress must look beyond political polls which play to uninformed self-interest. My experience with constituents in my West Texas District reassure me that most Americans, when presented with the facts, stand ready to do the work necessary to bequeath their children and grandchildren a brighter future. ●

The Tax Foundation invites a national leader to provide a "Front and Center" column each month in Tax Features. The views expressed are not necessarily those of the Tax Foundation.

Comparing the Taxpayer Refund Act of 1999 to Other Tax Bills

Despite commentary suggesting that the recently passed House and Senate tax cuts are comparable to the so-called Reagan tax cut, the Economic Recovery Tax Act of 1981 (ERTA) is far larger by any measure than H.R. 2488.

The current bill's benefits phase in so gradually that most of the revenue effects don't appear until the second half of the next decade. In former years, estimates of revenue effects so far off were considered unnecessary or unreliable. Therefore, the longest period that can be used to compare the estimates

of tax bills over time is five years. The six largest tax bills of the last 20 years are shown below, three from the 1980s and three from the 1990s.

Even the combined revenue effects of H.R. 2488 and TRA '97 would not equal the Reagan tax cut, especially as a percentage of GDP. ●

Revenue Effects of Six Major Tax Bills Compared to H.R. 2488, The Taxpayer Refund Act of 1999 1981 - 2009

In Billions of Current Dollars

	1981	1982	1983	1984	1985	1986	1987	1988	1989	1990	1991	1992	1993	1994	1995	1996
ERTA '81	-	-35.6	-91.1	-136.8	-170.3	-209.8	-238.5	-258.7	-282.0	-309.4	-	-	-	-	-	-
TEFRA '82	-	-	16.6	36.0	39.2	46.7	56.5	57.3	55.7	57.2	61.2	-	-	-	-	-
DEFRA '84	-	-	-	0.9	9.3	16.1	22.0	25.4	27.7	31.0	33.8	-	-	-	-	-
OBRA '90	-	-	-	-	-	-	-	-	-	-	22.5	35.2	-32.7	37.5	38.6	31.0
OBRA '93	-	-	-	-	-	-	-	-	-	-	-	-	-	27.4	46.9	54.3
TRA '97	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
H.R. 2488	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	5-yr Total		
	-	-	-	-	-	-	-	-	-	-	-	-	-	-643.6	ERTA '81	
	-	-	-	-	-	-	-	-	-	-	-	-	-	195.0	TEFRA '82	
	-	-	-	-	-	-	-	-	-	-	-	-	-	100.5	DEFRA '84	
	-	-	-	-	-	-	-	-	-	-	-	-	-	166.5	OBRA '90	
	-	-	-	-	-	-	-	-	-	-	-	-	-	250.0	OBRA '93	
	-	-	-	-	-	-	-	-	-	-	-	-	-	-95.3	TRA '97	
	-	-	-	-	-	-	-	-	-	-	-	-	-	-155.9	H.R. 2488	

In Billions of Constant 1999 Dollars

	1981	1982	1983	1984	1985	1986	1987	1988	1989	1990	1991	1992	1993	1994	1995	1996
ERTA '81	-	-58.6	-143.2	-206.9	-248.9	-298.2	-329.2	-345.0	-361.3	-380.1	-	-	-	-	-	-
TEFRA '82	-	-	26.1	54.5	57.3	66.4	78.0	76.4	71.4	70.3	72.3	-	-	-	-	-
DEFRA '84	-	-	-	1.4	13.6	22.9	30.4	33.9	35.5	38.1	39.9	-	-	-	-	-
OBRA '90	-	-	-	-	-	-	-	-	-	-	26.6	40.3	36.5	40.8	41.1	32.4
OBRA '93	-	-	-	-	-	-	-	-	-	-	-	-	-	29.8	49.9	56.7
TRA '97	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
H.R. 2488	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	5-yr Total		
	-	-	-	-	-	-	-	-	-	-	-	-	-	-955.7	ERTA '81	
	-	-	-	-	-	-	-	-	-	-	-	-	-	282.2	TEFRA '82	
	-	-	-	-	-	-	-	-	-	-	-	-	-	136.2	DEFRA '84	
	-	-	-	-	-	-	-	-	-	-	-	-	-	185.3	OBRA '90	
	-	-	-	-	-	-	-	-	-	-	-	-	-	260.1	OBRA '93	
	-	-	-	-	-	-	-	-	-	-	-	-	-	-93.0	TRA '97	
	-	-	-	-	-	-	-	-	-	-	-	-	-	-145.2	H.R. 2488	

As a Percentage of GDP

	1981	1982	1983	1984	1985	1986	1987	1988	1989	1990	1991	1992	1993	1994	1995	1996
ERTA '81	-	-1.1%	-2.6%	-3.6%	-4.1%	-4.8%	-5.2%	-5.2%	-5.3%	-5.5%	-	-	-	-	-	-
TEFRA '82	-	-	0.5%	0.9%	1.0%	1.1%	1.2%	1.2%	1.0%	1.0%	1.0%	-	-	-	-	-
DEFRA '84	-	-	-	-	0.2%	0.4%	0.5%	0.5%	0.5%	0.5%	0.6%	-	-	-	-	-
OBRA '90	-	-	-	-	-	-	-	-	-	-	0.4%	0.6%	0.5%	0.5%	0.5%	0.4%
OBRA '93	-	-	-	-	-	-	-	-	-	-	-	-	-	0.4%	0.7%	0.7%
TRA '97	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
H.R. 2488	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	5-yr Total		
	-	-	-	-	-	-	-	-	-	-	-	-	-	-3.4%	ERTA '81	
	-	-	-	-	-	-	-	-	-	-	-	-	-	1.0%	TEFRA '82	
	-	-	-	-	-	-	-	-	-	-	-	-	-	0.4%	DEFRA '84	
	-	-	-	-	-	-	-	-	-	-	-	-	-	0.5%	OBRA '90	
	-	-	-	-	-	-	-	-	-	-	-	-	-	0.7%	OBRA '93	
	-	-	-	-	-	-	-	-	-	-	-	-	-	-0.2%	TRA '97	
	-	-	-	-	-	-	-	-	-	-	-	-	-	-0.3%	H.R. 2488	

Source: Tax Foundation

FOUNDATION MESSAGE

Taxpayer Refund Act of 1999: Just Another Ride on the 'Washington Merry-Go-Round'



*J.D. Foster, Ph.D.
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Congressmen are back in their districts now, and Republicans are talking to the American electorate about taxes. They're pitching one of the largest tax bills in history and one of the smallest — and both bills are called the Taxpayer Refund Act of 1999.

Certified by Joint Tax Committee gurus as \$792 billion and described by every reporter in the country as "huge," how can such a bill be small at the same time? The trick is in the 10-year estimate. By putting most of the tax relief in the second five years, the average tax cut over the first five is only about \$30 billion a year. In a \$9 trillion economy, that's chicken feed. (See table at left to compare with other tax bills.)

Heading Off the Surplus at the Pass

The Republicans' true purpose is not so much to cut taxes as to spearhead a pre-emptive strike on the zeppelin of future spending that they see the Beltway gang getting ready to launch in the latter half of the next decade. This fiscal forward planning seems so far-sighted as to bring to mind Joseph saving grain for the famines. Of course, it's considerably less miraculous because the Republicans don't have to interpret dreams to know that Congress will spend every surplus cent it can get its hands on. They can just look in the mirror to see the people who've been spending as fast as they can for the past few years.

After all, they've just finished working on an "emergency" supplemental spending bill for *veterans benefits!* As long as there is a surplus, the Congress will find a way to spend the money. The only way to avoid spending the surplus is to cut taxes before the money reaches Washington.

Take the Credit and Run

The first rule of sound politics is to make sure you get credit for the good

things that happen, even if you have nothing to do with them.

In this light the delayed gratification of a 10-year tax cut with all the goodies at the end seems senseless. Voters next year would wonder where their over-hyped tax cut was, conclude that somebody else got it, and give no credit to the Republicans. Years hence the tax cuts will take effect but no one will be in a position to take credit for them. It would be a lose-lose proposition — if there were a chance of passage.

Racing to a Red Light

The drive to cut taxes is proceeding in the full and certain knowledge that the President will veto the bill. Many Republican leaders believe the President can be convinced, compelled, or cajoled into signing it. As they like to say, "He's been known to change his mind before." They are deluding themselves. President Clinton has been flex-

The drive to cut taxes is proceeding in the full and certain knowledge that the President will veto the bill.

ible in his positions over the years but rarely without political cause.

The President began the year proposing about \$250 billion in tax cuts over the next ten years. With total federal tax collections pushing \$2 trillion and total Gross Domestic Product of \$10 trillion, the President obviously did not have serious tax relief on his mind. Instead, he wanted a small group of targeted tax cuts, i.e., social engineering via the tax code.

Trying to Be Reasonable, Alas

Many Senate Democrats worked with their Republican colleagues to develop a middle-of-the-road tax cut package of around \$500 billion. To congressional conservatives this sort of pre-game compromise seems almost pointless. And without massive bipartisan pressure for the compromise plan, i.e. lots of votes, President Clinton will just make sure his veto pen has plenty of ink.

And so once again the kabuki dance of Washington tax policy, where tens of thousands of hours and millions of dollars are spent pushing a tax cut through Congress only to see it die on the altar of an uncompromising and divided government.

After the veto, the players will recast their game plans, much like half-time in a football game. Not much will change. The President will still have no reason to compromise and congressional Republicans cannot cave in and accept a small tax cut. Fortunately, since very little tax reduction would occur next year anyway, the immediate economic effects of failure are virtually non-existent.

Another Unwinnable Drug War?

The wild card in this calculus is a new prescription drug program the President wants. Even though Medicare already makes the Russian economy look fiscally sound, the President has advocated and many in Congress support adding this expensive new program to Medicare. One theory has it that Congress can entice the President into a big tax cut bill with a prescription drug benefit program. Maybe.

More likely the President is ahead of the political game as usual. He probably took a pass on the generous recommendations of the Breaux Commission because he's convinced he can get even more next year when the election will tempt Members of both parties to pass something they can take home to the voters: a new drug benefit but no tax cut. ●

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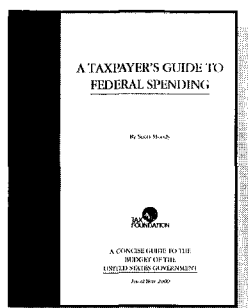
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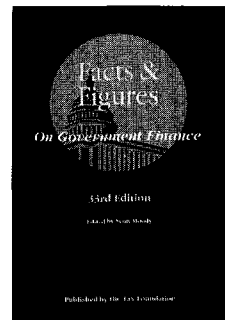
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