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Executive Summary

No. 1219 September 9, 1998

How Congress Can Return the Surplus to Taxpayers: Three Approaches to Tax Cuts and Social Security Reform

William W. Beach

Congress's commitment to reducing today's record tax burden is being tested during the current debate over what to do with the budget surplus. Tax revenues now consume about 21 percent of U.S. economic output, and government spending continues to break new heights with each passing budget. As these revenues pile up in the Treasury, Congress and President Clinton dither over whether the forecasted $1.4 trillion in ten-year budget surpluses should be allocated to tax cuts or to Social Security reform.

In truth, Congress can attend to both of these urgent issues. The budget surplus forecasts of the Congressional Budget Office provide policymakers with an expected inventory of financial resources that should be used creatively to reduce income taxes now. These forecasts also give them the basis for beginning the crucial movement to worker-controlled personal savings accounts (PSAs).

If Congress and the President do not act, the broken tax and Social Security systems will continue to constrain the economy and threaten future U.S. financial and economic security. Current tax policy discourages savings and investment, imposes enormous compliance costs on taxpayers, callously shifts the payment of taxes to low- and moderate-income households through higher prices, and distorts economic decision-making. The current Social Security system yields such low returns for a lifetime of tax payments that low- and moderate-income workers stand to lose thousands of dollars in potential retirement income. Social Security's retirement program faces enormous financial challenges in ten years that threaten either to bankrupt the government or to drain more dollars from workers through higher taxes, thus further reducing the rate of return for the retirement program.

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There are many ways Congress could return the budget surpluses to taxpayers through tax cuts and Social Security reform. Three approaches are described in this paper.

- **Plan A,** the Heritage Plan, calls for the creation of PSAs for all workers using 5 percentage points of their Social Security payroll tax. It also calls for immediate elimination of the marriage penalty, a top capital gains tax rate of 10 percent, immediate repeal of federal death taxes, expanded educational savings accounts, repeal of the Federal Unemployment Tax Act (FUTA) surtax, and reform of Section 125 ("cafeteria plan") rollover provisions for health care expenses. The income tax changes equal $574.3 billion over ten years. The creation of PSAs that equal 5 percentage points of the payroll taxes puts $1.9 trillion in payroll taxes under the control of the workers who earned them.
- **Plan B** allocates approximately 60 percent of the surplus to beginning Social Security reform and 40 percent to income tax reform. The plan calls for $574 billion in income tax cuts over ten years, the result of eliminating the marriage penalty to repealing the FUTA surtax. The ten-year difference between the surplus and the income tax cuts, $792.7 billion, would be reserved for reforming Social Security's retirement program through the creation of personal retirement accounts financed by reductions in the payroll tax.
- **Plan C** allocates 70 percent of the surplus to Social Security reform and 30 percent to income tax reform. The plan incorporates many of the proposals in Plan A but substitutes the cut in the capital gains tax (from 20 percent to 15 percent) proposed by House Speaker Newt Gingrich (R–GA) and the phase-out of federal death taxes proposed by Representatives Jennifer Dunn (R–WA) and John Tanner (D–TN) for Plan A's 10 percent capital gains tax rate and immediate repeal of death taxes. The amount of the surplus remaining after these income tax changes ($937 billion over ten years) is allocated to restructuring Social Security's retirement program.

—William W. Beach is John M. Olin Senior Fellow in Economics and Director of the Center for Data Analysis at The Heritage Foundation.

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HOW CONGRESS CAN RETURN THE SURPLUS TO TAXPAYERS: THREE APPROACHES TO TAX CUTS AND SOCIAL SECURITY REFORM

WILLIAM W. BEACH

If Congress is committed to serious reductions in today's record tax burden, it should design a tax plan that truly would herald the end of the "era of big government" and begin real reforms of the tax system and Social Security. The extraordinary amount of tax revenues now collected by the federal government—approaching a peacetime high of 21 percent as a proportion of economic output—has given this Congress the largest surplus since the end of World War II. While these dollars pile up in the Treasury, Congress and President Bill Clinton dither about how the resulting budget surpluses should be allocated. The White House is holding out for Social Security reform, but Congress remains torn between minuscule tax cuts and the President's mantra, "Social Security first."

In truth, the record-high $1.4 trillion in anticipated ten-year budget surpluses provides more than sufficient resources to give this Congress and the next the opportunity to do both:make substantial cuts in taxes and begin meaningful reform of Social Security. The imminent collapse of Social Security and the harmful economic effects of the current tax system put Congress under a duty to act.

The importance of this duty can hardly be underestimated. Federal tax laws work against savings and investment, burden all taxpayers with rules that annually cost society billions of dollars in unnecessary compliance expenses, routinely shift the payment of taxes to low- and moderate-income households, and distort economic decision-making. The defined-benefit, publicly funded retirement system causes low- and moderate-income workers permanently to lose thousands of dollars in potential retirement income. It totters dangerously on the brink of bankruptcy; indeed, it promises future workers a significantly lower standard of living than today as payroll taxes rise and retirement benefits fall in an effort to keep Social Security solvent.

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If Congress and President Clinton can take the bold, decisive action necessary this year to set a new course for the country's tax and retirement policies, all Americans will reap enormous economic benefits, including more freedom to plan for far greater long-term financial security. This year, Congress can break free of the narrow view of the opportunity it has been handed and take two clear steps:(1) move toward more fundamental tax reform by reducing taxes on labor and capital, while making the tax code more fair, and (2) begin to reform the government-controlled Social Security system by giving Americans the freedom to use some of their payroll taxes to invest in personal, private savings accounts.

Earlier this year, The Heritage Foundation published "A New Framework for Cutting Taxes," which outlines a long-term plan for tax and Social Security reform. The goal of this plan is to make tax policies in the United States more fair, more simple, and more flat while establishing retirement policies that give all Americans, particularly low- and moderate-income families, more freedom to create greater wealth and income for retirement.[1] With the unexpected surplus forecast for the next ten years, Congress clearly can take steps this year toward this goal.

As a supplement to Heritage's earlier, comprehensive plan for tax and Social Security reform, this paper presents two additional, although less economically desirable, options for using the budget surplus to bring about these critical policy changes.[2] The Appendix consists of tables that summarize these two new options, as well as a version of the original Heritage plan updated to take into account the most recent surplus estimates from the Congressional Budget Office. More specifically, the tables present:

- **Plan A,** the Heritage Plan (Table 1), calls for the creation of personal savings accounts (PSAs) for all workers using 5 percentage points of their Social Security payroll tax. It also calls for the immediate elimination of the marriage penalty, the imposition of a top capital gains tax rate of 10 percent, the immediate repeal of federal death taxes, expansion of education savings accounts, repeal of the Federal Unemployment Tax Act (FUTA) surtax, and reform of Section 125 ("cafeteria plan") rollover provisions for health care expenses. The income tax changes equal $574.3 billion over ten years. The creation of PSAs that equal 5 percentage points of payroll taxes puts $1.9 trillion in payroll taxes under the control of the workers who earned them.
- **Plan B** (Table 2) allocates approximately 60 percent of the surplus to beginning Social Security reform and 40 percent to income tax reform. The plan calls for $574 billion in income tax cuts over ten years, from eliminating the marriage penalty to repealing the FUTA surtax. The ten-year difference between the surplus and the income tax cuts, $792.7 billion, would be reserved for reforming Social Security's retirement program through the creation of personal retirement accounts financed by reductions in the payroll tax.
- **Plan C** (Table 3) allocates 70 percent of the surplus to Social Security reform and 30 percent to income tax reform. The plan incorporates many of the proposals in Plan A but substitutes the cut in the capital gains tax (from 20 percent to 15 percent) proposed by House Speaker Newt Gingrich (R–GA) and the phaseout of federal death taxes proposed by Representatives Jennifer Dunn (R–WA) and John Tanner (D–TN) for Plan A's 10 percent capital gains tax rate and the immediate repeal of death taxes. The amount of the surplus remaining after these income tax changes ($937 billion over ten years) is allocated to

1. William W. Beach, et al., "A New Framework for Cutting Taxes:Reforming the Tax Code and Improving Social Security," Heritage Foundation *Backgrounder* No. 1199, July 1, 1998
2. The revenue estimates in this paper were prepared by staff members of the Center for Data Analysis:William W. Beach, Director;Ralph A. Rector, Project Manager;Gareth G. Davis, Policy Analyst;D. Mark Wilson, Labor Economist;and Phillipe Lacoude, intern.

restructuring Social Security's retirement program.

DESCRIPTIONS OF THE PLANS

Marriage Penalty Reduction

Plan A: Reduces marriage penalties by allowing married taxpayers to choose the filing status (married joint or single) that most reduces their tax payments.

This option is available widely in the states: Ten states allow married couples to file separately when paying state income tax; an additional 21 states have rate schedules that reduce or eliminate the marriage penalty.

In nearly half of all married-couple households, these taxpayers will find that filing as single taxpayers will result in lower taxes. Common income (such as interest on a savings account or dividends) would be apportioned between the two taxpayers according to the percentage of total income that each earned from their jobs.

The standard deduction or the itemized deductions would be treated in a similar fashion. These married taxpayers would recombine their income when determining whether they are eligible for tax credits.

Plan B: Same as Plan A.

Plan C: Same as Plan A.

Capital Gains Tax Cuts

Plan A: Cut the tax rates on long-term capital gains from 20 percent to 10 percent, and from 10 percent to 5 percent for those taxpayers who pay taxes at the 15 percent rate. Additional changes to the complex holding rules beyond those enacted this session also should be made.

Congress reduced the top capital gains tax rate from 28 percent to 20 percent in the Taxpayer's Relief Act of 1997, which resulted in significant increases in federal revenues as investors sold appreciated assets that they had "locked up" because of the higher tax rate. This tax cut should be expanded to provide for a top rate of 10 percent.

By cutting the tax rate by an additional 50 percent to a top rate of 10 percent, Congress would add new revenues as more taxpayers "unlocked" more of their appreciated assets. And by further simplifying the complex holding-period rules, Congress would reduce the cost taxpayers currently face when complying with tax law. Both reforms lead to a fairer, simpler, and flatter tax code.

Plan B: Same as plan A.

Plan C: Cut the tax rates on long-term capital gains from 20 percent to 15 percent, and from 10 percent to 7.5 percent for those taxpayers who pay taxes at the 15 percent rate. In addition, Congress should make additional changes to the complex holding-period rules above those enacted this session.

Repeal Federal Death Tax

Plan A: Repeal the estate, gift, and generation-skipping taxes effective January 1, 1999. An analysis by The Heritage Foundation, using the WEFA Group's U.S. Macroeconomic Model, finds that repealing the estate tax would have a large and beneficial effect on the economy.[3] Specifically, Heritage's analysis predicts that, if the tax were repealed this year, over the next nine years:

- The U.S. economy would average as much as $11 billion per year in extra output, and an average of 145,000 additional new jobs could be created;
- Personal income could rise by an average of $8 billion per year above current projections; and
- Federal revenues would grow following repeal because tax receipts generated by

3. William W. Beach, "The Case for Repealing the Estate Tax," Heritage Foundation *Backgrounder* No. 1091, August 21, 1996.

extra economic growth would more than compensate for the meager revenues currently raised by the inefficient estate tax.

Richard Fullenbaum and Diana McNeill, former economists with DRI/McGraw–Hill, confirm these results in a recent, important study for the Research Institute for Small & Emerging Business.[4] In a simulation of estate tax repeal using the WEFA U.S. Macroeconomic Model, they find that private investment would rise by an average of $11 billion over the seven years following repeal. Consumption expenditures would rise by an average of $17 billion (after inflation), and an average of 153,000 new jobs would be created in this more buoyant economy.

Plan B: Same as Plan A.

Plan C: Phase out death taxes over a ten-year period by reducing estate and gift tax rates by 5 percentage points per year. This policy change would yield many of the same economic and fiscal benefits expected from immediate repeal. Representatives Jennifer Dunn and John Tanner are the original sponsors of this legislation.

Expand Education Savings Accounts[5]

Plan A: Expand the scope of education savings accounts to cover not only higher education expenses but also primary and secondary education costs.

Senators Paul Coverdell (R–GA) and Robert Torricelli (D–NJ) and House Speaker Gingrich proposed such a sensible approach earlier in the 105th Congress. The measure (H.R. 2646), as passed by both the House of Representatives and the Senate, would expand education savings accounts to cover primary and secondary education expenses and would increase the annual contribution limit to $2,000 per student.

Ideally, both the annual contribution limit and income cap should be eliminated. In the end, all families should have the ability to save for quality education for their children from kindergarten through graduate school.

Moreover, the coverage of tax-free education savings should be expanded to include new and innovative education investment plans. A number of states and several private interests, for example, have established prepaid tuition plans. These programs allow families to lock in future college tuition at or below today's rates.

Such prepaid tuition plans are attractive to families because they guarantee a predetermined amount of future education. Thus, prepaid tuition plans not only help families to save for college; they also eliminate the uncertainty of ever-increasing college tuition costs. All these plans, both public and private, as well as other innovative education investment options deserve the full support of Congress and the President.

Plan B: Same as Plan A.

Plan C: Same as Plan A.

Repeal FUTA Surtax[6]

Plan A: Repeal the payroll tax increase Congress imposed on workers last year. In fact, the third-largest tax *increase* in the Taxpayer's Relief Act of 1997 was the extension of a little-known payroll surtax in the Federal Unemployment Tax Act that was scheduled to expire at the end of 1998. Believing incorrectly that Congress needed to increase revenues to balance the budget, Members voted to extend the FUTA surtax

4. Richard F. Fullenbaum and Diana A. McNeill, "The Effects of the Federal Estate and Gift Tax on the Aggregate Economy," Research Institute for Small & Emerging Business *Working Paper Series* No. 98–01 (1998).

5. For more information on education savings accounts, see John S. Barry, "Higher Education Tax Proposals: The Right and Wrong Ways to Take the Anxiety Out of Paying for College," Heritage Foundation *Backgrounder* No. 1118, May 22, 1997.

6. For further details, see Mark Wilson, "How Congress Can Lower the Cost of American Jobs," Heritage Foundation *Backgrounder* No. 1213, August 14, 1998.

through 2007 and raised the ceiling on federal trust funds. As a result, the tax burden on American workers has hit an all-time high, and surplus unemployment taxes pile up to be used for purposes completely unrelated to the unemployment system.

Revenue from the FUTA tax is designated for the administration of the Unemployment Insurance (UI) system. The current FUTA tax rate of 0.8 percent on the first $7,000 of wages has two components: a permanent tax rate of 0.6 percent and a temporary surtax of 0.2 percent. Passed in 1976 to restore depleted federal UI trust funds, the surtax was set to expire in 1977. Since 1977, it has been extended five times—despite having accomplished its goal—and now is set to expire at the end of 2007. Repeatedly extending the temporary surtax has caused federal UI trust fund balances to balloon from $4.9 billion in 1977 to $19.1 billion in 1997. Because of last year's extension of the surtax, trust fund balances are forecast to explode to $41.6 billion at the end of fiscal year (FY) 2003. Like Social Security payroll tax revenue, FUTA surtax revenue in federal trust funds is converted to federal government bonds and spent as general revenues. The money is not set aside for the UI system.

Senator Wayne Allard (R–CO) has introduced legislation (S. 2170) to repeal the FUTA surtax. Representative Clay Shaw (R–FL) has introduced the Employment Security Financing Act of 1998 (H.R. 3684) that not only would repeal the surtax; it also would significantly reform the way in which the Employment Security system is financed. Together, these two bills would allow workers and businesses to keep $8.1 billion more of their hard-earned money over the next five years—at the cost of just 1.6 percent of the projected budget surplus. They also would allow Congress to honor the promise it made in 1993 to repeal the temporary FUTA surtax and take a small step toward lowering the tax burden on American jobs.

Plan B: Same as Plan A.

Plan C: Same as Plan A.

[illegible][7]

Plan A: Correct a flaw in current tax policy by modifying Section 125 of the Internal Revenue Code to allow workers to roll over up to $500 of unused funds in flexible spending accounts (FSAs), or cafeteria plans, year after year, tax-free. The immediate results of such a change would be an increase in the direct purchasing of medical services from doctors and other providers, a change in the dynamics of the current insurance market, and an increase in personal savings for future health care spending or retirement.

As more funds were saved through such rollover FSAs and cafeteria plans and became available for retirees' health care coverage, the future demands on Medicare would decline. The change in revenue to the federal Treasury in the meantime, based on calculations by the Joint Committee on Taxation, would amount only to an average revenue decrease of $700 million per year, or $6.8 billion over ten years.

Revising Section 125 would result in immediate benefits for a significant portion of the American workforce. According to the Bureau of Labor Statistics, as of 1994, 21.7 million private-sector employees chose to take advantage of employee-provided FSAs—14.8 million employed in medium to large establishments and 6.9 million in small establishments. In addition, 50 percent of state and local government employees had FSAs.

FSAs and cafeteria plans are gaining popularity in the marketplace. They have been proved to meet the needs of a diversified pool

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7. Additional information on reforming Section 125 rollover provisions can be found in Robert E. Moffit and William W. Beach, "Rollover Flexible Spending Accounts: More Health Choices for Americans," Heritage Foundation *Backgrounder* No. 1159, February 24, 1998

of workers. If FSA funds can be rolled over tax-free, they will become a great boon, stimulating employee savings and enhancing employee security.

Plan B: same as Plan A.

Plan C: same as Plan A.

[illegible]

Plan A: Heritage analysts have calculated the amounts needed to fund a 5 percentage point payroll tax cut that would be devoted to PSAs. These amounts are shown in Table 1; the details of this plan are contained in the July 1, 1998, Heritage study, "A New Framework for Cutting Taxes."[8]

Workers who exercised the choice of creating their own PSAs would receive the income from those accounts in exchange for the Social Security retirement benefits associated with the portion of their taxes they placed in a private account; however, they would receive the Social Security benefits financed by the rest of their payroll taxes.

The insurance elements of Social Security, such as disability and benefits for the dependents of workers who die before retirement, would not be affected. All Americans, regardless of whether they had opened a private savings account with a portion of their payroll taxes, would be entitled to a minimum benefit from traditional Social Security.

The Heritage plan calls for Congress to authorize a diversion of a worker's payroll tax of 5 percentage points into a private retirement savings account that met certain federal requirements. General federal revenues would be used to make up the resultant shortfall in trust fund receipts. The reduction in Social Security benefits would be based on the number of years during which the individual elected to place a part of his payroll tax in a private account.

Although the Heritage plan involves a significant "cost" to the Treasury from the perspective of the annual unified budget accounts, it leads to a reduction in the long-term unfunded liability of the Social Security trust fund. Taken together, the total liabilities of the federal government that would have to be paid by future taxpayers (specifically, the national debt plus the unfunded liabilities of Social Security) would be cut sharply. Meanwhile, workers could look forward to a higher income during retirement, thanks to the better returns likely to flow from private accounts.[9]

Plan B: Uses the difference between the annual surpluses and the income tax cuts to jump-start Social Security reform. One option would allow workers to invest a portion of their current payroll taxes that equaled the surplus not used for income taxes. Plan B would permit $792.7 billion over ten years (or 2.07 percentage points of the current payroll tax) to be devoted to PSAs.

Plan C: This plan would permit $$937 billion over ten years (or 2.45 percentage points of the current payroll tax) to be devoted to PSAs.

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8 See Beach et al., "A New Framework for Cutting Taxes," pp. 7–8

9. See William W. Beach and Gareth G. Davis, "Social Security's Rate of Return," Heritage Foundation *Center for Data Analysis Report* No. CDA98-01, January 15, 1998

APPENDIX

Table 1 B1219

Returning the Surplus: Plan A

Static Revenue Impact of 1998 Tax Proposals In Billions of Dollars by Fiscal Year

	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	Total 1999-2003	Total 1999-2008
Revised CBO Budget Assumptions												
Baseline Revenue Forecast	$1801	$1848	$1903	$1978	$2053	$2142	$2243	$2342	$2446	$2553	$9583	$21309
Baseline Outlays Forecast	1721	1769	1817	1840	1918	1988	2073	2126	2211	2303	9065	19766
Surplus	80	79	86	139	136	154	170	217	236	251	520	1548
Debt Service Adjustment	4	7	10	13	16	19	22	26	30	34	50	181
Surplus After Debt Service Adjustment	76	72	76	126	120	135	148	191	206	217	470	1367
Tax Policy Options												
A. Marriage Penalty Reform												
H.R. 2456	-12.50	-21.20	-21.90	-22.50	-22.90	-23.40	-24.00	-24.30	-24.50	-24.60	-101.00	-221.80
B. Reduce Capital Gains Tax Rate												
10% Rate (10 percentage point cut)	19.70	18.00	2.80	-7.50	-11.00	-11.50	-12.50	-13.00	-13.60	-14.30	22.00	-42.90
C. Death Tax												
Immediate repeal	-17.93	-24.80	-26.40	-27.70	-29.50	-29.40	-29.50	-30.90	-33.10	-34.00	-126.33	-283.23
D. Expanded Education Savings Accounts	-0.06	-0.20	-0.29	-0.39	-0.47	-0.51	-0.58	-0.66	-0.74	-0.82	-1.40	-4.72
E. Repeal FUTA Surtax	-1.58	-1.60	-1.61	-1.63	-1.64	-1.66	-1.68	-1.70	-1.72	0.00	-8.06	-14.81
F. Reform Section 125 Rollover Provisions	-0.22	-0.61	-0.64	-0.67	-0.69	-0.73	-0.76	-0.80	-0.84	-0.87	-2.83	-6.83
G. Private Social Security Investment Accounts												
Five Percentage Point Payroll Tax Cut to Private Accounts (Net of Benefit Offsets)	-134.03	-172.29	-178.09	-184.98	-191.83	-198.69	-205.17	-211.28	-217.13	-222.43	-861.22	-1915.91
Reductions in Spending / Additional Debt	-70.62	-130.70	-150.13	-119.36	-138.03	-130.89	-126.19	-91.64	-85.62	-80.03	-608.83	-1123.20

Source: The budget and revenue assumptions come from the Congressional Budget Office, The Economic and Budget Outlook for Fiscal Years 19992008: A Preliminary Update, July 15, 1998. Estimates of revenue changes contained in this table come from the following sources: A. Repeal of the marriage penalty, Joint Committee on Taxation estimates for H.R. 2456; B. Capital gains tax reduction, Heritage Foundation Capital Gains Tax Model; C. Death tax repeal, Joint Committee on Taxation, Present law and Background on Estate and Gift Taxes (JCS298) for Ways and Means Committee Hearing, January 28, 1998; D. Expanding education savings accounts, Joint Committee on Taxation prints JCX2998 (May 4, 1998) and JCX3297; E. FUTA surtax repeal, U.S. Department of Labor, Unemployment Insurance Service, Division of Fiscal and Actuarial Services and Heritage calculations; F. Section 125 reform, JCT estimates dated October 10, 1997 for fiscal years 1999 through 2002 and Heritage calculations for fiscal years 2003 through 2008; G. For information on Social Security calculations, see Appendix A of A New Framework for Cutting Taxes, Heritage Foundation *Backgrounder* No. 1199, July 1, 1998.

Table 2 B1219

Returning the Surplus: Plan B

Static Revenue Impact of 1998 Tax Proposals In Billions of Dollars by Fiscal Year

	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	Total 1999–2003	Total 1999–2008
Revised CBO Budget Assumptions												
Baseline Revenue Forecast	$1801	$1848	$1903	$1978	$2053	$2142	$2243	$2342	$2446	$2553	$9583	$21309
Baseline Outlays Forecast	1721	1769	1817	1840	1918	1988	2073	2126	2211	2303	9065	19766
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Surplus After Debt Service Adjustment	76	72	76	126	120	135	148	191	206	217	470	1367
Tax Policy Options												
A. Marriage Penalty Reform												
H.R. 2456	-12.50	-21.20	-21.90	-22.50	-22.90	-23.40	-24.00	-24.30	-24.50	-24.60	-101.00	-221.80
B. Reduce Capital Gains Tax Rate												
15% Rate (5 percentage point cut)	16.20	15.10	4.20	-3.10	-5.50	-5.80	-6.40	-6.60	-6.90	-7.30	26.90	-6.10
C. Death Tax												
Dunn-Tanner	-2.02	-5.58	-8.90	-12.44	-16.46	-19.44	-22.31	-25.98	-30.04	-32.58	-45.40	-175.75
D. Expanded Education Savings Accounts	-0.06	-0.20	-0.29	-0.39	-0.47	-0.51	-0.58	-0.66	-0.74	-0.82	-1.40	-4.72
E. Repeal FUTA Surtax	-1.58	-1.60	-1.61	-1.63	-1.64	-1.66	-1.68	-1.70	-1.72	0.00	-8.06	-14.81
F. Reform Section 125 Rollover Provisions	-0.22	-0.61	-0.64	-0.67	-0.69	-0.73	-0.76	-0.80	-0.84	-0.87	-2.83	-6.83
Total Income Tax Reductions	-0.18	-14.09	-29.14	-40.72	-47.66	-51.54	-55.74	-60.04	-64.73	-66.18	-131.78	-430.01
Remaining "Budget Surplus" for Social Security Reform	75.82	57.91	46.86	85.28	72.34	83.46	92.27	130.96	141.27	150.82	338.22	936.99

Source: The budget and revenue assumptions come from the Congressional Budget Office, The Economic and Budget Outlook for Fiscal Years 19992008: A Preliminary Update, July 15, 1998. Estimates of revenue changes contained in this table come from the following sources: A. Repeal of the marriage penalty, Joint Committee on Taxation estimates for H.R. 2456; B. Capital gains tax reduction, Heritage Foundation Capital Gains Tax Model; C. Death tax repeal, Joint Committee on Taxation, Present law and Background on Estate and Gift Taxes (JCS298) for Ways and Means Committee Hearing, January 28, 1998; D. Expanding education savings accounts, Joint Committee on Taxation prints JCX2998 (May 4, 1998) and JCX3297; E. FUTA surtax repeal, U.S. Department of Labor, Unemployment Insurance Service, Division of Fiscal and Actuarial Services and Heritage calculations; F. Section 125 reform, JCT estimates dated October 10, 1997 for fiscal years 1999 through 2002 and Heritage calculations for fiscal years 2003 through 2008.

Table 3 B1219

Returning the Surplus: Plan C

Static Revenue Impact of 1998 Tax Proposals In Billions of Dollars by Fiscal Year

	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	Total 1999–2003	Total 1999–2008
Revised CBO Budget Assumptions												
Baseline Revenue Forecast	$1801	$1848	$1903	$1978	$2053	$2142	$2243	$2342	$2446	$2553	$9583	$21309
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Tax Policy Options												
A. Marriage Penalty Reform												
H.R. 2456	-12.50	-21.20	-21.90	-22.50	-22.90	-23.40	-24.00	-24.30	-24.50	-24.60	-101.00	-221.80
B. Reduce Capital Gains Tax Rate												
10% Rate (10 percentage point cut)	19.70	18.00	2.80	-7.50	-11.00	-11.50	-12.50	-13.00	-13.60	-14.30	22.00	-42.90
C. Death Tax												
Immediate repeal	-17.93	-24.80	-26.40	-27.70	-29.50	-29.40	-29.50	-30.90	-33.10	-34.00	-126.33	-283.23
D. Expanded Education Savings Accounts	-0.06	-0.20	-0.29	-0.39	-0.47	-0.51	-0.58	-0.66	-0.74	-0.82	-1.40	-4.72
E. Repeal FUTA Surtax	-1.58	-1.60	-1.61	-1.63	-1.64	-1.66	-1.68	-1.70	-1.72	0.00	-8.06	-14.81
F. Reform Section 125 Rollover Provisions	-0.22	-0.61	-0.64	-0.67	-0.69	-0.73	-0.76	-0.80	-0.84	-0.87	-2.83	-6.83
Total Income Tax Reductions	-12.59	-30.41	-48.04	-60.38	-66.20	-67.20	-69.03	-71.36	-74.49	-74.60	-217.62	-574.29
Remaining "Budget Surplus" for Social Security Reform	63.41	41.59	27.96	65.62	53.80	67.80	78.98	119.64	131.51	142.40	252.38	792.71

Source: The budget and revenue assumptions come from the Congressional Budget Office, The Economic and Budget Outlook for Fiscal Years 19992008: A Preliminary Update, July 15, 1998. Estimates of revenue changes contained in this table come from the following sources: A. Repeal of the marriage penalty, Joint Committee on Taxation estimates for H.R. 2456; B. Capital gains tax reduction, Heritage Foundation Capital Gains Tax Model; C. Death tax repeal, Joint Committee on Taxation, Present law and Background on Estate and Gift Taxes (JCS298) for Ways and Means Committee Hearing, January 28, 1998; D. Expanding education savings accounts, Joint Committee on Taxation prints JCX2998 (May 4, 1998) and JCX3297; E. FUTA surtax repeal, U.S. Department of Labor, Unemployment Insurance Service, Division of Fiscal and Actuarial Services and Heritage calculations; F. Section 125 reform, JCT estimates dated October 10, 1997 for fiscal years 1999 through 2002 and Heritage calculations for fiscal years 2003 through 2008.