

HOW CONGRESS'S TAX BILL WOULD AFFECT FAMILIES, THE ECONOMY, AND THE FEDERAL BUDGET

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In August 1999, the House and Senate agreed to a 10-year tax cut plan with a revenue cost estimated by the Joint Committee on Taxation at \$791.9 billion.¹ The Taxpayer Refund and Relief Act of 1999 (H.R. 2488) promises to give Americans the largest tax reduction since 1981.

Supporters of the legislation make three broad claims:

1. **The bill would return a large tax “overpayment” to Americans.** The Congressional Budget Office (CBO) predicted last July that the federal government will accumulate \$2.9 trillion in budget surpluses over the next 10 fiscal years. Even after subtracting surpluses in the Social Security trust funds (which Congress has pledged will not be used for tax cuts), the 10-year sum of surpluses available for tax reductions will be \$988.7 billion. The \$791.9 billion tax cut, supporters argue, would still leave \$196.8 billion in place to reduce federal debt.

2. **The bill would create a much fairer tax code for women and families.** Supporters of H.R. 2488 say it will eliminate second-earner bias (the so-called marriage penalty that affects women more than men) as well as provide women with opportunities for “catching up” on contributions to retirement plans if they leave the labor force for a period of time to raise children.
3. **The bill would lead to a healthier economy.** Supporters maintain that far from undermining the potential for continued strong economic growth, as the White House argues, the bill would continue the expansion by strengthening savings and investment.

In this report, The Heritage Foundation's Center for Data Analysis (CDA) examines these three claims. Using the award-winning WEFA U.S. Macroeconomic Model,² the Center's analysis indicates that:

- **Over one million more jobs** would be created after the Act is fully implemented in fiscal year (FY) 2008.

1. All estimates of changes in tax revenue used in this report are from the Joint Committee on Taxation (JCT), unless otherwise noted. See JCT, “Estimated Budget Effects of the Conference Agreement for H.R. 2488,” JCX-61-99 R, August 5, 1999.

- **Disposable personal income (using inflation adjusted dollars) would increase by \$205.3 billion, or by \$2,800 for the average family of four, in FY 2008.** In response to this significant increase in family budgets, consumer spending would rise by \$136.2 billion.
- **The nation's private savings rate would reverse its downward spiral, rising from 1.7 percent in FY 2000 to 3.9 percent in FY 2008.** In FY 2008, the bill would enable Americans to save an additional \$65.2 billion.
- **Higher employment, increased payroll tax revenues, and lower inflation would increase the Social Security surplus by \$25.5 billion from FY 2000 to FY 2009.** In fact, the analysis suggests that a tax package designed to stimulate the economy is the best strategy to increase the flow of revenues into the trust funds.
- **Publicly held federal debt would fall by \$2.1 trillion, or from 39.4 percent of gross domestic product (GDP) in FY 1999 to 10.2 percent of GDP in FY 2009.** Interest payments on the debt would fall from 12.1 percent of the federal budget in FY 1990 to just 3 percent in FY 2009, freeing up tax revenue for other spending priorities.
- **Increased economic growth results in a larger tax base.** The additional tax revenue—\$106.8 billion from FY 2000 to FY 2009—would moderate the expected aggregate revenue loss to the Treasury estimated under the static analysis. In other words, when the tax cut's effect on economic performance is taken into account, the actual "loss" to the Treasury is 86.5 percent of the purely static reduction in tax revenues over ten years.
- **Tax liabilities would fall in every state.** Of the 25 largest states, in FY 2008 the tax liability per return would fall the most in New Jersey

(by \$1,157) followed by Virginia (\$1,012) and Massachusetts (\$1,006). The greatest percentage decline, 11 percent, or \$957, occurs in Wisconsin.³

MAIN PROVISIONS OF THE TAXPAYER REFUND AND RELIEF ACT OF 1999

Congress's 1999 tax cut legislation contains 15 sections. Among its key provisions are:

Family Tax Relief

According to the Joint Committee on Taxation (JCT), the bill would reduce the total tax burden by \$791.9 billion over 10 years. A little more than 64 percent of the 10-year tax cut, or \$508.1 billion, would go to taxpaying families. The remainder would go to cut taxes on savings, investment, education, health care, the death tax, and businesses. This tax cut would be delivered to households in several forms.

- **Rate reduction:** Every taxpayer receives a reduction in the income tax rate. Taxpayers who currently pay taxes at the 15 percent rate would see their rate fall to 14.5 percent in 2001 and 2002 before dropping to 14 percent in 2003. All other taxpayers (those who pay at the next four higher rates) would see their tax rate drop by one percentage point in 2003. These rate reductions cut taxes by \$282.6 billion over 10 years, according to the JCT.
- **Marriage penalty relief:** Married taxpayers would see the end of the marriage penalty. Currently, married couples who both work frequently face a penalty in the tax code because their incomes are added together for tax purposes. For example, if one earner makes \$38,000, he or she will be taxed in the 15 percent bracket because that income falls under

2. WEFAs Mark 11 U.S. Macroeconomic Model was developed in the late 1960s by Nobel Prize-winning economist Lawrence Klein and several of his colleagues at the Wharton Business School of the University of Pennsylvania. It is widely used by Fortune 500 companies, prominent federal agencies, and economic forecasting departments. The methodologies, assumptions, conclusions, and opinions herein are entirely the work of Heritage Foundation economists. They have not been endorsed by, nor do they reflect the views of, the owners of the model.

3. Comparisons are made between the 25 largest states because the relatively small sample size of the smaller states results in relatively larger standard errors, thus reducing the reliability of the estimates.

the upper limit of the 15 percent bracket, or \$42,350. However, if the other earner makes \$23,000, this taxpayer will be taxed at 15 percent only on the first \$4,350 of income. All of the rest of what he or she makes is taxed at a higher marginal rate of 28 percent. Congress addressed this bias against the second earner by doubling the standard deduction, increasing income tax brackets, and adjusting the Earned Income Tax Credit for joint returns. According to the JCT, this would return \$117 billion to families over the next 10 years.

- **Repeal of the alternative minimum tax (AMT):** In 1978, Congress enacted the current AMT to make it more difficult for a few thousand very high-income taxpayers to legally avoid paying taxes. But because of inflation and real income growth, the AMT now covers far more Americans than Congress envisioned or intended. Last year, nearly 900,000 taxpayers paid AMT taxes, and many of those taxpayers had middle-class incomes.⁴ In fact, many of the credits Congress has enacted since 1993 to help middle-class families are a leading cause of new AMT liabilities, particularly the child tax credit. The JCT estimates that over 9 million taxpayers will pay the AMT by 2009 if Congress does not reform or repeal it. The Taxpayer Refund and Relief Act of 1999 phases out the AMT over the next 10 years. According to the JCT, this would save taxpayers \$102.9 billion over that period.

Savings, Investment, and Estate Tax Provisions

Congress's tax plan reduces the double taxation of savings by reducing taxes on income from savings and investment, which moves forward the prospect of fundamental tax reform. The last

major round of tax legislation, the Taxpayer Relief Act of 1997, cut the tax rates on long-term capital gains, provided some death tax relief, and created the Roth Individual Retirement Account (IRA), which subsequently proved far more popular among small investors than Congress envisioned. The Taxpayer Refund and Relief Act of 1999 expands on these three initiatives.

- **Capital gains:** The bill accelerates the tax rate reduction on long-term capital gains from 20 and 10 percent to 18 and 8 percent, respectively.⁵ While Congress enacted legislation in 1997 to make these lower rates effective in 2005, H.R. 2488 would make the rates effective on January 1, 2000. In addition, Congress has simplified the tax law relating to long-term gains and holding periods. Altogether, the JCT estimates these changes would save taxpayers \$33.8 billion.

It is widely expected that the lower capital gains tax rates would generate higher tax revenue in fiscal years 2000 and 2001. Indeed, every time tax rates on the appreciated value of long-term assets have gone down, investors have taken the opportunity to sell their less productive investments in order to acquire new ones with higher rates of return. These "unlocked" transactions yield unexpected revenues for the federal government and improve productivity and wages in the long run.

- **Individual retirement accounts (IRAs):** The bill expands the availability and size of IRA contributions. Tax-preferred savings plans are increasingly popular with a growing number of taxpayers concerned about their future retirement income. Congress addresses their concern in several ways.

4. Joint Committee on Taxation, "Present Law and Issues Relating to the Individual Alternative Minimum Tax," JCX-3-98, February 4, 1998. The JCT defines income as adjusted gross income, plus tax-exempt interest, employer contributions to health plans and life insurance, the employer share of payroll taxes, workers compensation, nontaxable Social Security benefits, the insurance value of Medicare benefits, AMT preference items, and the excluded income of U.S. citizens living abroad. Using this broad definition of income, middle class is defined as incomes of \$75,000 or less.

5. The Taxpayer Relief Act of 1997 established two tax rates for capital gains. The 10 percent tax rate is paid by taxpayers in the 15 percent marginal tax bracket. All other taxpayers pay a tax rate of 20 percent on capital gains. H.R. 2488 would reduce these two tax rates to 8 and 18 percent respectively.

First, the annual amount qualified taxpayers may contribute to IRAs is expanded from \$2,000 per year to \$5,000 by 2006.

Second, the income limits for determining whether a taxpayer may purchase a Roth IRA (created with after-tax dollars; therefore, withdrawals from the account are not subject to taxation) are higher. Congress also raises the income limits for converting traditional IRAs to Roth IRAs.

Third, taxpayers who are age 50 or above would be permitted to contribute slightly more each year to an IRA than younger taxpayers in order to build up their retirement savings more quickly.

These changes in tax-preferred savings plans would save taxpayers \$67.3 billion over ten years, according to the JCT.

- **Education savings incentives:** H.R. 2488 makes a number of tax law changes that enhance the ability of taxpayers to save for educational expenses. For example, the “Education IRAs” of the 1997 tax bill would become Education Savings Accounts, and taxpayers could contribute after-tax dollars to these accounts not only for college expenses but also for elementary and secondary school costs. The legislation also corrects the anti-private college bias in the tax treatment of pre-paid college tuition plans. Such plans allow taxpayers to take pre-tax dollars and purchase a future college education for their children at today’s tuition prices, all the while protecting their current income from taxation. This provision would save taxpayers \$11.3 billion, according to the JCT.
- **Repeal of estate, gift, and generation-skipping taxes:** Like the taxes on capital gains and sav-

ings, taxes on the buildup of value in businesses, farms, ranches, and other enterprises represent a form of double taxation. Many taxpayers spend a lifetime working and investing in a small business to provide a good economic foundation for their children, but the Internal Revenue Service (IRS) can take up to 55 percent in taxes after a taxpayer’s death. The Taxpayer Refund and Relief Act of 1999 phases out the second highest estate and gift taxes in the world over the next 10 years. This will save taxpayers \$65.6 billion over that period, according to the JCT.⁶

Economists note that, besides having a major effect on certain groups of Americans (such as farmers and many small business owners), estate taxes also affect the economy. A 1996 analysis conducted by The Heritage Foundation, using the WEFA Group’s U.S. Macroeconomic Model, found that repealing the estate tax would have a large and beneficial effect on the economy.⁷ This study showed that repeal would lead to numerous economic benefits over the nine years following repeal:

Economic output would increase by an average of \$11 billion per year, and an average of 145,000 new jobs would be created;

Personal income could rise by an average of \$8 billion per year over current projections; and

Federal revenues would grow because the tax receipts generated by extra economic growth would offset the meager revenues currently raised by the inefficient estate tax.

Richard Fullenbaum and Mariana McNeill, former economists with DRI/McGraw-Hill, recently corroborated these results in an important study for the Research Institute for Small and Emerging Business.⁸ In a simulation

6. Congress has enacted a complicated phase out plan. Between now and 2008, estate tax rates will fall and the unified credit will rise. In 2009, all death taxes will be repealed. Taxpayers will be able to transfer assets to other family members without any tax consequence as long as the transfers are less than \$2 million for the taxpayer or \$3 million for the taxpayer’s spouse. Amounts above those levels will be taxed as capital gains from the original basis of the bequestor.

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

8. Richard F. Fullenbaum and Mariana A. McNeill, “The Effects of the Federal Estate and Gift Tax on the Aggregate Economy,” *Research Institute for Small & Emerging Business Working Paper Series* 98-01 (1998).

of estate tax repeal using the WEFAs U.S. Macroeconomic Model, they found 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.

Health Care and Provisions Affecting Women

Not only has Congress provided tax relief in this bill for taxpayers who have created the current surplus, but it also has changed tax law to rectify a few important inequities. Among them:

- **Health and long-term care:** If taxpayers receive their health insurance through their employer, the employer can deduct a portion of these health-care costs from the company's taxes. However, if an employed individual lacking such coverage purchases similar insurance for himself and his family, the employee cannot take the deduction against his own taxes.

To remedy this double standard, Congress's tax plan would permit taxpayers to take two kinds of new health-related deductions. One is an above-the-line deduction for the annual costs of health insurance purchased by a worker. The other is an above-the-line deduction for long-term health care insurance expenses. The JCT estimates that these provisions would save taxpayers \$38.6 billion over the next 10 years.

- **Inequities affecting women:** Congress also addressed long-standing inequities faced by women who take time off from their jobs to raise their families. Currently, these taxpayers miss out on annual 401(k) or 403(b) tax-advantaged savings contributions available through an employer. The bill permits such taxpayers to "catch up" on their contributions if they are aged 50 or above by increasing the maximum contribution limit by 50 percent

over five years. The plan also provides for easier vesting rules for such taxpayers if their employer offers a pension plan. The provisions aimed at equity for women would save taxpayers \$4.3 billion over 10 years, according to the JCT.

HOW THE BILL WOULD AFFECT TAXES FOR AMERICAN FAMILIES

When all the provisions of the Taxpayer Refund and Relief Act that affect individuals are summed, households would receive \$712.6 billion in tax relief over 10 years, according to the JCT. The remaining amount, or \$79.3 billion, is 10-year tax relief for businesses.⁹

Table 1 in Appendix B illustrates how the most broadly applied of Congress's many tax provisions affect several types of families. Panel A of Table 1 contains three common filing types (Joint, Single, and Head of Household) at three different income levels. The example assumes that the Joint filer takes itemized deductions and the Single as well as Head-of-Household filers both take the standard deduction. The tax savings from the bill are shown for FY 2008, when the legislation would be fully implemented. If, for example, current tax law were to continue to exist in 2008, the joint taxpaying family making \$75,000 today would owe \$10,257. If the tax bill becomes law, their tax liability would fall by \$1,670, or decrease to \$8,587. Every taxpayer shown on Table 1 would receive a tax cut.

Panel B of Table 1 (see Appendix B) shows the effects of rate reduction, bracket change, and increased standard deduction amounts on three different taxpayers: a single female teacher, a single male, small-business owner, and a blue-collar union worker. All three of the cases represent median-income taxpayers in these professions who will see lower taxes under H.R. 2488 than they do under current law. (See Appendix A for a description of how the tax cuts were estimated for these tax filers.)

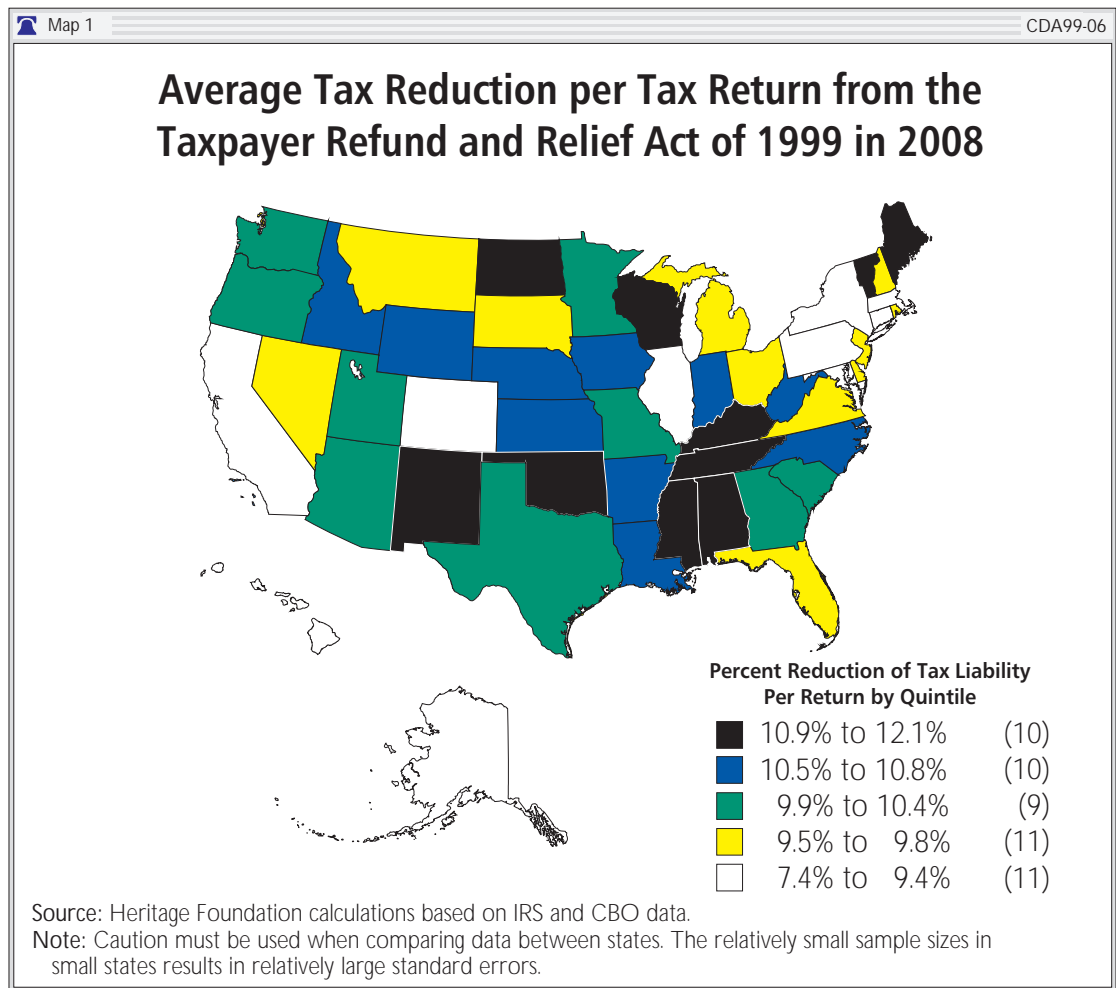
9. These amounts are net of revenue increases in H.R. 2488. The revenue offsets largely come from revisions to rules regarding how taxpayers pay their taxes and record taxable income as well as from changes in post-death distribution rules. These and other tax law changes add \$5.5 billion in revenue over 10 years.

Panel C of Table 1 (see Appendix B) shows how some families with capital gains would fare under the Taxpayer Refund and Relief Act of 1999. These median-income tax filers would receive the same lower individual income tax rate that all taxpayers would in 2008. However, they also would benefit from the lower tax rate on long-term capital gains. For example, based on an analysis of IRS tax data, among

those families of four who realize capital gains, the median taxpayer has an income of \$91,485 (in 1999 dollars) and capital gains of \$880. This taxpayer's family would see its tax bill drop by \$2,934, or 19.8 percent, in 2008. And the median-income senior couple with an income of \$52,305 and \$7,210 in capital gains¹⁰ would realize a reduction of \$546, or 8.6 percent, in taxes.

WHAT THE BILL'S PROVISIONS WOULD MEAN FOR TAXPAYERS IN EACH STATE

According to the JCT, the family tax relief provisions and the decrease in capital gains taxes will enable Americans to keep \$125.8 billion more of their income in FY 2008. Just these two provisions



alone provide for substantial tax reduction in each state. (See Appendix A for a description of how the tax cuts were estimated for the states.)

For example, in FY 2008, the tax burden in California would fall by \$14 billion (see Table 2 in Appendix B). In Texas, federal individual income taxes would fall by \$8.4 billion. In Florida, taxes would be cut by \$6.6 billion, and in Illinois by \$6.2 billion. Of the 25 largest states, the largest dollar decline in tax liability per return would occur in New Jersey (\$1,157), followed by Virginia (\$1,012) and Massachusetts (\$1,006). The largest percentage decline in tax liability per return would occur in Wisconsin, at 11 percent. But even the smallest decline (in Pennsylvania) of 8.8 percent would mean a savings of \$823 in tax liability per return in 2008. (See Map.)¹¹

10. For purposes of this analysis, senior tax filers are defined as those people recorded as having claimed the elderly (over 65) deduction on the 1995 IRS Public Use File.

THE DYNAMIC ECONOMIC AND BUDGETARY EFFECTS OF THE TAX BILL

The JCT revenue calculations of the Taxpayer Refund and Relief Act of 1999 do not take into account the macroeconomic effects that would result from a reduction in tax rates.¹² These effects include changes in GDP, interest rates, employment, and inflation that can significantly affect tax revenues and spending levels. As such, the JCT's "static" estimates present a limited analysis of the economic and budgetary impact of the bill. To more accurately forecast the change in federal tax revenues and the economy, a dynamic model must be used.

The CDA conducted a dynamic simulation of the Taxpayer Refund and Relief Act of 1999 to assess more precisely the impact of the legislation. The simulation demonstrates that the bill would increase the number of jobs, strengthen investment, and stimulate economic growth. The simulation also shows that family budgets would improve, thus enabling Americans to better provide for their families and save for the future. Even with the tax cut, federal debt would be significantly reduced and the entire Social Security surplus would be saved. In fact, the Social Security surplus would actually increase because of higher employment and lower inflation.

To conduct the simulation, The Center's economists used WEFA's U.S. Macroeconomic Model. Both CDA and WEFA economists reconstructed the June 1999 long-term model to embody the economic and budgetary assumptions published by the CBO in July 1999.¹³ This specifically adapted model uses CBO assumptions to produce dynamic simulations of policy changes.¹⁴ (See Appendix A for a description of how the tax cuts

were incorporated into this version of the WEFA's U.S. Macroeconomic Model.)

The Center's analysis using the WEFA model and CBO economic assumptions indicates that cutting income taxes would help families and increase job opportunities over the 10-year period between fiscal years 2000 and 2009. (See Table 3 in Appendix B.)

"Static" tax revenue estimates that do not account for the tax cut's influence on the economy's performance suggest that lower income tax rates would decrease revenues to the federal Treasury by \$791.9 billion from FY 2000 to FY 2009. However, the more "dynamic" analysis, using the WEFA model, suggests that because the tax cut increases economic growth, the larger tax base would generate more tax revenue (\$106.8 billion) and moderate the expected aggregate revenue loss to the Treasury estimated under the static analysis. In other words, when the tax cut's effect on economic performance is taken into account, the actual "loss" to the Treasury is 86.5 percent of the purely static reduction in tax revenues over 10 years.

Some analysts using static budget estimates calculate that cutting taxes by \$791.9 billion over 10 years will result in an additional \$141 billion in interest payments on the federal debt than otherwise would accrue had taxes not been cut and the revenue had been used instead to reduce the federal debt. The Center's dynamic analysis suggests that the actual increase in interest payments would be just \$48.2 billion (49.4 percent of which is paid in FY 2009), not the \$141 billion suggested by the static analysis. The difference between the static and dynamic estimates results from increased economic activity, higher employment growth, lower inflation, and lower interest rates.

11. Comparisons are made between the 25 largest states because the relatively small sample size of the smaller states results in relatively larger standard errors, thus reducing the reliability of the estimates.

12. Joint Committee on Taxation, *Joint Committee Tax Modeling Project and 1997 Tax Symposium Papers*, JCS-21-97, November 20, 1997.

13. Congressional Budget Office, *The Economic and Budget Outlook: An Update*, July 1, 1999.

14. The reader should note that the WEFA model, like all forecasting models, produces estimates of future economic behavior that are likely to occur, given the assumptions imposed on the model and the economic theory upon which the model is constructed. Forecasts from the WEFA model tend to be in the middle range of actual economic outcomes for the short run and generally have understated the long-run economic performance of the U.S. economy.

Specifically, the dynamic analysis suggests that the congressional tax cut would:

- **Increase economic growth** by 0.2 percentage points in FY 2005 from 2.5 percent to 2.7 percent, and by an average of 0.1 percentage points from FY 2000 to 2009. By the end of FY 2008 (when many of the tax cut provisions expire), real GDP would be \$84.3 billion more than the CBO baseline forecast.
- **Increase disposable personal income** in FY 2008 by \$205.3 billion (using 1992 inflation-adjusted dollars), or by \$2,800 for the average family of four. In response to this significant increase in family budgets, consumer spending would rise by \$136.2 billion, or \$1,858 per family of four.
- **Increase household savings**, or personal savings, adjusted for inflation, by \$65.2 billion, or \$890 for the average family of four, by the end of FY 2008, and the savings rate would rise by 0.8 percentage points to 3.9 percent.
- **Increase job opportunities** by 1.163 million in FY 2008 and reduce the unemployment rate by 0.1 percentage points to 5.4 percent.
- **Increase business investment** in FY 2008 to \$18.6 billion higher than the CBO baseline, and the real stock of capital available to workers would increase by \$86.3 billion.
- **Return less than one quarter of every surplus dollar.** The \$2.9 trillion budget surplus from FY 2000 to FY 2009 would decline to \$2.2 trillion, or 23.9 percent. In addition, \$271.6 billion, or 27.5 percent, of the on-budget surplus would remain for further reducing the national debt.
- **Save the entire Social Security surplus.** In fact, the surplus would grow by \$25.5 billion

because more Americans would be working and inflation will be lower. Higher employment results in higher payroll tax receipts that, when combined with lower inflation, would lead to more Social Security surpluses over the next 10 years.¹⁵ The analysis suggests that a tax package designed to stimulate the economy is the best strategy to increase the flow of revenues into the trust funds.

- **Reduce publicly held federal debt**, as a percent of GDP, from 39.4 percent at the end of FY 1999 to just 10.2 percent at the end of FY 2009—a decrease of \$2.1 trillion. Moreover, federal interest payments on the debt would fall from 12.1 percent of spending in FY 1999 to just 3 percent in FY 2009.

CONCLUSION

The Taxpayer Refund and Relief Act of 1999 (H.R. 2488) promises the largest tax reduction since 1981. It would return 80.1 percent of the \$988.7 billion overpayment that American taxpayers would otherwise make from FY 2000 to FY 2009. The bill would begin to reduce the price of government and lead to a healthier economy. The Heritage Foundation's dynamic analysis, moreover, shows that the bill would significantly improve family budgets and enable Americans to better provide for their families and to save for the future. And even with the tax cut, federal debt would decline substantially and the Social Security surplus would increase because of higher employment and lower inflation.

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15. Lower inflation allows for smaller cost-of-living adjustments to maintain Social Security's purchasing power for beneficiaries, and it reduces the rate of increase in Social Security spending.

APPENDIX A: METHODOLOGY

Economists with the Center for Data Analysis (CDA) followed a two-step procedure in analyzing the revenue and economic effects of the Taxpayer Refund and Relief Act of 1999.

First, static tax revenue estimates were obtained from the Joint Committee on Taxation (JCT).¹⁶ The JCT static estimate of the reduction in capital gains tax revenue was replaced with a static estimate developed by CDA economists. Both the JCT and CDA revenue estimates are based on a static methodology that does not account for the macroeconomic effects that would result from a reduction in tax rates.¹⁷ These effects include changes in the gross domestic product (GDP), interest rates, employment, and inflation that can significantly affect tax revenues and spending levels. As such, the static estimates provide a limited analysis of the economic and budgetary impact of any policy change. To more accurately forecast the change in federal tax revenues and the economy, a dynamic model must be used.

In the second step, the static revenue changes are introduced into the WEFAs U.S. Macroeconomic Model. The WEFA model is a dynamic model of the U.S. economy that is designed to estimate how the general economy is reshaped by policy reforms, such as tax law changes.¹⁸ CDA and WEFA economists have developed a model for The Heritage Foundation to embody the economic and budgetary assumptions published by the CBO in July 1999. This specifically adapted model produces dynamic responses from the CBO baseline as a result of proposed policy changes.

The following sections describe how CDA economists developed the static estimates described in

this report, how these static results and other assumptions were used to develop the case studies and state-by-state analysis presented in the report, and how the static estimates were introduced into the WEFA model to estimate the dynamic economic and budgetary results.

STATIC REVENUE ESTIMATES

Static tax revenue estimates were obtained from the Joint Committee on Taxation (JCT).¹⁹ The JCT static estimate of the reduced capital gains tax revenue was replaced with a static estimate developed by CDA economists.

The Center's static estimate of the reduced capital gains tax revenues from individuals is based on Burman and Randolph's estimated elasticities associated with significant capital gains rate reductions.²⁰ For the two years after the tax rate change, the income base grows by a ratio of 3.3 to 1. Thereafter, the income base is permanently higher by a ratio of 1.5 to 1. Burman and Randolph found in their study that the transitory elasticity, or the effect on the base of declarations following a rate change, is about 6.42. Absent any increases in the tax rate on capital gains, capital gains declarations appear to settle at a higher level and remain relatively unaffected by the tax rate, except as the rate itself is affected by inflation. Thus, their analysis indicated a "permanent" elasticity of less than one, or .42. CDA economists chose to keep the level of additional declarations constant throughout the third through tenth years of the simulation, thus allowing only changes in price level for capital assets and the performance of corporate equities and bonds to affect the base.

16. See Joint Committee on Taxation, "Estimated Budget Effects of the Conference Agreement for H.R. 2488."

17. Joint Committee on Taxation, *Joint Committee Tax Modeling Project and 1997 Tax Symposium Papers*.

18. WEFAs Mark 11 U.S. Macroeconomic Model is an 873 simultaneous-equation quarterly block recursive model of the U.S. economy. The first block describes how aggregate demand, aggregate supply, financial markets, and labor markets interact. The second block uses an input-output framework to forecast industrial production, wages, and employment for different industry sectors. The methodologies, assumptions, conclusions, and opinions herein are entirely the work of Heritage Foundation economists. They have not been endorsed by, nor do they reflect the views of, the owners of the model.

19. See Joint Committee on Taxation, "Estimated Budget Effects of the Conference Agreement for H.R. 2488."

20. See Leonard E. Burman and William C. Randolph, "Measuring Permanent Responses to Capital-Gains Tax Changes in Panel Data," *American Economic Review*, Vol. 84, No. 4 (September 1994).

CASE STUDIES

Demographic and income characteristics for the hypothetical taxpayers are based on median-income cases found in the March 1998 Current Population Survey (CPS) conducted by the Bureau of the Census and the 1995 Public Use Tax File produced by the Statistics of Income Division (SOI) of the Internal Revenue Service (IRS). The case studies are based on data from the CPS and SOI for median-income taxpayers that match the characteristics of the examples. For cases with capital gains income, only records with positive non-zero amounts were included. Non-capital gains income for each case was projected to 1999 using historical data and forecasts for wage growth. Capital gains income was assumed to grow at an annual rate of 9 percent over the historical period. All income after 1999 is assumed to grow at a rate equal to the CBO forecast of the consumer price index for urban consumers (CPI-U).

Taxes for the case studies were determined by subtracting the amount of exemptions and deductions from total income and then taxing that amount at the appropriate rate. The proposed-law tax provisions included in the calculations are: changes in tax rates, brackets, and the standard deduction.²¹ An indexing adjustment based on CBO's forecast of CPI-U is included in the tax calculations.²² Six families were in income classes where a majority of taxpayers claim itemized deductions instead of the standard deduction. It was assumed that itemized deductions for these taxpayers would be 20 percent of their income. This percentage is based on the historical average amount of itemizations for taxpayers with similar amounts of income. The case studies are snapshots in time and do not reflect events that might occur over the projection period, such as in changes in marital status, family size, and employment status.

21. Details of proposed changes were based on descriptions found in "Overview of Conference Agreement for H.R. 2488, the Taxpayer Refund and Relief Act of 1999," Joint Committee on Taxation, JCX-60-99, August 4, 1999, and CDA's calculations.

22. The adjusted items include the value of exemptions, standard deduction, itemized deduction limitation threshold, and tax brackets. Internal Revenue Code (IRC) Sections 1(e), 1(f), 63(c)(4), 68(b)(2), and 151(d)(4) were used to derive the inflation-adjustment formulas. An additional adjustment was made so that the annual CPI-U projections would reflect an annual period that begins on September 1, as required by IRC Section 1(f).

STATIC STATE TAX CUT ESTIMATES

Static estimates of the family tax relief by state are based on data from the 1995 IRS Public Use File data and projections by the CBO. The proposed tax changes were estimated using a Heritage tax simulation model. This model simulated the proposed changes in the marginal tax rate, the 14 percent bracket expansion, the doubling of the standard deduction for joint filers, the increase of the joint 28 percent bracket to twice that of the single 14 percent bracket, the personal alternative minimum tax, and the change in the capital gains tax rate.

The tax reductions for the states were calculated by taking the numbers of tax returns reported for each state and adding a small amount of unassigned, or masked, tax returns (those returns with too small or too large an income to be assigned to a state by the IRS). The number of masked tax returns assigned to a state was determined by the state's share of total income tax returns. The number of tax returns per state was adjusted by using IRS projections in the growth of aggregate tax returns. The mean tax cut per return is the projected total tax cut by state divided by the number of returns filed per state.

DYNAMIC ECONOMIC AND BUDGETARY ESTIMATES

The WEFA model contains a number of variables that are used to simulate proposed policy changes. The following changes were made in the model.

Average Personal Effective Tax Rate

The WEFA model contains a variable that measures the total amount of all federal taxes on individual income as a percentage of the nominal personal income tax base. CDA economists

adjusted this average effective tax rate downward for each of the forecast years to reflect the static revenue decrease estimates. An adjustment was also made to the WEFA model to reflect the static revenue estimate from the capital gains unlocking effect.

Corporate Tax Revenue

The WEFA model contains a variable that measures the total amount of federal corporate tax revenue. Heritage economists adjusted the revenue downward for each of the forecast years to reflect their static revenue decrease estimates.

Indirect Business Tax Revenue

The WEFA model contains a variable that measures the total amount of federal indirect business tax revenue. CDA economists adjusted the revenue downward for each of the forecast years to reflect their static revenue decrease estimates.

Labor Force Participation and Average Weekly Hours

Small adjustments were made in the model's exogenous labor force participation rate and in the number of hours worked to account for the dynamic effects of decreasing marginal income tax rates. These adjustments are based on previous research conducted by the Center's economists and on the CBO study, *Labor Supply and Taxes*, January 1996. These adjustments increase the labor force participation rate by 0.24 percentage points per year from 2000 to 2009, and average weekly hours by 0.04 hours per week.

30-Year Treasury Bond Rates

CDA economists decreased the 30-year Treasury bond rate by an average of 20 basis points from 2000 to 2009 to reflect the lower tax rates on interest and dividend income that would be

reported on personal income tax forms. In 1997, 5.6 percent of adjusted gross income was interest and dividend income. The corporate 30-year Treasury bond rate is a component in the WEFA model equation that influences other interest rates and the cost of capital. This change decreases the corporate bond rate and 30-year Treasury bond rate by an average of 20 basis points from 2000 to 2009.

Business Sector Price Index

CDA economists decreased the business sector price index to reflect the lower tax rates on business income that would be reported on personal income tax forms. In 1997, 6.9 percent of adjusted gross income was business, partnership, and subchapter S corporate income. Heritage economists assume that lower tax rates on this income will lower the rate of increase of the business sector price index. This change decreases inflation by 0.05 percentage points per year.

Imported Car Adjustment

CDA economists worked with WEFA economists to adjust the level of imported cars and trucks in the model to maintain the historic ratio of the value of imported motor vehicles to GDP.

Monetary Policy

The model assumes that the Federal Reserve Board will react to this policy change as it has historically. This assumption was embodied in the Heritage model simulation by including the stochastic equation in the WEFA model for monetary reserves. This assumption decreases both short- and long-term interest rates by 10 basis points from fiscal years 2006 to 2009, but has a negligible effect on interest rates from fiscal years 2000 to 2005.

APPENDIX B

Table 1

CDA99-06

Examples of Changes in Individual Income Taxes that Would Result from the Taxpayer Refund and Relief Act of 1999 in 2008

Filing Status	Family Size	1999 Income	Type of Deduction	Tax Year 2008	
				Current Tax Law	Change in Tax
Panel A General Examples					
Joint	4	\$60,000	Itemized	\$6,952	-\$463
Joint	4	75,000	Itemized	10,257	-1,670
Joint	4	95,000	Itemized	15,852	-2,958
Single	1	30,000	Standard	4,307	-287
Single	1	37,500	Standard	6,523	-771
Single	1	47,500	Standard	10,019	-896
Head of Household	2	30,000	Standard	3,422	-228
Head of Household	2	37,500	Standard	4,827	-322
Head of Household	2	47,500	Standard	6,963	-709

**Panel B
Median Income Taxpayer by Employment Category,
in the 1998 Current Population Survey**

Teacher (Single Female)	1	\$38,360	Standard	\$6,823	-\$782
Owner, Small Business: Insurance/Real Estate (Single Male)	1	52,790	Standard	11,868	-962
Blue Collar Union Worker (Married Couple with Children)	4	51,725	Itemized	5,712	-381

**Panel C
Median Income Taxpayer with Capital Gains by Family Category,
in the 1995 IRS Individual Tax File**

Family of Four (\$880 in Capital Gains)	4	\$91,485	Itemized	\$14,781	-\$2,934
Senior Couple (\$7,210 in Capital Gains)	2	52,305	Itemized	6,370	-546

Note: Income data have been estimated for 1999 based on Bureau of Economic Analysis' historical data and forecasts for wage and capital gains growth. These data then were projected from 1999 to 2008 using the Congressional Budget Office CPI-U forecast. The tax provisions of H.R. 2488 included in this analysis are the changes in tax rates, brackets, and standard deduction. Calculations include the indexing the value of exemptions, the standard deduction, the itemized deduction limitation threshold, and tax brackets for inflation. Married joint filers are assumed to claim deductions of 20 percent of income. In Panels B and C, the listed examples are the actual record which occupies the median position in each category. See Appendix A for more details. Source: Heritage Foundation calculations based on data from the 1995 Public Use Tax File, Statistics of Income Division, Internal Revenue Service; March 1998 *Current Population Survey*, Bureau of the Census; the Joint Committee on Taxation; Bureau of Economic Analysis; and the Congressional Budget Office.

What the Taxpayer Refund and Relief Act of 1999 Would Mean For Taxpayers in Each State in 2008

	Tax Cut in Millions of Dollars	Average Tax Cut Per Return	Percent Reduction Per Return		Tax Cut in Millions of Dollars	Average Tax Cut Per Return	Percent Reduction Per Return
Alabama	\$1,723.8	\$774	10.9%	Missouri	\$2,412.8	\$875	10.4%
Alaska	301.1	865	9.1	Montana	251.9	539	9.5
Arizona	1,902.4	853	9.9	Nebraska	746.0	798	10.5
Arkansas	942.8	756	10.5	Nevada	853.6	943	9.8
California	13,950.0	852	9.3	New Hampshire	604.2	887	9.7
Colorado	2,112.1	1,005	9.4	New Jersey	5,222.0	1,157	9.6
Connecticut	2,049.7	1,136	9.3	New Mexico	629.1	731	11.1
Delaware	425.2	975	9.8	New York	8,604.4	919	9.0
District of Columbia	296.7	883	7.4	North Carolina	3,182.1	798	10.5
Florida	6,587.9	833	9.8	North Dakota	270.2	919	11.2
Georgia	3,608.0	937	10.4	Ohio	5,247.3	824	9.6
Hawaii	479.3	768	9.4	Oklahoma	1,325.6	796	11.0
Idaho	375.4	668	10.5	Oregon	1,534.1	896	9.9
Illinois	6,161.1	963	9.4	Pennsylvania	5,202.3	823	8.8
Indiana	2,981.0	999	10.8	Rhode Island	514.5	971	9.6
Iowa	1,444.1	827	10.8	South Carolina	1,509.8	739	10.3
Kansas	1,373.3	1,000	10.7	South Dakota	265.4	560	9.8
Kentucky	1,694.3	832	10.9	Tennessee	2,642.6	899	10.9
Louisiana	1,747.9	840	10.8	Texas	8,426.8	881	10.4
Maine	470.9	758	11.2	Utah	702.0	719	10.1
Maryland	2,893.6	989	9.4	Vermont	352.0	964	12.1
Massachusetts	3,453.1	1,006	9.4	Virginia	3,534.9	1,012	9.6
Michigan	4,982.0	959	9.7	Washington	2,836.1	940	10.2
Minnesota	2,606.3	961	10.2	West Virginia	629.3	739	10.7
Mississippi	799.0	636	12.1	Wisconsin	2,732.2	957	11.0
				Wyoming	187.8	799	10.6

Source: Heritage Foundation calculations based on IRS and CBO data.

Note: Caution must be used when comparing data between states. The relatively small sample sizes in small states results in relatively large standard errors.

How the "Taxpayer Refund and Relief Act of 1999" Would Affect Selected Economic Indicators

	(Fiscal Year End)											Average 2000-2009
	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	
Gross Domestic Product	In Billions of 1992 Dollars											
Forecast	7,890.4	8,064.8	8,268.4	8,466.1	8,670.8	8,879.3	9,117.3	9,358.6	9,604.0	9,845.9	10,088.7	9,036.4
Baseline	7,890.4	8,064.3	8,259.5	8,448.4	8,642.7	8,842.0	9,065.1	9,291.4	9,523.5	9,761.6	10,005.6	8,990.4
Difference	0.0	0.5	8.9	17.7	28.1	37.3	52.2	67.2	80.5	84.3	83.1	46.0
GDP Growth Rate	Percent Change from Year Ago											
Forecast	4.3	2.2	2.5	2.4	2.4	2.4	2.7	2.6	2.6	2.5	2.5	2.5
Baseline	4.3	2.2	2.4	2.3	2.3	2.3	2.5	2.5	2.5	2.5	2.5	2.4
Difference	0.0	0.0	0.1	0.1	0.1	0.1	0.2	0.1	0.1	0.0	0.0	0.1
Total Employment	In Thousands of Jobs											
Forecast	128,297	130,110	131,523	133,028	134,132	135,214	136,366	137,953	139,556	140,977	142,217	136,108
Baseline	128,297	130,105	131,503	132,919	133,821	134,801	135,748	137,127	138,534	139,814	141,106	135,548
Difference	0	5	20	109	311	413	618	826	1,022	1,163	1,111	560
Unemployment Rate	Percent of Civilian Labor Force											
Forecast	4.2	4.3	4.6	4.9	5.1	5.3	5.4	5.5	5.4	5.4	5.3	5.1
Baseline	4.2	4.3	4.6	4.9	5.1	5.3	5.4	5.5	5.5	5.5	5.5	5.2
Difference	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	-0.1	-0.1	-0.2	-0.1
Disposable Personal Income	In Billions of 1992 Dollars											
Forecast	5,727.8	5,863.0	6,006.7	6,108.5	6,272.4	6,425.0	6,595.0	6,783.1	6,973.3	7,198.3	7,357.1	6,558.2
Baseline	5,727.8	5,860.2	5,968.3	6,078.8	6,221.7	6,361.1	6,501.1	6,646.3	6,805.7	6,993.0	7,186.2	6,462.2
Difference	0.0	2.8	38.4	29.7	50.7	63.9	93.9	136.8	167.6	205.3	170.9	96.0
Disposable Income Per Capita	In 1992 Dollars											
Forecast	21,020	21,336	21,680	21,868	22,275	22,635	23,048	23,517	23,982	24,556	24,894	22,979
Baseline	21,020	21,326	21,542	21,762	22,095	22,410	22,720	23,042	23,405	23,856	24,316	22,647
Difference	0	10	138	106	180	225	328	475	577	700	578	332
Difference for Family of Four	0	40	552	424	720	900	1,312	1,900	2,308	2,800	2,312	1,327
Consumption Expenditures	In Billions of 1992 Dollars											
Forecast	5,423.1	5,578.8	5,704.4	5,801.4	5,916.5	6,035.5	6,177.2	6,335.8	6,514.1	6,690.9	6,842.8	6,159.7
Baseline	5,423.1	5,577.3	5,688.3	5,782.5	5,887.2	5,994.8	6,119.6	6,252.7	6,405.9	6,554.7	6,702.9	6,096.6
Difference	0.0	1.5	16.1	18.9	29.3	40.7	57.6	83.1	108.2	136.2	139.9	63.1
Personal Savings	In Billions of 1992 Dollars											
Forecast	121.6	97.2	110.1	116.3	161.1	189.8	212.5	234.3	238.7	279.0	279.7	191.9
Baseline	121.6	95.8	88.7	105.7	140.2	167.7	177.5	183.0	182.3	213.8	253.1	160.8
Difference	0.0	1.4	21.4	10.6	20.9	22.1	35.0	51.3	56.4	65.2	26.6	31.1
Difference Per Person (Dollars)	0	5	77	38	74	78	122	178	194	222	90	130
Difference for Family of Four	0	19	309	152	297	312	489	712	777	890	360	432

How the Taxpayer Refund and Relief Act of 1999 Would Affect Selected Economic Indicators

	1999	2000	2001	2002	(Fiscal Year End)							Average
					2003	2004	2005	2006	2007	2008	2009	2000-2009
Percent of Disposable Personal Income												
Personal Savings Rate												
Forecast	2.1	1.7	1.8	1.9	2.6	3.0	3.2	3.5	3.4	3.9	3.8	2.9
Baseline	2.1	1.6	1.5	1.7	2.3	2.6	2.7	2.8	2.7	3.1	3.5	2.5
Difference	0.0	0.1	0.3	0.2	0.3	0.4	0.5	0.7	0.7	0.8	0.3	0.4
In Billions of 1992 Dollars												
Investment												
Forecast	1,031.6	1,054.2	1,077.9	1,105.6	1,131.2	1,157.8	1,187.6	1,217.9	1,251.3	1,282.9	1,314.8	1,178.1
Baseline	1,031.6	1,054.0	1,075.3	1,100.4	1,123.2	1,147.3	1,174.0	1,201.4	1,232.6	1,264.3	1,297.9	1,167.0
Difference	0.0	0.2	2.6	5.2	8.0	10.5	13.6	16.5	18.7	18.6	16.9	11.1
Percent Change from Year Ago												
Consumer Price Index												
Forecast	2.3	2.4	2.4	2.4	2.4	2.4	2.4	2.4	2.5	2.4	2.7	2.4
Baseline	2.3	2.4	2.5	2.5	2.5	2.5	2.5	2.5	2.5	2.5	2.5	2.5
Difference	0.0	0.0	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1	0.0	-0.1	0.2	-0.1
Annualized Percent												
Treasury Bill, 3 Month												
Forecast	4.7	5.0	4.5	4.3	4.3	4.2	4.2	4.2	4.2	4.2	4.3	4.3
Baseline	4.7	5.0	4.5	4.5	4.5	4.5	4.5	4.5	4.5	4.5	4.5	4.6
Difference	0.0	0.0	0.0	-0.2	-0.2	-0.3	-0.3	-0.3	-0.3	-0.3	-0.2	-0.3
Annualized Percent												
Treasury Bond, 30 Year												
Forecast	5.6	5.4	5.4	5.3	5.3	5.3	5.2	5.2	5.2	5.2	5.3	5.3
Baseline	5.6	5.4	5.5	5.5	5.5	5.5	5.4	5.4	5.4	5.3	5.3	5.4
Difference	0.0	0.0	-0.1	-0.2	-0.2	-0.2	-0.2	-0.2	-0.2	-0.1	0.0	-0.1
Annualized Percent												
30 Year Mortgage Rate												
Forecast	7.7	7.7	7.7	7.6	7.6	7.3	7.2	7.1	7.0	6.9	6.8	7.3
Baseline	7.7	7.8	7.8	7.8	7.8	7.5	7.4	7.3	7.2	7.0	6.9	7.5
Difference	0.0	-0.1	-0.1	-0.2	-0.2	-0.2	-0.2	-0.2	-0.2	-0.1	-0.1	-0.2
In Millions												
Housing Starts												
Forecast	1,603	1,472	1,460	1,459	1,445	1,436	1,455	1,451	1,467	1,485	1,482	1,461
Baseline	1,603	1,471	1,451	1,448	1,431	1,418	1,436	1,427	1,440	1,457	1,459	1,444
Difference	0.000	0.001	0.009	0.011	0.014	0.018	0.019	0.024	0.027	0.028	0.023	0.017
In Millions												
Car & Truck Sales												
Forecast	15,506	15,342	16,018	16,088	15,896	16,038	15,901	16,110	16,712	16,900	16,978	16,198
Baseline	15,506	15,308	15,966	16,034	15,829	15,930	15,764	15,971	16,541	16,735	16,751	16,083
Difference	0.000	0.034	0.052	0.054	0.067	0.108	0.137	0.139	0.171	0.165	0.227	0.115
Equity Index												
S&P 500												
Forecast	990	1,050	1,112	1,129	1,125	1,085	1,003	997	1,016	1,049	1,123	1,069
Baseline	990	1,047	1,102	1,109	1,103	1,060	981	986	1,014	1,070	1,148	1,062
Difference	0	3	10	20	22	25	22	11	2	-21	-25	7

How the Taxpayer Refund and Relief Act of 1999 Would Affect Federal Budget Indicators

	1999	2000	2001	2002	2003	Fiscal Year		2006	2007	2008	2009	Total
						2004	2005					2000-2009
Federal Tax Revenue	In Billions of Dollars											
Forecast	1,821.0	1,908.3	1,978.0	2,027.2	2,074.3	2,145.6	2,225.3	2,296.6	2,376.8	2,454.0	2,590.8	22,076.9
Baseline	1,821.0	1,907.0	1,970.0	2,044.0	2,116.0	2,198.0	2,295.0	2,396.0	2,501.0	2,610.0	2,725.0	22,762.0
Difference	0.0	1.3	8.0	-16.8	-41.7	-52.4	-69.7	-99.4	-124.2	-156.0	-134.2	-685.1
Change in Federal Tax Revenue	In Billions of Dollars											
Static Change to Tax Revenue (JCT)	0.0	-5.3	-1.1	-34.7	-53.1	-61.7	-85.5	-116.9	-140.1	-167.9	-125.6	-791.9
Dynamic Change to Tax Revenue	0.0	1.3	8.0	-16.8	-41.7	-52.4	-69.7	-99.4	-124.2	-156.0	-134.2	-685.1
Revenue Feedback	0.0	6.6	9.1	17.9	11.4	9.3	15.8	17.5	15.9	11.9	-8.6	106.8
Feedback Percent	0.0	124.5%	827.3%	51.6%	21.5%	15.1%	18.5%	15.0%	11.3%	7.1%	-6.8%	13.5%
Federal Spending	In Billions of Dollars											
Forecast	1,701.0	1,745.0	1,775.8	1,796.2	1,864.7	1,928.2	2,006.5	2,060.4	2,139.6	2,232.6	2,326.5	19,875.5
Baseline	1,701.0	1,745.0	1,777.0	1,799.0	1,869.0	1,933.0	2,010.0	2,062.0	2,137.0	2,225.0	2,312.0	19,869.0
Difference	0.0	0.0	-1.2	-2.8	-4.3	-4.8	-3.5	-1.6	2.6	7.6	14.5	6.5
Federal Surplus/Deficit	In Billions of Dollars											
Forecast	120.0	163.3	202.1	231.1	209.6	217.3	218.8	236.3	237.2	221.4	264.3	2,201.4
Baseline	120.0	162.0	193.0	245.0	247.0	265.0	285.0	334.0	364.0	385.0	413.0	2,893.0
Difference	0.0	1.3	9.1	-13.9	-37.4	-47.7	-66.2	-97.7	-126.8	-163.6	-148.7	-691.6
Federal On-Budget Surplus/Deficit	In Billions of Dollars											
Forecast	-4.1	16.5	45.7	66.5	35.0	33.2	21.2	27.7	15.1	-12.3	22.9	271.6
Baseline	-4.1	15.2	36.8	81.1	74.2	83.0	89.9	129.3	146.0	156.7	176.6	988.7
Difference	0.0	1.3	9.0	-14.6	-39.2	-49.7	-68.7	-101.6	-130.9	-168.9	-153.7	-717.1
Federal Off-Budget Surplus/Deficit	In Billions of Dollars											
Forecast	124.1	146.8	156.5	164.5	174.6	184.2	197.6	208.5	222.1	233.7	241.4	1,929.8
Baseline	124.1	146.8	156.2	163.9	172.8	182.0	195.1	204.7	218.0	228.3	236.4	1,904.3
Difference	0.0	0.0	0.2	0.6	1.8	2.1	2.5	3.8	4.1	5.3	5.0	25.5
Publicly Held Federal Debt	In Billions of Dollars - Fiscal Year End											Average
Forecast	3,554.1	3,413.6	3,207.1	2,981.9	2,785.9	2,575.5	2,355.6	2,118.3	1,885.3	1,667.4	1,404.3	2,439.5
Baseline	3,554.1	3,414.9	3,217.6	2,978.4	2,744.7	2,486.3	2,199.7	1,864.1	1,503.4	1,120.8	707.9	2,223.8
Difference	0.0	-1.3	-10.5	3.5	41.2	89.2	155.9	254.2	381.9	546.6	696.4	215.7
Publicly Held Federal Debt	Percent of GDP - Fiscal Year End											Average
Forecast	39.4	36.3	32.7	29.2	26.2	23.3	20.3	17.5	14.9	12.6	10.2	22.3
Baseline	39.4	36.4	32.9	29.2	25.8	22.5	19.0	15.4	11.9	8.5	5.1	20.7
Difference	0.0	-0.1	-0.2	0.0	0.4	0.8	1.3	2.1	3.0	4.1	5.1	1.6