WebMemo
Published by The Heritage Foundation

No. 1842
March 10, 2008

The House Budget's $3,000-per-Household Tax Increase

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Despite healthy tax revenues and federal spending that tops $25,000 per household, the House Democratic majority has proposed a fiscal year (FY) 2009 federal budget that:

- Raises taxes by $1.265 trillion over five years and $3.911 trillion over 10 years, or more than $3,135 per household annually;
- Includes 17 reserve funds that could be used to raise taxes by hundreds of billions more;
- Increases discretionary spending by 8 percent and does not terminate a single wasteful program; and
- Completely ignores the impending explosion of Social Security, Medicare, and Medicaid costs.

The White House has responsibly pledged to veto legislation with tax and spending increases that would follow from these proposals. Congress should start over and write a budget that does not raise taxes on American families or businesses, is in line with the President's spending proposals, and addresses the coming entitlement tsunami. Anything less would likely worsen the economic downturn, make it more difficult for families to make ends meet, and kick serious budget challenges further down the road.

Building on a Bad Legacy. The Democratic congressional majority promised Pay-As-You-Go (PAYGO) budgeting that would prevent new deficit spending. Yet, last year, they used blatant accounting gimmicks, such as fake sunsets and shifting payment dates, to pass:

- SCHIP legislation adding $55 billion to the budget deficit;
- A farm bill adding $7 billion to the budget deficit despite record-high farm incomes;
- A student loan bill with $15 billion in new deficit spending; and
- Terrorism risk insurance legislation adding $8.4 billion to the budget deficit.[1]

Gimmicks such as abusing the "emergency" designation also helped Congress eventually to secure White House acceptance of most of its proposed 9.4 percent increase in discretionary spending. Despite pledges of fiscal restraint and deficit reduction, FY 2008 was a year of large new deficit spending. There is little indication that this year will be markedly different.

The $4 Trillion Tax Hike. The FY 2009 House budget resolution assumes $15.973 trillion in tax revenues over the next five years, which exactly matches the Congressional Budget Office (CBO) baseline. The CBO's baseline, however, assumes tax increases of $1.265 trillion over five years and $3.911 trillion over 10 years, or $3,135 per household annually. Taxes on American workers and businesses would rise by an average of 12 percent.

This paper, in its entirety, can be found at:
www.heritage.org/Research/Budget/wm1842.cfm

Produced by the Thomas A. Roe Institute for Economic Policy Studies

Published by The Heritage Foundation
214 Massachusetts Avenue, NE
Washington, DC 20002–4999
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Revenues would rise from 18.8 percent of GDP to a near-record 20.3 percent of GDP by 2018.

And that may not even be all. The House budget also includes 17 more reserve funds, which effectively gives lawmakers a blank check to hike taxes even more to finance additional spending.

The baseline tax increase of $3.911 trillion assumes the expiration of all 2001 and 2003 tax relief, including the expanded child tax credit, marriage penalty relief, and lower 10 percent tax bracket. It also assumes the expiration of all other temporary tax relief and allowing the alternative minimum tax (AMT) to hit an additional 20 million taxpayers. True, lawmakers may choose to keep some of the current tax cuts by raising other taxes instead. For example, the House is planning to avoid the AMT hike by raising other taxes through the reconciliation process, and the budget includes language pledging to retain some of the 2001 and 2003 tax cuts. However, increasing some tax rates as the price of maintaining other tax policies at current levels is still a tax increase. Taxpayers will still pay trillions of dollars more, regardless of which pocket lawmakers take it from.

Some lawmakers have even declared that, because it is already written into current law, allowing the tax cuts to expire does not constitute a tax increase. However, a tax increase is a tax increase, even if lawmakers schedule it years in advance. Under the House budget, millions of Americans would see their marginal income tax rates leap from 25 percent to 28 percent; the estate tax would surge from zero to 55 percent. It would be difficult for taxpayers to believe that their taxes have not been raised.

While there is never a good time to raise taxes, pledging $4 trillion in tax increases during a time of economic uncertainty is especially worrisome. Raising tax rates on every taxpayer and business would reduce incentives to work, save, and invest and therefore significantly reduce the economy's long-term capacity to grow and raise living standards.

Table 1 WM 1842

House Budget's $4 Trillion Tax Hike

FY	Total $ (Billions)	Per-Household
2009	$22	$187
2010	127	1,070
2011	281	2,341
2012	393	3,237
2013	442	3,602
2014	457	3,689
2015	490	3,916
2016	526	4,162
2017	565	4,427
2018	608	4,716
Total	**$3,911**	**$31,348**
Annual Avg.	**$391**	**$3,135**

Source: House Budget Resolution, Congressional Budget Office.

The same Congress that distributed a one-time $1,200-per-household tax rebate in hopes of helping the economy would now turn around and raise taxes by $3,135 per household annually. Even though the budget delays most of the tax increases until 2011, businesses and investors might begin pulling back long-term investment plans in anticipation of higher investment taxes and the resulting slower economic growth.

More Spending Hikes. Federal spending now tops $25,000 per household annually, and the coming Social Security, Medicare, and Medicaid costs of 77 million retiring baby boomers could eventually add another $12,000 per household to the taxpayers' annual tab.[2] Rather than address escalating federal spending and the coming entitlement tsunami, the House budget irresponsibly piles on even more spending and debt.

The House budget would boost FY 2009 discretionary spending (excluding emergencies) by $74 billion, or 8 percent, above this year's level.

1. Brian M. Riedl, "The Democratic Congress's 2008 Budget: A Tax and Spending Spree," Heritage Foundation *Backgrounder* No. 2081, October 30, 2007 at *www.heritage.org/Research/Budget/bg2081.cfm.*
2. Brian M. Riedl, "Federal Spending by the Numbers: 2008," Heritage Foundation *WebMemo* No. 1829, February 27, 2007, at *www.heritage.org/Research/Taxes/wm1829.cfm.*

That amount is also $23 billion over the President's proposed $992 billion. If Congress's larger budget becomes part of the spending baseline, it will translate into approximately $283 billion in new spending over 10 years above the President's requested level. That does not include the extra spending that could result from the 17 reserve funds mentioned above.

Discretionary spending has already expanded by 45 percent (after inflation) since 2001. While defense spending has received large increases, even non-defense programs have increased by 28 percent under President Bush—at an annual rate that is nearly twice as fast as under President Clinton.[3] Yet the House would provide an additional 8 percent increase.

Regrettably, the House budget does not propose any significant offsets for this new spending. Nor does it propose eliminating a single wasteful federal program. Not even wasteful and unnecessary programs like the Advanced Technology Program, which spends much of its $70 million budget subsidizing *Fortune* 500 companies, would be reduced.[4] In failing to offer spending reductions, congressional budget writers ignored:

- At least $55 billion in annual program overpayments;
- $60 billion in corporate welfare;
- $123 billion for programs for which government auditors cannot find any evidence of success;
- $140 billion in potential budget savings identified in the CBO's "Budget Options" books; and
- Massive program duplication, such as the 342 economic development programs, the 130 programs serving the disabled, the 130 programs serving at-risk youth, and the 90 early childhood development programs.[5]

By a party-line vote, Democrats on the House Budget Committee also rejected an amendment offered by Representatives Jeb Hensarling (R–TX) and John Campbell (R–CA) to impose a one-year moratorium on earmarks so that a new bipartisan select committee can make recommendations on how to reform the earmark process. The continuation of earmarking-as-usual will likely create more upward pressure on program budgets while also pressuring lawmakers to support large, wasteful spending bills in order to preserve their pork. This is certainly not the change the American people voted for in 2006.

Ignoring the Entitlement Crisis. The coming collision of 77 million retiring baby boomers with Social Security, Medicare, and Medicaid represents the greatest economic challenge of the present era. What Federal Reserve Chairman Ben Bernanke has recently called the "calm before the storm" ended on January 1, 2008, when the first baby boomers became eligible for early Social Security benefits.[6] In just three years, they will become eligible for Medicare. In the coming decades, the cost of these programs will leap from 8.4 percent of GDP to 18.6 percent of GDP. Without reform, this 10.2 percent of GDP cost increase would require either raising taxes by the current equivalent of $12,072 per household or eliminating every other government program.[7]

The budget resolution simply ignores the entitlement problem. Worse, it rejects the President's common-sense proposal to save $8 trillion by reducing Medicare Part B and Part D subsidies for the wealthiest seniors and adjusting payment formulas. The President offered this and other recommendations in response to the Medicare trustees' recent warning that a record 45 percent of Medicare's budget will soon be subsidized out of general tax revenues, leaving just 55 percent funded by

3. *Ibid.*
4. Brian M. Riedl, "Congress Should Follow the President and Eliminate the Advanced Technology Program," Heritage Foundation *Backgrounder* No. 1828, March 1, 2005, at *www.heritage.org/Research/Budget/bg1828.cfm.*
5. These and many more examples can be found in Riedl, "Federal Spending by the Numbers: 2008."
6. Ben Bernanke, Chairman, Federal Reserve, "Long-Term Fiscal Challenges Facing the United States," testimony before the Senate Budget Committee, January 18, 2007, at *www.federalreserve.gov/boarddocs/testimony/2007/20070118/default.htm.*
7. Riedl, "Federal Spending by the Numbers: 2008."

payroll taxes and user premiums. The Democratic congressional leadership has thus far chosen to ignore the trustees' warning.

This abdication of responsibility will have negative consequences for nearly every American. For every year that Congress chooses to ignore the problem, the nation's 77 million baby boomers move a year closer to retirement, and the price tag of the inevitable reforms increases by hundreds of billions of dollars.

Conclusion. The House budget resolution pledges to raise taxes by an average of $3,135 per household. This classic tax-and-spend budget pushes up discretionary spending and leaves the nation woefully unprepared to face the coming retirement of 77 million baby boomers. The White House has rightly drawn a veto line in the sand for any budget bills that emerge from this budget resolution. Lawmakers should go back to the drawing board and write a budget that contains no tax increases, meets the President's spending targets, and deals realistically with coming entitlement costs. If they do not, the President should keep his veto pen ready.

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