

ISSUE BRIEF

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Obama's Budget Badly Undercounts Tax Hikes

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President Obama's fiscal year 2013 budget proposal explicitly claims a \$1.561 trillion tax hike over 10 years, as reported by the White House Office of Management and Budget (OMB).¹ This is a vast understatement, because that figure fails to account for all of the President's tax increases and improperly claims credit for reducing tax receipts from tax cuts that are not new policies.

Numbers Do Not Match. The indication that something is amiss with the \$1.561 trillion tax hike figure is that it is substantially smaller than the estimate in the Treasury Department's "Green Book." The Green Book provides an in-depth explanation of the President's numerous tax policy changes in the budget. Treasury releases it separately when OMB releases the budget. The Green Book estimates that the President wants to raise taxes by

\$1.689 trillion.² That is \$128 billion more than the OMB figure.

The OMB and Treasury estimates should match. The Treasury Department is responsible for estimating the revenue effects of the President's tax policies for OMB, and OMB uses those estimates in its budget tables.

The reason for the difference is that OMB puts more than \$154 billion of tax hikes the President wants outside the tax section of the table, where OMB lists the revenue effect of most of the President's tax policy changes. This is also where OMB calculates the net revenue effect of the President's tax hikes and cuts.³ The Treasury estimate in the Green Book properly accounts for these tax hikes with the other tax changes in the budget.⁴

While OMB does account for these other tax hikes elsewhere in the table, putting them in areas other than the tax section misleads readers to believe that the President's tax hikes are smaller than they are in reality. After all, it is sensible to find the line in the OMB table that states the net effect of the President's tax policies and assume that it is the total amount.

The biggest missing tax hike from the tax section is the "Financial

Crisis Responsibility Fee," better known as the bank tax. OMB put this tax in the Treasury Department's section of the table.⁵ This tax hike adds another \$61 billion to the President's tax hike total. Also included in the Treasury Department's section is a \$44 billion tax hike from allowing the IRS to adjust a program integrity cap. OMB put a \$48 billion increase of the unemployment tax in a footnote of the Labor Department's section⁶ and a \$1 billion hike of user fees for commercial navigation of inland waterways in the Veterans Affairs' section (Corps of Engineers).⁷ These hidden tax hikes account for the missing \$154 billion.

OMB also failed to account for a relatively small amount of tax cuts in its total tax hike figure. Those tax cuts total \$26 billion. Subtracting that sum from the \$154 billion missing tax hikes figure arrives at the missing \$128 billion of net tax hikes OMB misclassified that should be included in President Obama's total tax hike.

Credit Where Credit Is Not Due. Adding the missing tax hikes that OMB misplaced is necessary, but not sufficient, to arrive at the final tally of President Obama's tax hikes. Both OMB and Treasury give

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TABLE 1

How the OMB and the Treasury Department Differ on the Size of the Obama Tax Hikes

CALCULATING THE DIFFERENCE	BILLIONS
Office of Management and Budget Tax Increase Estimates	\$1,561
U.S. Department of Treasury Green Book Tax Increase Estimates	\$1,689
Difference	\$128
WHERE THE DIFFERENCE COMES FROM	
OMB Missing Tax Increases	
<i>Financial Crisis Responsibility Fee (bank tax)</i>	\$61
<i>Adjust IRS program integrity cap</i>	\$44
<i>Increase unemployment tax</i>	\$48
<i>Increase user fees for commercial navigation of inland waterways</i>	\$1
Total OMB Missing Tax Increases	\$154
OMB Missing Tax Cuts	-\$26
Net OMB Missing Tax Increases	\$128

Source: Heritage Foundation calculations based on data from the Office of Management and Budget and the U.S. Department of the Treasury.

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the President credit for tax cuts that are not new policies and therefore wrongly reduce the amount he plans to increase revenue.

These policies include extending the payroll tax holiday (\$31 billion),

the American Opportunity Tax Credit (\$137 billion), the Research and Experimentation Credit (\$109 billion), the group of tax-reducing policies known as the “tax extenders” (\$34 billion), and several other tax

provisions that have long been part of the tax code (\$6 billion).⁸ These pre-existing tax cuts that President Obama does not deserve credit for equal \$317 billion.

Properly remove that \$317 billion of previous tax cuts from the President’s net tax hike as reported by OMB, add the missing \$128 billion of tax hikes, and the President actually calls for raising taxes by more than \$2 trillion over 10 years. That is 31 percent more than the OMB figure suggests the President wants to raise taxes.

Use the Correct Figure

Congress should disregard the misleading tax hike figure from OMB’s table and use the correct \$2 trillion amount when referring to the total tax hikes in the President’s budget. Members of Congress should question OMB as to why they chose to mislead readers about the total tax hike that President Obama has called for on American taxpayers.

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1. U.S. Office of Management and Budget, *Budget of the United States Government, Fiscal Year 2013* (Washington, D.C.: U.S. Government Printing Office, 2011), pp. 218–225, Table S-9, at <http://www.whitehouse.gov/sites/default/files/omb/budget/fy2013/assets/budget.pdf> (February 16, 2012).
2. U.S. Department of the Treasury, *General Explanations of the Administration’s Fiscal Year 2013 Revenue Proposals*, February 2012, pp. 202–205, Table 1, at <http://www.treasury.gov/resource-center/tax-policy/Documents/General-Explanations-FY2013.pdf> (February 16, 2012).
3. OMB, *Budget of the United States Government*, pp. 218–225, Table S-9.
4. Department of the Treasury, p. 205, Table 1.
5. OMB, *Budget of the United States Government*, p. 231, Table S-9.
6. *Ibid.*, p. 236, Table S-9, footnote 2.
7. *Ibid.*, p. 233, Table S-9.
8. President Obama calls for expanding the Research and Experimentation Credit and the American Opportunity Credit beyond current law. These expansions would be new tax cuts and lower his net tax hike total. From the data available, there is no way to determine how much of the tax cut the Treasury Department estimates come from extending the current policies and how much comes from the expansion of those policies. The revenue impact of these expansions is likely relatively small.

TABLE 2

Actual Size of the Obama Tax Hikes

By using the more appropriate figure provided by the Treasury Department and adding improperly credited tax cuts, the Obama tax hikes total more than \$2 trillion.

	BILLIONS
U.S. Department of Treasury Green Book	\$1,689
Improperly Credited Tax Cuts	
<i>Extend payroll tax cut</i>	\$31
<i>Extend American Opportunity credit</i>	\$137
<i>Extend Research and Experimentation credit</i>	\$109
<i>Extend "Tax Extenders" and other expiring provisions</i>	\$40
Total Improperly Credited Tax Cuts	\$317
Actual Tax Increases in President Obama's Budget	\$2,006

Source: Heritage Foundation calculations based on data from the Office of Management and Budget and the U.S. Department of the Treasury.