The Heritage Foundation
LEADERSHIP FOR AMERICA

ISSUE BRIEF

No. 4074 | OCTOBER 29, 2013

Leave Tax Reform and Tax Increases Out of Budget Conference

Curtis S. Dubay

The recent deal to end the government shutdown and lift the debt ceiling requires the House and Senate to convene a conference committee, where they will seek to reconcile the respective budgets each chamber passed this year. Conferees will face strong pressure to strike a "grand bargain" to lower the deficit by both cutting spending and raising taxes.

This is the wrong approach. Overspending is the driver of the nation's deficit and debt problem, and bringing tax increases and tax reform into the budget conference would distract from the important work of reining it in.

More Tax Increases Would Not Solve the Problem of Overspending. The need to rein in deficits and lower debt is clear. The federal government is on an unsustainable track that will lead to a debt crisis unless Washington changes course soon.

Overspending because of the explosion of entitlement spending is the driver of unsustainable debt and deficits going forward. Washington is not suffering from a lack of revenue. The Congressional Budget Office (CBO) projects that revenue will meet and soon surpass its historical average of 18 percent of gross domestic product (GDP).[1] Spending, also according to the CBO, is already above its historical average of 20 percent of GDP and will keep rising to record levels if left unchecked.

Part of the reason tax revenue will rise above its historical average is recent tax increases. President Obama has already raised taxes substantially twice—first as part of Obamacare and then as part of the "fiscal cliff" deal earlier this year. Together, those increases raised taxes by more than $1.3 trillion over 10 years.[2] Including the payroll tax increase that was also part of the fiscal cliff deal, taxes have risen by almost $3 trillion during President Obama's tenure.[3]

Raising taxes yet again in the conference would not fix the problem of overspending, is unnecessary, and would further burden an already sluggish economy. The budget conference should not fall prey to the distraction of unnecessarily raising taxes—whether through using tax reform wrongly or misguidedly "closing loopholes"—and should instead focus solely on reducing spending by reforming entitlement programs to make them more affordable and more effective.

Tax Reform Would Distract from Overspending Problem. Tax reform should not be about raising taxes, and any efforts to use it as a cloak for tax hikes should be stopped. But even if the budget conference agreed to keep tax reform revenue neutral, it would still be a mistake to bring it into their negotiations.

Economic performance remains well below where it should be this long after the recession of 2008 and 2009, largely from the uncertainty caused by recent policy mistakes in Washington.[4] Tax reform would help lift the drag those missteps are placing on the economy.

This paper, in its entirety, can be found at
http://report.heritage.org/ib4074

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

The Heritage Foundation
214 Massachusetts Avenue, NE
Washington, DC 20002
(202) 546-4400 | heritage.org

Nothing written here is to be construed as necessarily reflecting the views of The Heritage Foundation or as an attempt to aid or hinder the passage of any bill before Congress.

Since the issues of overspending and a weak economy are the major issues facing the country today, it is understandable that some would want to address both at the same time when opportunity arises, such as in the upcoming budget conference.

However, expanding the scope of the budget conference beyond spending would be a mistake. Congress and the President have long known that overspending will load future generations with debt that will greatly reduce their standards of living, but they have continually refused to act.

About the only way to force them to address the issue is when the law requires them to pass a budget each fiscal year (the Senate even ignored this requirement for three years) or periodically raise the debt limit. The need to set a budget has led to this conference and has created a rare opportunity for Congress to focus on spending.

Given the rarity of such a forcing event, Members of the House and Senate appointed to the conference need to make the most of this chance to reach agreement on vital spending reforms.

If the conference did pursue tax reform, it would result in spending substantial time trying to reach agreement on basic principles of tax reform, such as revenue neutrality and whether it should shift the tax burden further to high-income earners.

This distraction would take too much of the limited time the conference has to focus on spending and would increase the probability that it would fail to make necessary reforms. Time is running short. The country cannot afford any more missed opportunities to tame spending.

Fast-Track Instructions for Tax Reform Are Misguided. Given the pressing need for tax reform, some have called for the budget conference to at least issue fast-track instructions to the tax-writing committees—the House Ways and Means Committee and Senate Finance Committee—to report tax-reform bills out by a certain date.

Such instructions would sidestep the necessity of the conferees to agree on basic tax reform principles and instead pass the responsibility to the respective committees. Nevertheless, fast-track instructions from the budget conference would also be misguided.

Tax reform is complicated and presents many technical and practical problems. In fact, Ways and Means and Senate Finance have been working diligently on tax reform and its many thorny details for months. By cutting time short, a fast-track procedure would likely bypass this important work that is essential to crafting a workable tax-reform package.

A fast-track procedure, in addition to stopping important technical work, would also greatly increase the chances of Congress making a policy mistake that would lessen the positive benefit of tax reform. In the worst-case scenario, it could even make a mistake that would be so egregious that it would actually make the revised tax code *more* of a burden on the economy than the current system—for instance, by eliminating a policy that is essential for ensuring that the tax code does not wrongly influence economic decisions.

Speeding up tax reform also eliminates the possibility that Congress will undertake the type of fundamental tax reform of both the individual and corporate tax codes that is necessary to fully free the economy to grow at its potential. On a short time line, the committees would likely have to craft reform plans that have a much narrower scope, which would greatly limit their potential benefit.

Keep Tax Reform Separate. Reining in spending and reforming the tax code are the keys to restoring opportunity and prosperity for the American people. They are too important to allow misguided efforts to intertwine them to lessen their chances of becoming law.

The upcoming budget conference represents a rare chance to get spending under control. The

1. Congressional Budget Office, *The 2013 Long-Term Budget Outlook*, September 2013, http://www.cbo.gov/sites/default/files/cbofiles/attachments/44521-LTBO2013.pdf (accessed October 24, 2013).
2. See White House Office of Management and Budget, "Deficit Reduction in the American Taxpayer Relief Act of 2012 (H.R. 8)," http://www.whitehouse.gov/sites/default/files/omb/communications/misc/cboscore_hr8_20130101.pdf (accessed October 24, 2013); and Joint Committee on Taxation, "Estimated Revenue Effects of a Proposal to Repeal Certain Tax Provisions Contained in the 'Affordable Care Act ('ACA'),'" June 15, 2012, http://waysandmeans.house.gov/uploadedfiles/jct_june_2012_partial_re-estimate_of_tax_provisions_in_aca.pdf (accessed October 24, 2013).
3. Payroll tax increase based on Heritage calculations.
4. See Curtis S. Dubay, "Economic Growth Remains Too Slow Because of Policy Uncertainty," The Heritage Foundation, The Foundry, July 31, 2013, http://blog.heritage.org/2013/07/31/economic-growth-remains-too-slow-because-of-policy-uncertainty/.

conference should seek to accomplish that difficult task alone and allow the Ways and Means and Senate Finance Committees to continue pursuing tax reform unencumbered by arbitrary time lines.

*—**Curtis S. Dubay** is Senior Analyst in Tax Policy in the Thomas A. Roe Institute for Economic Policy Studies at The Heritage Foundation.*