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To: Members of the House Budget Committee

From: The Committee for a Responsible Federal Budget

Re: The Budget Resolution and Taxes

Date: March 19, 2008

Thank you for your inquiry concerning whether the budget plan reported by the House Budget Committee increases taxes. The budget resolution does not raise taxes. Both tax rates and tax revenues as a share of GDP will increase under the budget resolution *because tax increases are part of current law, not because of policies introduced as part of the budget resolutions currently under consideration.*

Barring changes, taxes will increase beginning in 2011 due to the way in which the original 2001 and 2003 tax cuts were passed. In order to decrease the number of votes necessary for passage and to help make the size of the tax cuts appear smaller, the reconciliation process was used. Reconciliation requires that the tax cuts expire at the end of the budget window. Accordingly, the assumed increase in taxes has been built into law for several years.

Under the budget proposed by the House Budget Committee, the budget would reach balance by 2012 in part due to the higher revenues resulting from the expiration of the tax cuts. At the same time, the budget expresses support for making at least some of the tax cuts permanent. Under pay-as-you-go rules, this would require offsetting the costs either through other tax increases or reductions in mandatory spending. We recognize the important work of Congressman Ryan in starting to address the issue of how to offset the revenue losses from reducing taxes, by offering an alternative budget proposal that would offset at least some of those costs, by slowing the growth of mandatory spending.

Rather than fighting over whether the House budget resolution raises taxes by failing to make the tax cuts of 2001 and 2003 permanent, (the answer is that it does not), we should be talking about the real types of trade-offs we face regarding the upcoming expiration of the 2001 and 2003 tax cuts. What would allowing the tax cuts to expire do to the economy? If we are going to make the tax cuts permanent, which ones? And if we are going to offset the costs—as we should—what other taxes will be increased or what spending decreased? If we are unwilling to offset the costs, how can we justify the greater debt that will result? These are the important questions that the President and Congress should be addressing.

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The Committee for a Responsible Federal Budget will provide an in-depth analysis of both the House's and Senate's budgets in the coming days.