JOINT COMMITTEE ON TAXATION
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REVENUE ESTIMATES OF SELECTED TAX POLICIES RELATING TO THE 2001 AND 2003 TAX ACTS

Overview and Purpose

The Congressional Budget Office ("CBO") projects that total revenues for the Federal government will increase from $2.7 trillion in fiscal year 2008 to $4.5 trillion in fiscal year 2018.[1] To get a better sense of what these figures mean for American taxpayers, some analysts find it useful to convert these nominal dollar amounts into a fraction of U.S. gross domestic product ("GDP"). As a percentage of GDP, CBO's projection of Federal revenues rises from 18.7 percent for FY2008 to 20.3 percent for FY2018.

This brief looks at how several widely discussed tax policy options would affect total Federal government revenues as a fraction of GDP. In particular, this brief estimates the revenue consequences of extending the tax reductions adopted by the Economic Growth and Tax Relief Reconciliation Act of 2001 ("EGTRRA") and the Jobs and Growth Tax Relief Reconciliation Act of 2003 ("JGTRRA") that expire at the end of 2010, either with or without also amending the individual alternative minimum tax (the "AMT").[2] The EGTRRA and JGTRRA temporary income tax reductions included reductions in individual tax rates, the introduction of a new 10 percent tax bracket for individuals, expensing of certain capital investments for small businesses, and reduced tax rates on certain dividend income and capital gains.[3]

The goal for a tax system is to provide revenues to the government sufficient to its needs in a manner that is as simple, equitable and efficient as possible. This brief provides a straightforward comparison of projected Federal revenues as a share of GDP to historical averages, but it does not by itself provide information on the relationship of projected Federal revenues for the coming decade to the level of projected Federal outlays, as determined by the

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[1] Congressional Budget Office, *The Budget and Economic Outlook: Fiscal Years 2008 to 2018*, January 2008.

[2] The reduced rates on capital gains and dividend income and increased expensing for small business enacted in JGTRRA were extended though 2010 by the Tax Increase Prevention and Reconciliation Act of 2005.

[3] For more detail on the tax provisions of EGTRRA and JGTRRA, see Joint Committee on Taxation, *General Explanation of Tax Legislation Enacted in the 107th Congress*, JCS-1-03, January 24, 2003, and Joint Committee on Taxation, *General Explanation of Tax Legislation Enacted in the 108th Congress*, JCS-5-05, May 2005.

Congressional process. It also does not address how to raise those future revenues in a manner consistent with Congressionally-determined equity norms. The information contained in this brief therefore should be viewed as simply one component in the larger analysis of the consequences of the tax policies that are described below.

The revenue estimates set out below were prepared using the standard estimating models and methodologies of the Staff of the Joint Committee on Taxation.[4] These methodologies take into account taxpayers' expected behavioral responses to changes in tax law, and rely on CBO estimates for the overall growth of the U.S. economy and for projections of Federal government outlays. Consistent with our standard practice, our revenue estimates assume that the gross national product of the United States would not change as a result of the tax policies under consideration. Finally, and again consistent with longstanding practice, references below to "present law" mean the Internal Revenue Code in its current form, including the Code's sunsetting of the temporary provisions of EGTRRA and JGTRRA.

The tax policies analyzed in this brief were selected because they are straightforward and because they have been widely discussed in recent months. The JCT Staff is providing this data to ensure that interested readers have available to them accurate estimates of the consequences of these policies. Obviously, many variations on these themes can be imagined, and many other tax policies can be suggested. The JCT Staff therefore envisions this brief as the first of an occasional series; others will be released from time to time to provide information about other unambiguous policies that are of widespread general interest.

History of Relationship of Revenues to GDP

Over the past fifty years, the total revenue of the Federal government has ranged, as a percentage of GDP, from a low of 16.1 percent in 1959 to 20.9 percent in 2000. For the period from 1958-2007, total revenues as a percentage of GDP averaged 18.1 percent. Figure 1 shows the yearly fluctuations of total revenues as a share of GDP about the fifty-year mean. Wide swings from the mean are not uncommon during this period, particularly during the last twenty years. There appears to be a slight upward trend in Federal revenue as a percentage of GDP over the past fifty years. Table 1 shows the ten-year averages for Federal revenues as a share of GDP for 1958-2007. From 1958-67, the Federal revenues averaged 17.5 percent of GDP. For the last ten years, Federal revenues as a share of GDP averaged 18.6 percent. Federal outlays as a percentage of GDP have averaged 20.2 percent during the past fifty years.

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[4] For further information on the JCT Staff's estimating methodologies, see Edward D. Kleinbard, *Inside the JCT Revenue Estimating Process*, Jan. 30, 2008, available at http://www.jct.gov/Inside_Revenue_Estimating.pdf, and Joint Committee on Taxation, *Overview of Revenue Estimating Procedures and Methodologies Used by the Staff of the Joint Committee on Taxation, JCX-01-05*, February 2, 2005.

Table 1:
Total Revenues and Outlays as a Percentage of GDP,
Average for Selected Periods

Calendar Years	Revenues	Outlays
1958-1967...	17.5	18.3
1968-1977...	18.0	19.9
1978-1987...	18.3	22.0
1988-1997...	18.2	21.2
1998-2007...	18.6	19.5
1958-2007...	18.1	20.2

Policy Proposals

In this brief we look at the effect of six possible policy options on Federal revenues as a percentage of GDP. These policy options involve the extension of certain expiring tax provisions and the curtailing of the individual alternative minimum tax ("AMT"). The results are presented in Table 2 and Figure 2.

Under present law, Federal revenues as a percentage of GDP are projected to increase from 19.0 percent for FY 2009 to 20.3 percent for FY 2018. As shown in Table 2, a sudden increase in Federal revenues as a share of GDP is projected to occur under present law after EGTRRA and JCTRRA expire at the end of 2010.

AMT

The first two policy options focus on the AMT. Unlike the regular individual income tax, the AMT is not indexed for inflation. If left unchanged, the individual AMT will affect an increasing share of all individual taxpayers.[5] Under present law, the AMT exemption is scheduled to fall from $44,350 ($66,250 for joint filers) for tax year 2007 to $33,750 ($45,000 for joint filers) for tax year 2008.[6] We estimate that the present law decline in the AMT

[5] Joint Committee on Taxation, *Present Law and Background Related to the Individual Alternative Minimum Tax*, JCX-10-07, March 5, 2007.

[6] H.R. 6275, the *Alternative Minimum Tax Relief Act of 2008*, as passed by the Committee on Ways and Means on June 18, 2008, would increase the AMT exemption amount to $46,200 ($69,950 for joint filers) for tax year 2008.

exemption amount will increase the number of taxpayers affected by the AMT from 4.2 million for tax year 2007 to over 25 million for tax year 2008.

Indexing the AMT exemption amount for inflation beginning in 2008 would reduce Federal revenues as a share of GDP to 18.5 percent in FY 2009 and 19.9 percent in FY 2018. Repealing the individual AMT would reduce Federal revenues as a fraction of GDP to 18.2 percent in FY 2009 and 19.8 percent in FY 2018.

Extension of present law

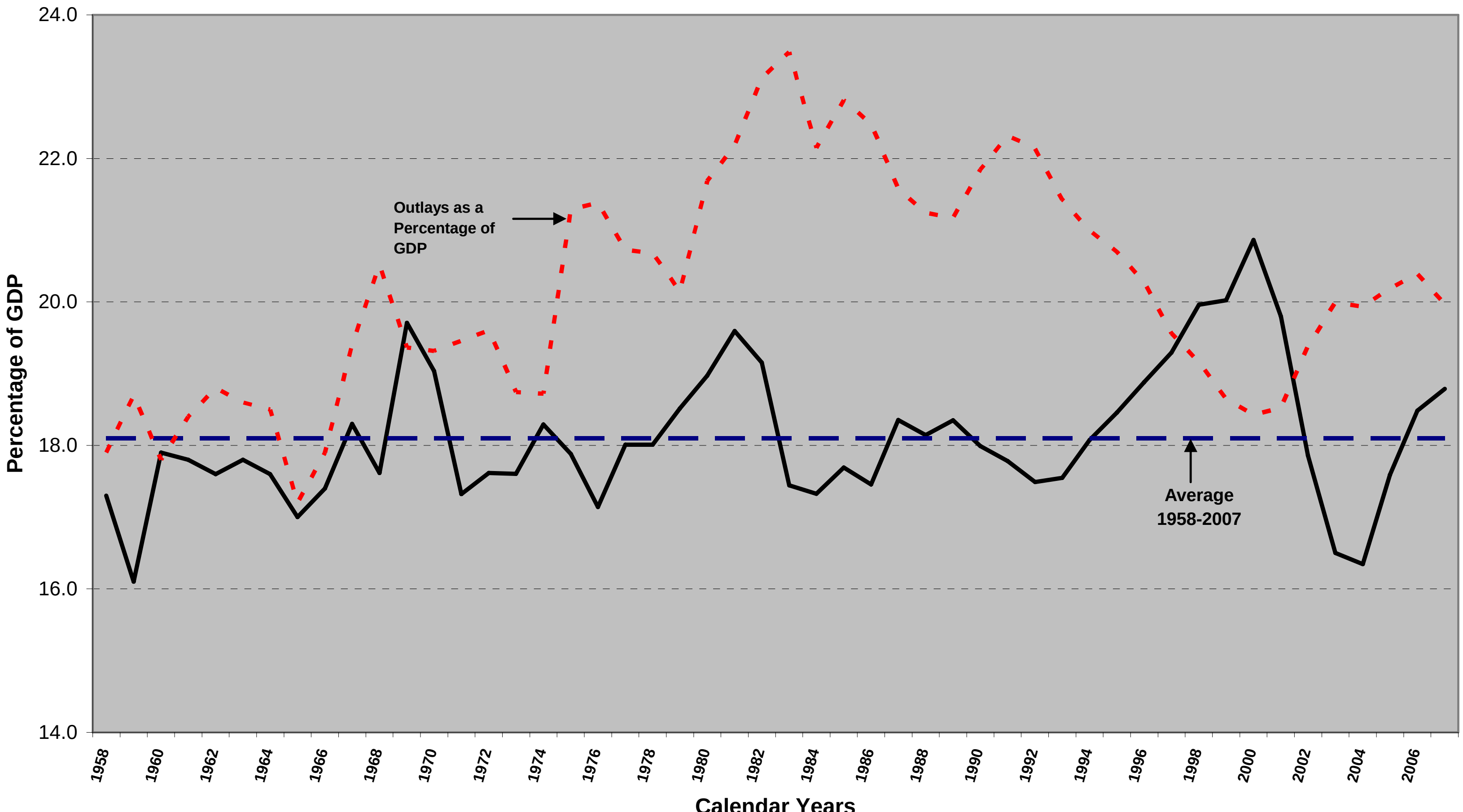
Permanently extending the present-law tax provisions in EGTRRA and JGTRRA that expire in 2010 dramatically lowers Federal revenues as a share of GDP for fiscal years after 2010. In FY 2012, Federal revenues as a percentage of GDP would fall to 18.4 percent if EGTRRA and JGTRRA were extended. This compares with the projection of Federal revenues as a percentage of GDP under present law for FY 2012 of 19.9 percent. If all tax provisions set to expire in years after 2007, including EGTRRA and JGTRRA, were extended, Federal revenues as a share of GDP would decrease to 17.7 percent in FY 2012.[7]

Modifying the AMT and extending EGTRRA and JGTRRA

Permanent extension of EGTRRA and JGTRRA combined with indexing the AMT exemption amount would reduce Federal revenues as a share of GDP to 17.8 percent in FY 2012. Permanent extension of EGTRRA and JGTRRA combined with repeal of the individual AMT would reduce Federal revenues as a percentage of GDP to 17.5 percent in FY 2012, a reduction of 2.4 percentage points from the present law projection of Federal revenues as a share of GDP for FY 2012.

[7] Under this option, the AMT exemption would remain at the 2007 amount, $44,350 ($66,250 for joint filers).

Figure 1:
Federal Revenues as a Percentage of GDP
1958-2007



Source: CBO and the Economic Report of the President.

Table 2:
Federal Revenues as a Percentage of GDP
Under Selected Policy Options

Federal Fiscal Years

Policy Options	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Federal revenues under present law.	18.5%	18.8%	18.7%	19.0%	18.6%	19.3%	19.9%	19.9%	20.0%	20.0%	20.1%	20.2%	20.3%
Federal revenues with indexing of the AMT exemption amounts.	18.5%	18.8%	18.7%	18.5%	18.2%	18.9%	19.7%	19.6%	19.7%	19.7%	19.7%	19.8%	19.9%
Federal revenues with the AMT repealed.	18.5%	18.8%	18.7%	18.2%	17.9%	18.7%	19.6%	19.5%	19.6%	19.6%	19.6%	19.7%	19.8%
Federal revenues with EGTRRA and JGTRRA permanently extended.	18.5%	18.8%	18.7%	19.0%	18.6%	18.4%	18.4%	18.2%	18.3%	18.4%	18.5%	18.6%	18.7%
Federal revenues with EGTRRA and JGTRRA permanently extended and indexing of the AMT exemption amounts.	18.5%	18.8%	18.7%	18.5%	18.1%	17.9%	17.8%	17.6%	17.6%	17.6%	17.7%	17.8%	17.8%
Federal revenues with all expiring provisions permanently extended.	18.5%	18.8%	18.7%	18.4%	18.0%	17.8%	17.7%	17.4%	17.5%	17.5%	17.6%	17.7%	17.7%
Federal revenues with EGTRRA and JGTRRA permanently extended and the AMT repealed.	18.5%	18.8%	18.7%	18.2%	17.9%	17.6%	17.5%	17.3%	17.3%	17.3%	17.4%	17.4%	17.5%

Figure 2:
Federal Revenue as a Percentage of GDP
Under Selected Policy Options