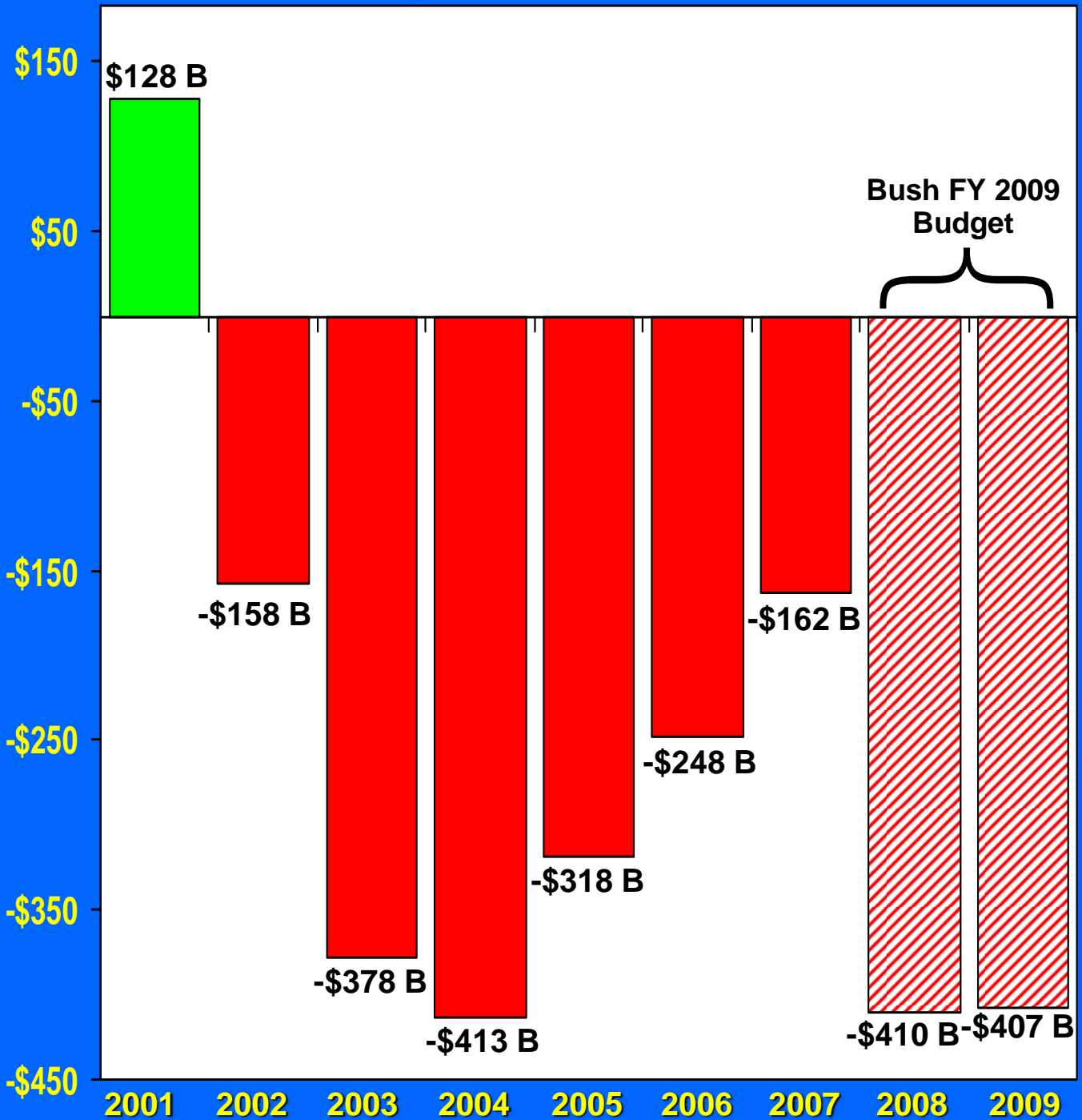


# Dramatic Deterioration in Budget Picture

(Deficit in billions of \$)

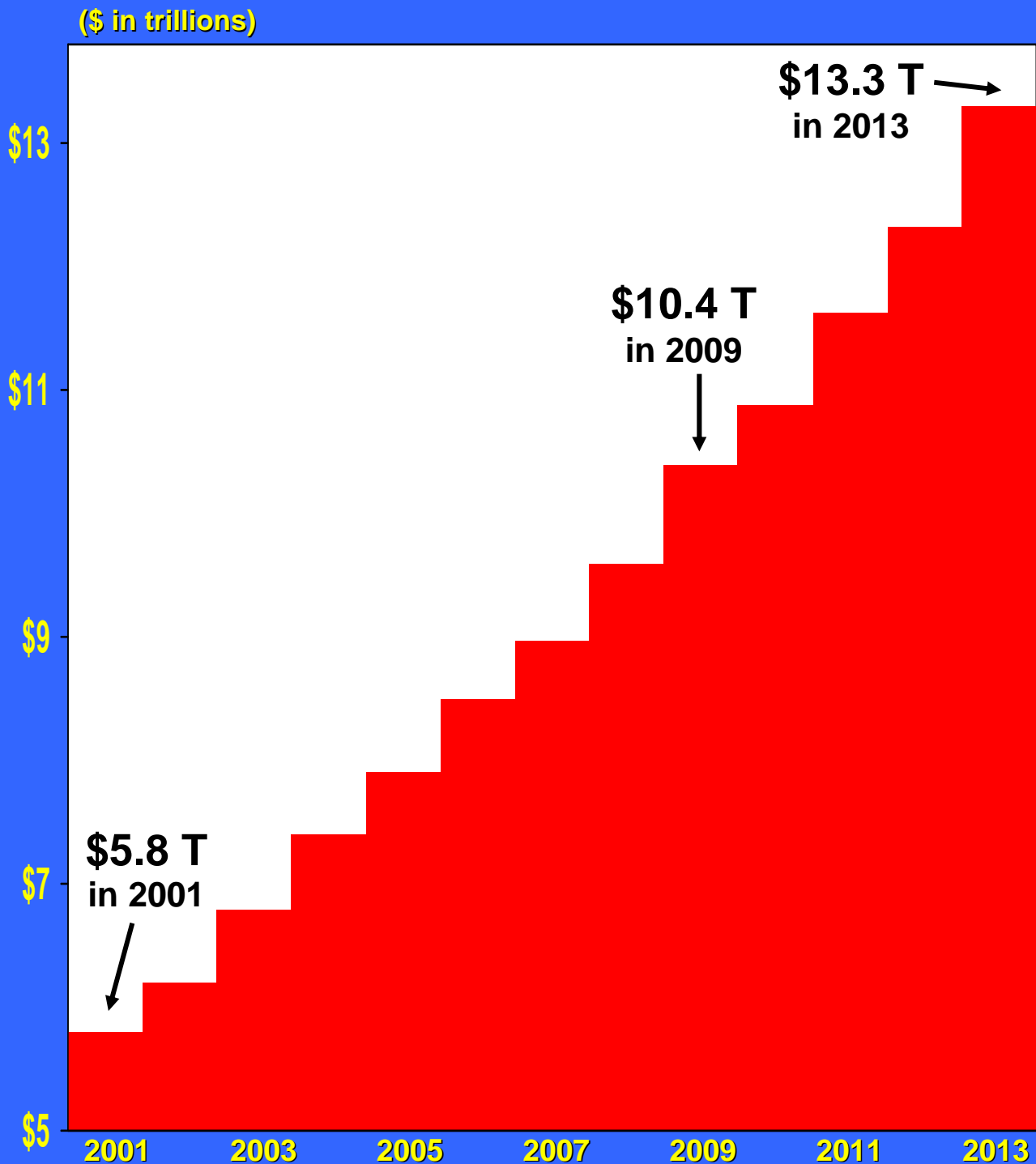


Source: OMB

Note: 2008 and 2009 estimates from Bush FY 2009 Budget.

# Building a Wall of Debt

## Gross Federal Debt Soars



Source: OMB, CBO and SBC

Note: Bush FY 2009 Budget with AMT reform, ongoing war costs, and associated debt service.

# President Bush More than Doubles Foreign-Held Debt

It Took 42 Presidents 224 Years to  
Build Up \$1 Trillion of Foreign-Held Debt



**224 Years  
(1776-2000)**



**\$1.51 T**

**President  
Bush  
(Since 2001)**

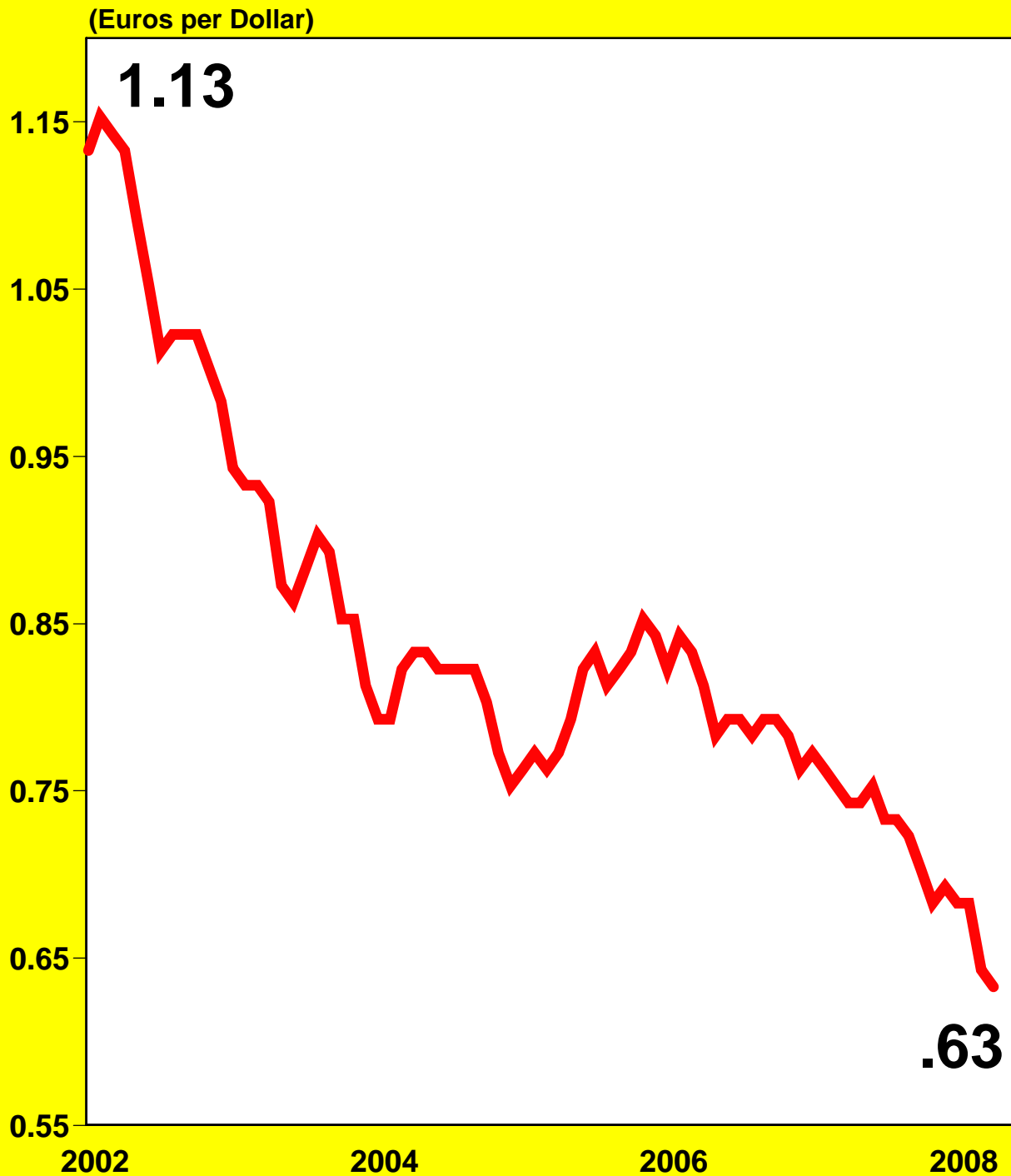
Source: U.S. Treasury and Federal Reserve Board  
Monthly data through March 2008.

# Top Ten Foreign Holders of Our National Debt

Japan	\$601 B
China	\$491 B
United Kingdom	\$203 B
“Oil Exporters”	\$151 B
Brazil	\$149 B
Caribbean Banking Centers	\$108 B
Luxembourg	\$93 B
Hong Kong	\$61 B
Norway	\$45 B
Russia	\$42 B

Source: U.S. Treasury and Federal Reserve Board  
Monthly data through March 2008

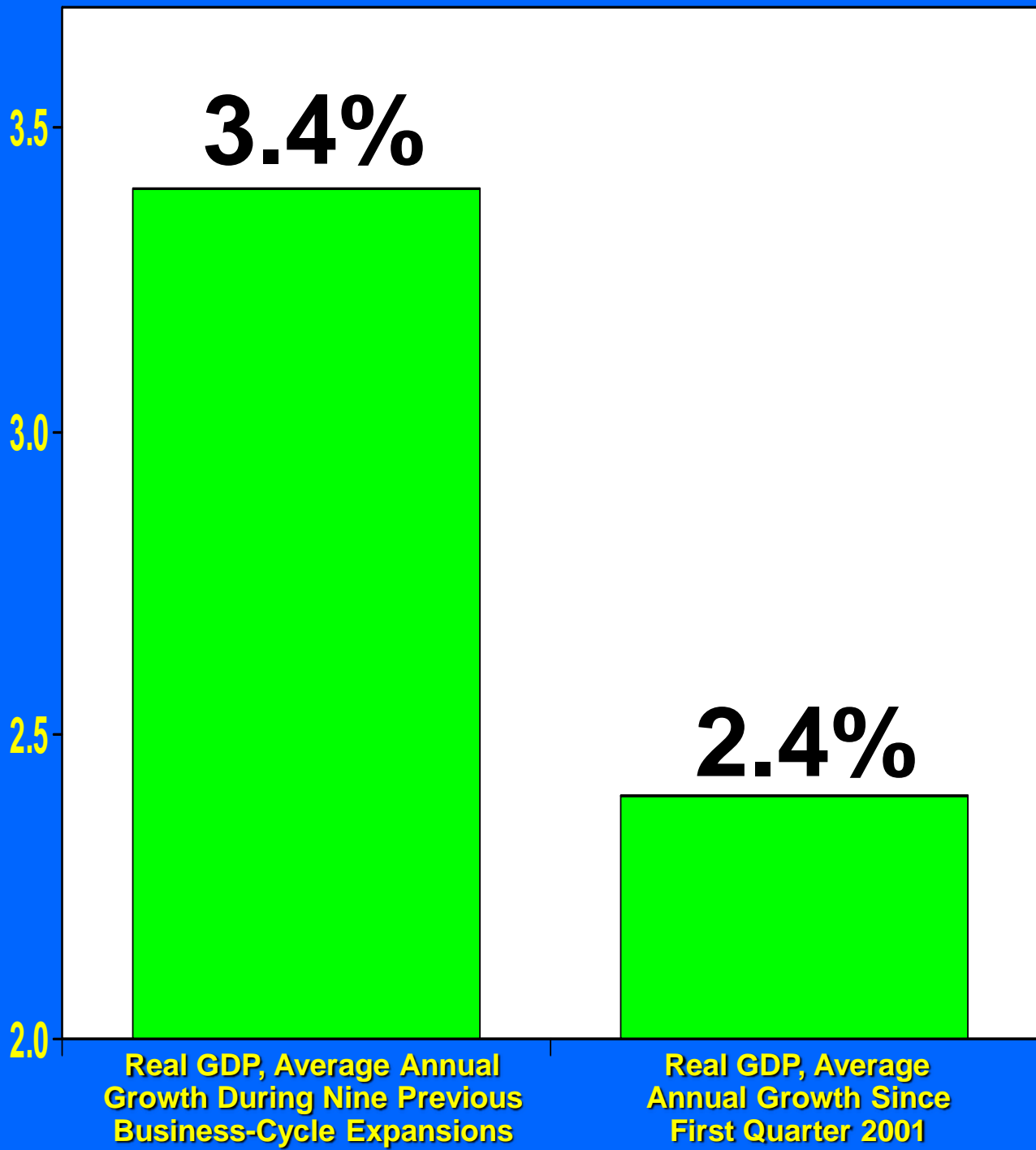
# Dollar Down 44 Percent Against the Euro



Note: Monthly averages through April 2008  
Source: Federal Reserve Board

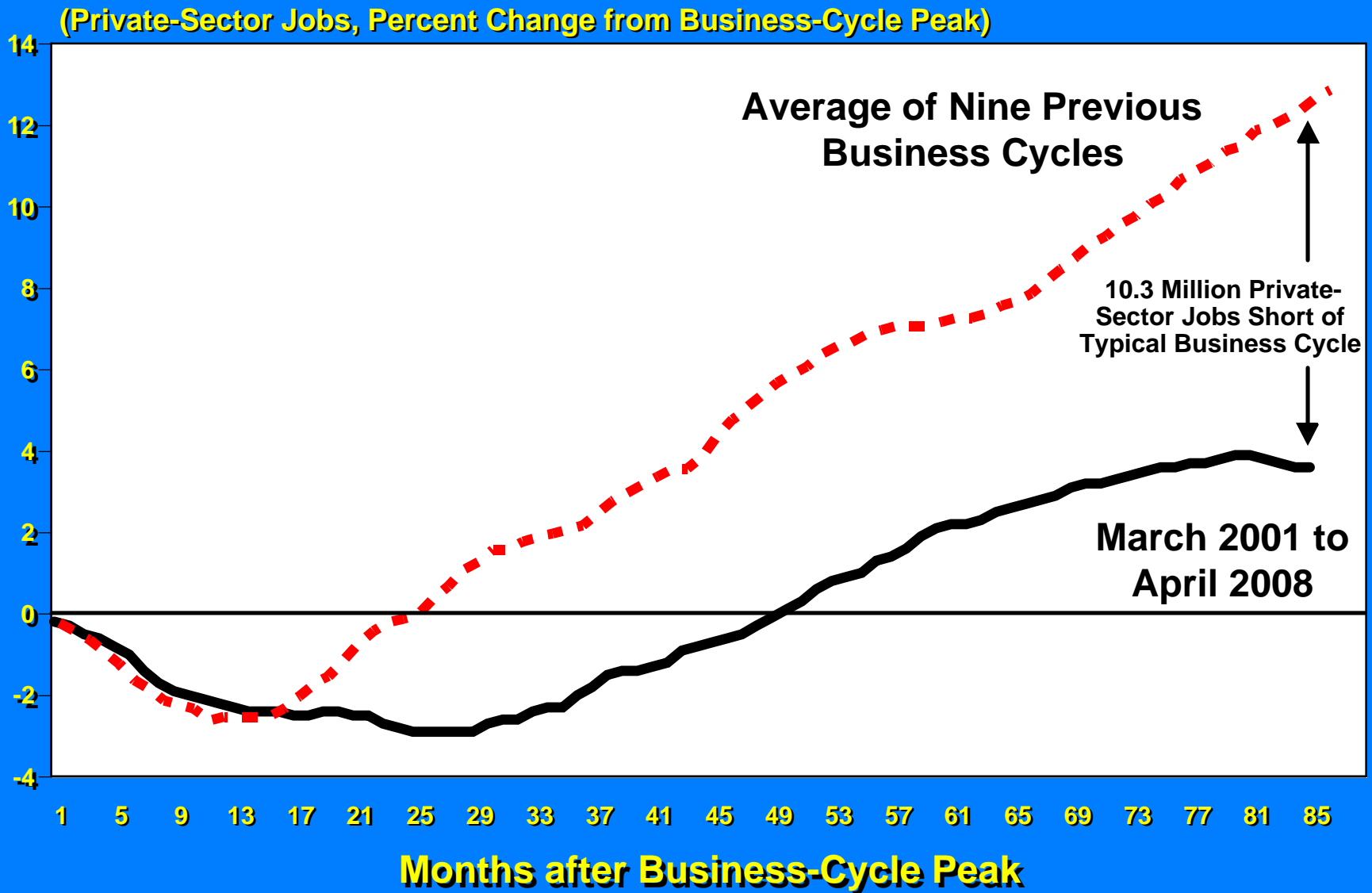
# Real GDP Growth Lags

(Average annual percentage growth, quarterly data through 2008:Q1)



Source: Bureau of Economic Analysis, U.S. Department of Commerce; and National Bureau of Economic Research

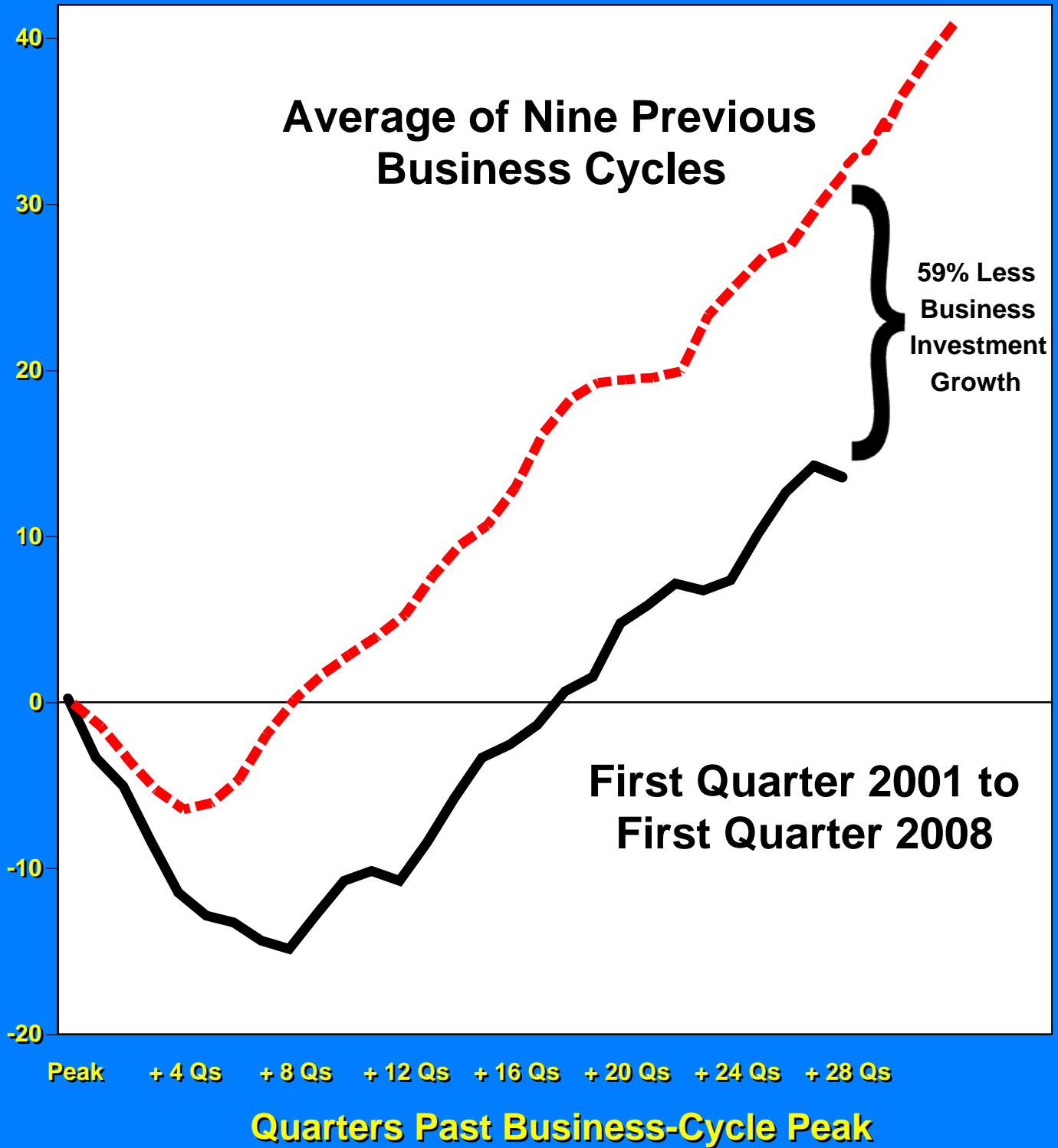
# Job Creation Lags



Source: Bureau of Labor Statistics, U.S. Department of Labor and National Bureau of Economic Research

# Business Investment Lags

(Real Business Fixed Investment, Percent Change from Business-Cycle Peak)



Source: Bureau of Economic Analysis, U.S. Department of Commerce; and National Bureau of Economic Research



# Budget Resolution Highlights

## Strengthen Economy and Create Jobs

- Invest in energy, education, infrastructure
- Expand health coverage for kids
- Provide tax cuts for middle-class
- Restore fiscal responsibility; balance in 2012 / 2013

## Make America Safer

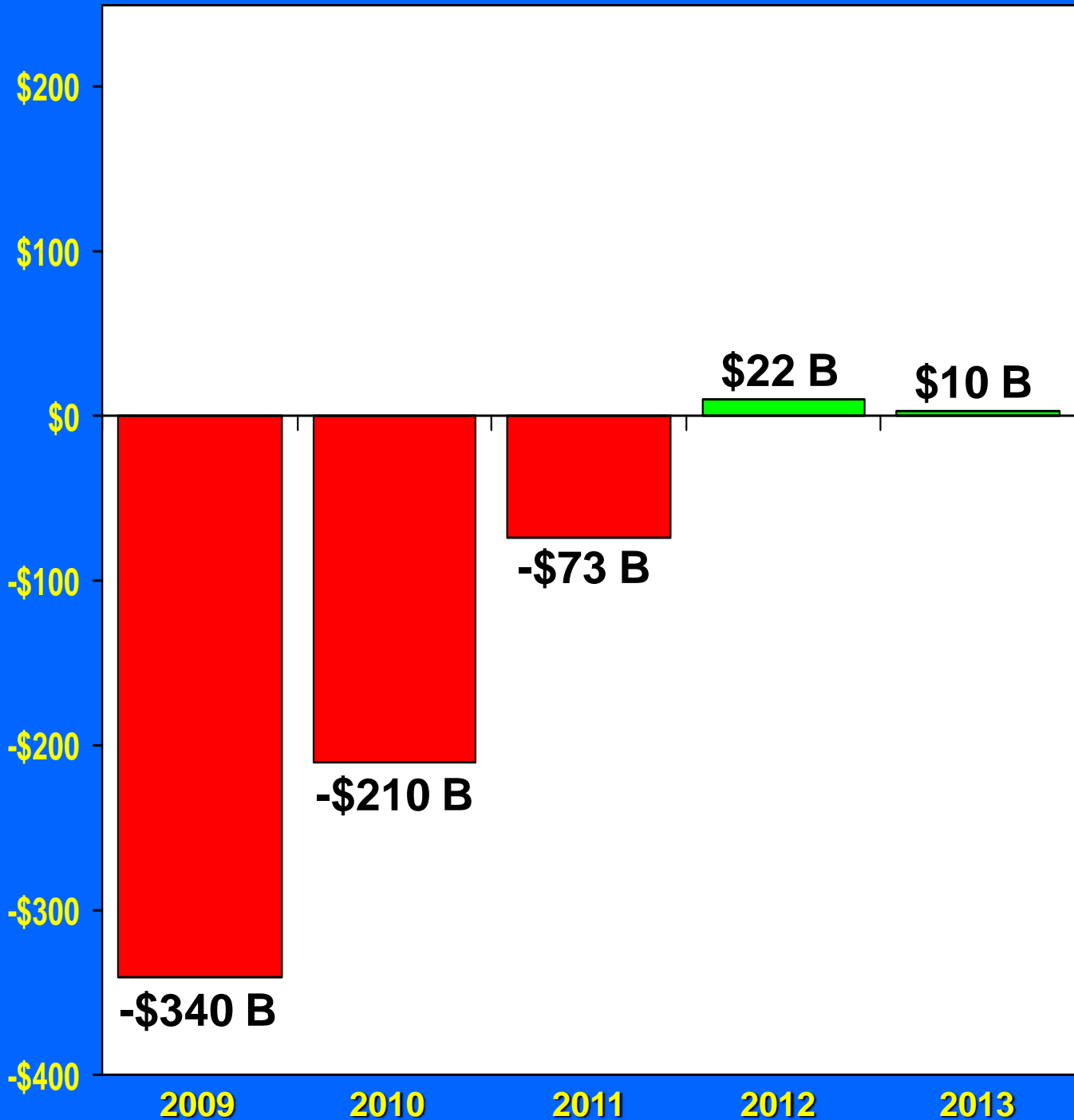
- Support the troops
- Provide for veterans' health care
- Protect homeland and reject Bush cuts in law enforcement, COPS, first responders

# Tax Relief in Budget Resolution

- **Extend middle-class tax relief**
  - marriage penalty relief
  - child tax credit
  - 10 percent bracket
- **AMT relief**
- **Estate tax reform**
- **Energy and education tax cuts**
- **Property tax relief**
- **Extenders**

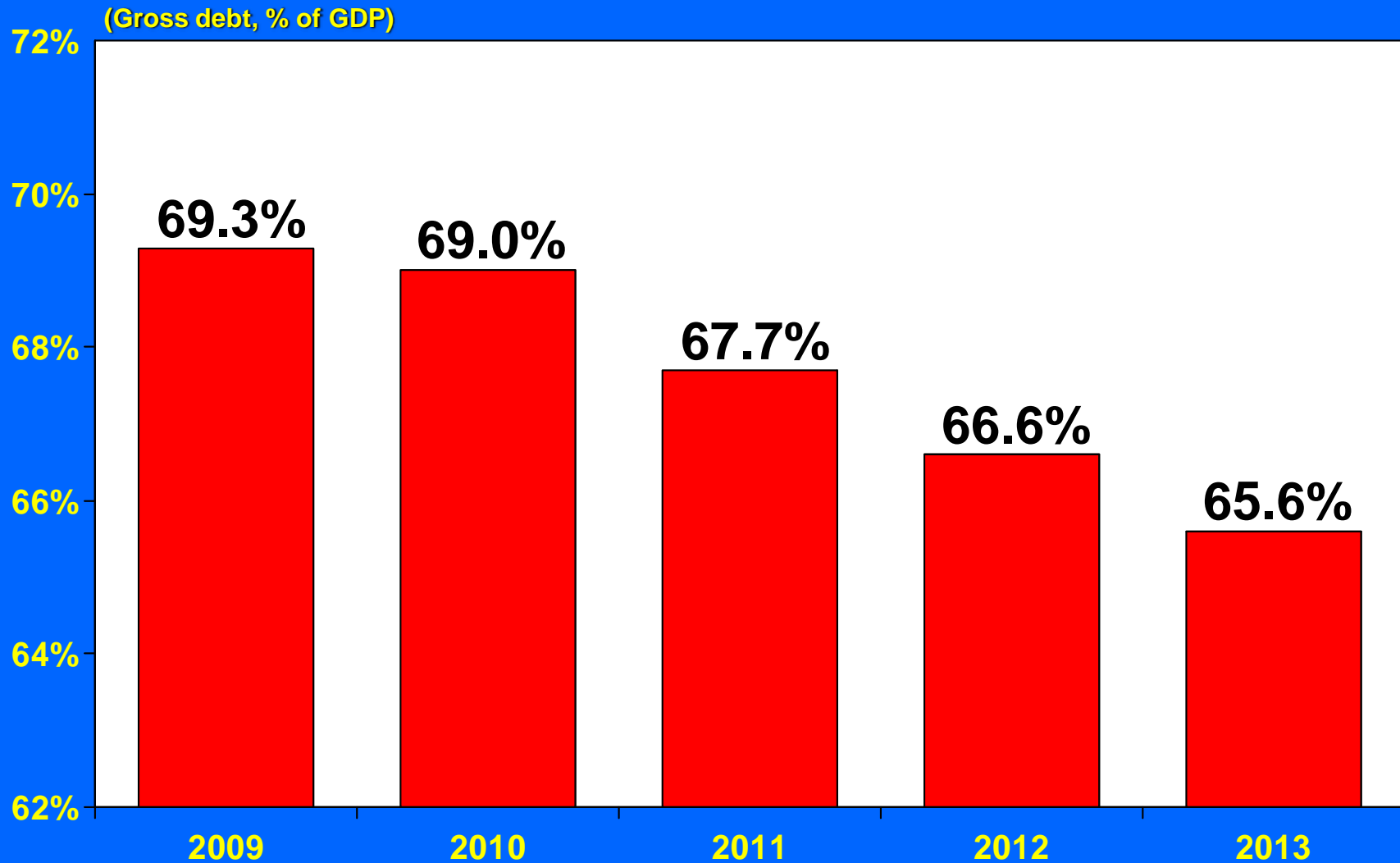
# Deficit/Surplus Under Budget Resolution

(\$ in billions)



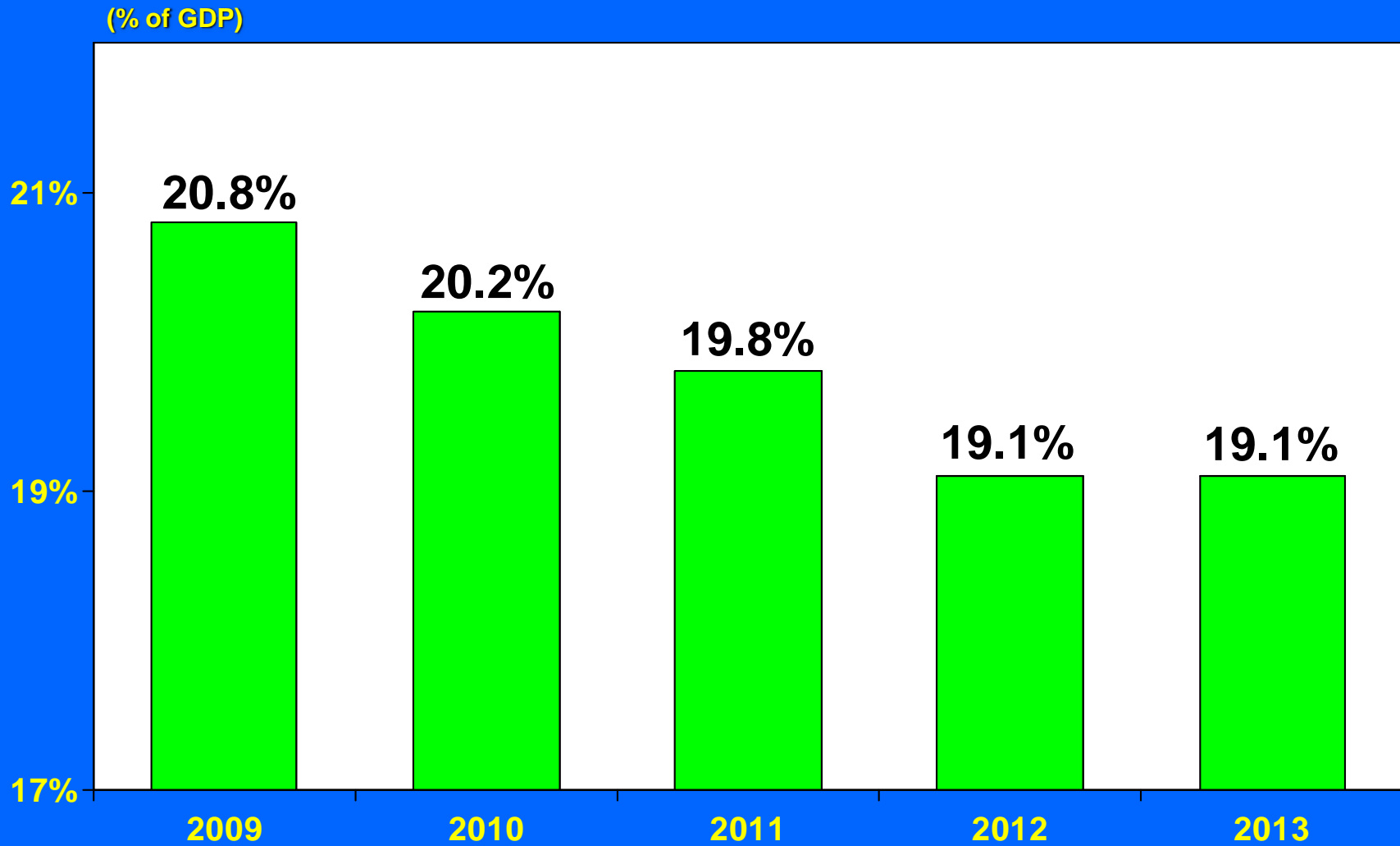
Source: SBC

# Debt Under Budget Resolution



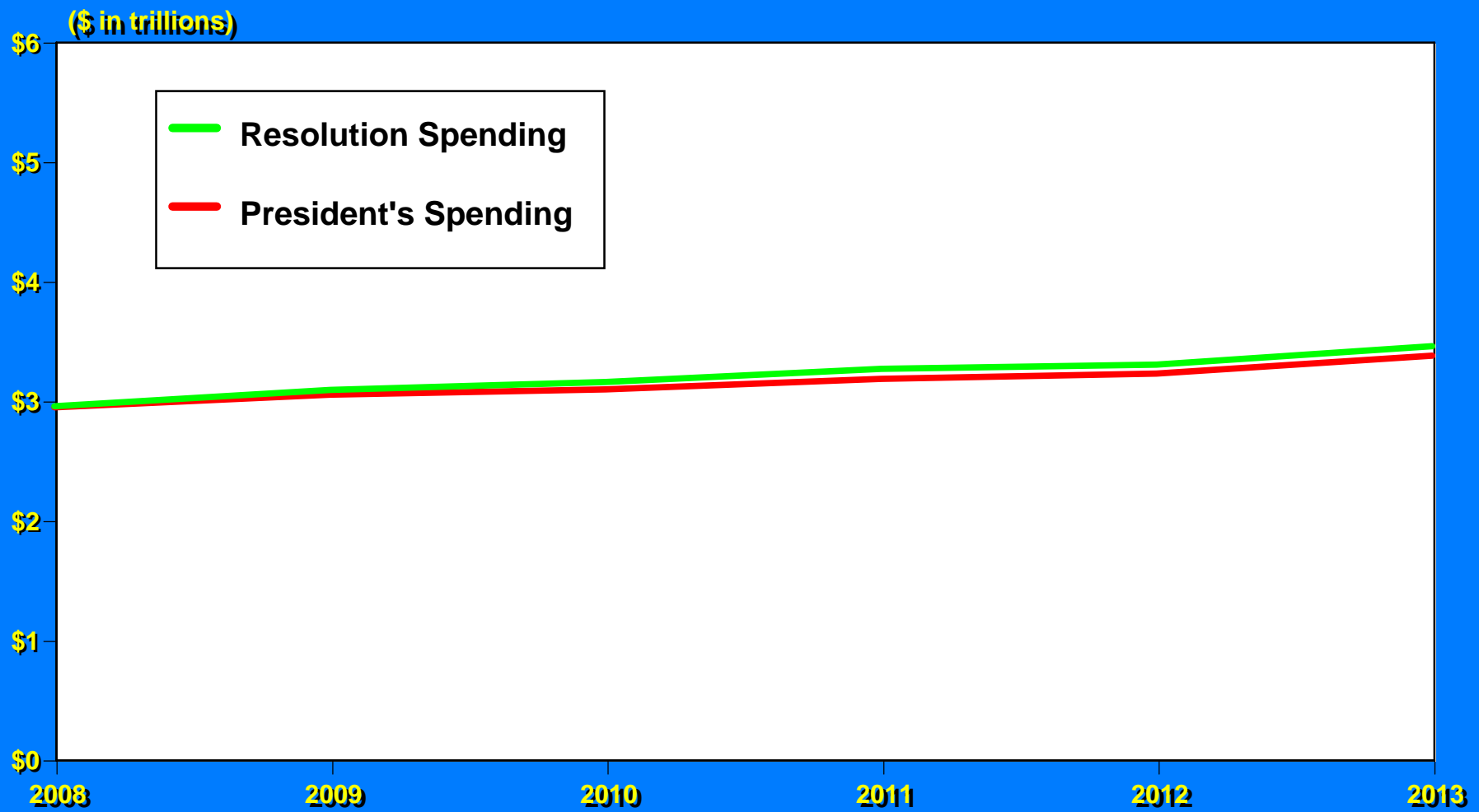
Source: SBC

# Spending Under Budget Resolution



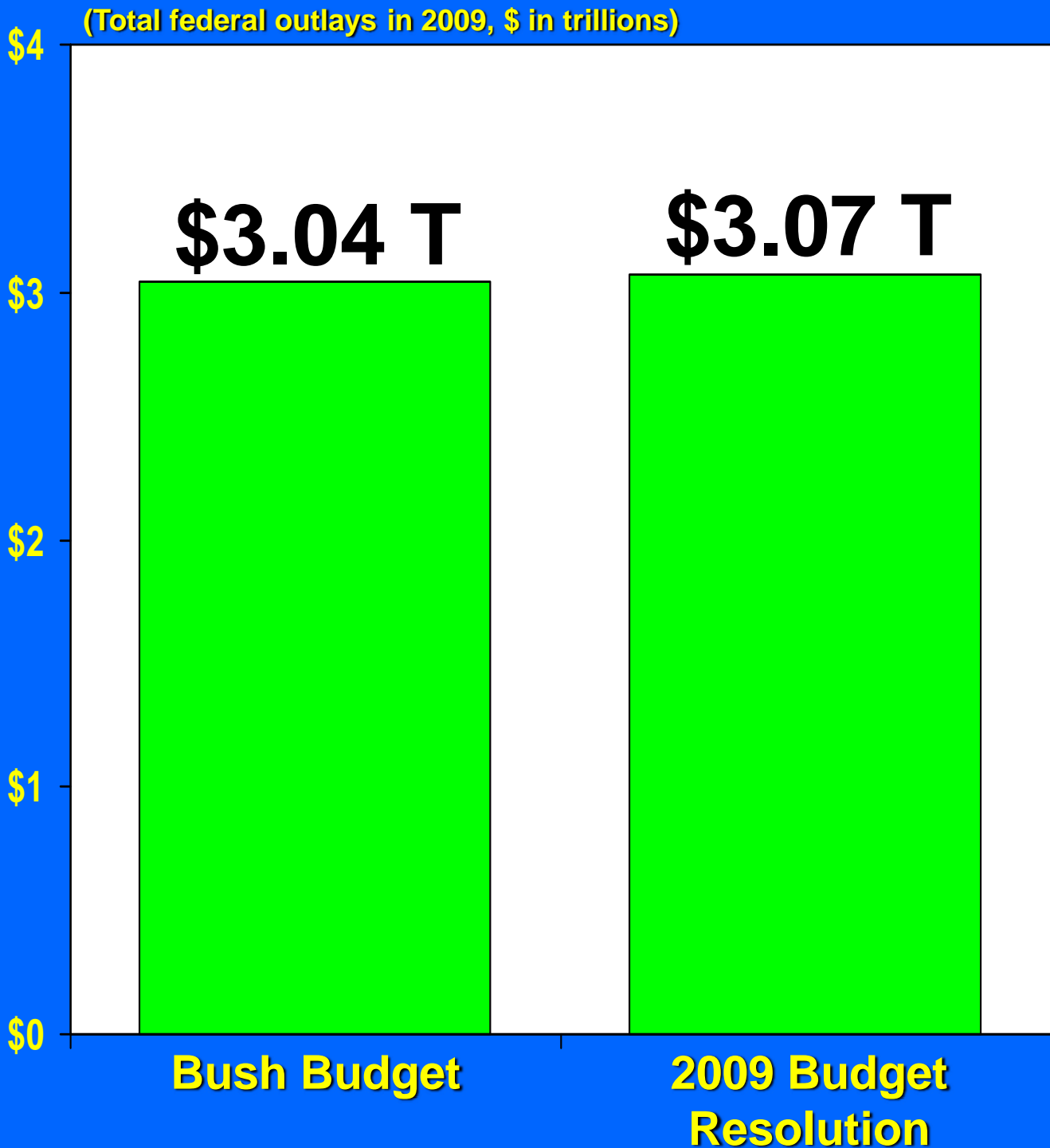
Source: SBC

# Comparison of Spending Under Resolution and President's Budget



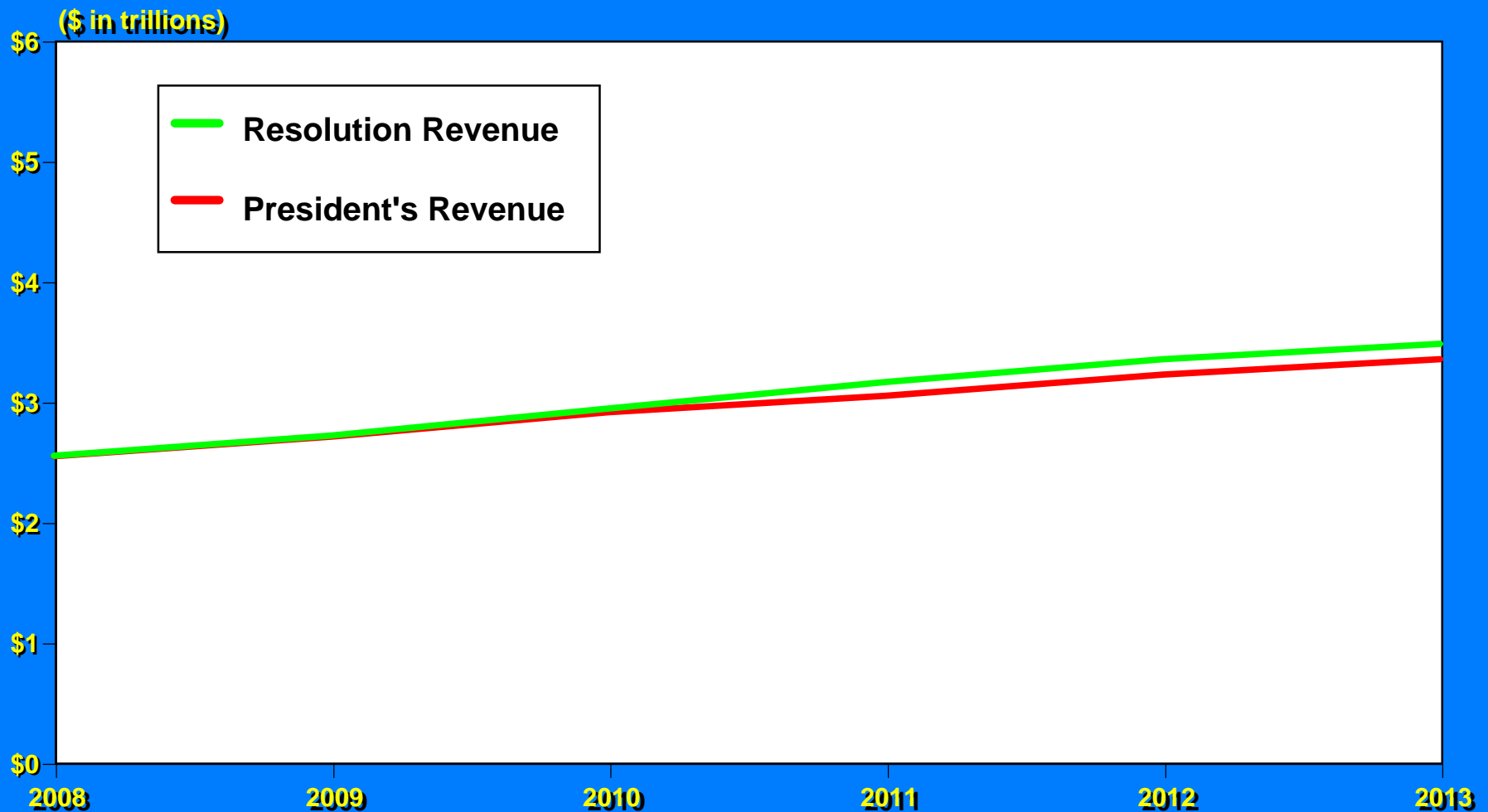
Source: SBC, CBO

# Budget Resolution Includes 1% More Spending Than Bush Budget in 2009



Source: CBO, SBC

# Comparison of Revenues Under Resolution and President's Budget



Source: SBC, CBO

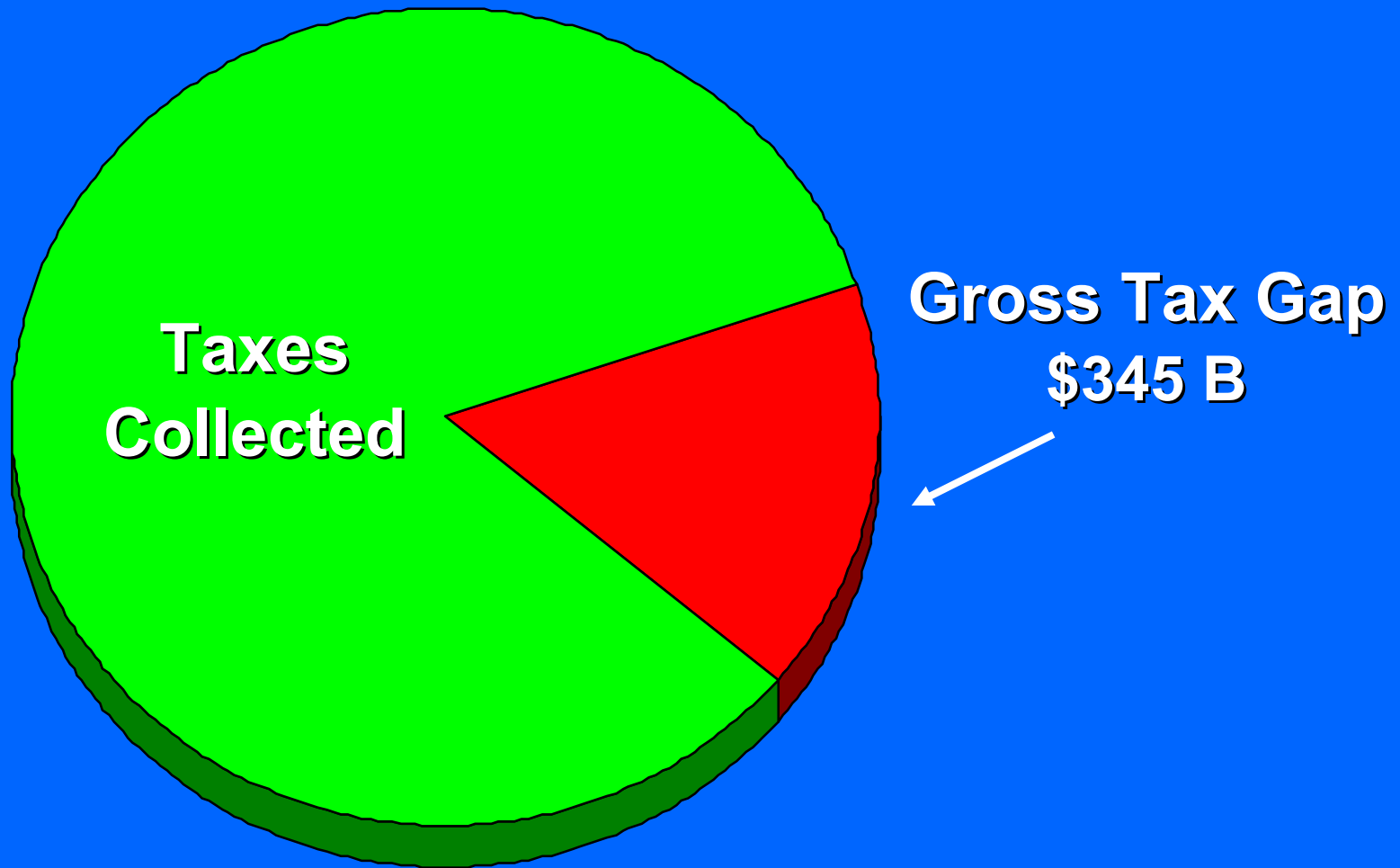
Note: Resolution revenue includes effect of Baucus amendment to extend middle-class tax cuts and reform estate tax.



# Budget Resolution Revenues Above Bush Budget Revenues By Only 2.9 Percent



# IRS Estimates \$345 Billion Annual Tax Gap



Source: IRS estimate of 2001 tax gap, February, 2006

# Five-Story Cayman Islands Building That 12,748 Companies Call Home



# THE BOSTON GLOBE

THURSDAY, MARCH 6, 2008

## Top Iraq contractor skirts US taxes offshore

### Shell companies in Cayman Islands allow KBR to avoid Medicare, Social Security deductions

By Farah Stockman

GLOBE STAFF

CAYMAN ISLANDS — Kellogg Brown & Root, the nation's top Iraq war contractor and until last year a subsidiary of Halliburton Corp., has avoided paying hundreds of millions of dollars in federal Medicare and Social Security taxes by hiring workers through shell companies based in this tropical tax haven.

More than 21,000 people working for KBR in Iraq — including about 10,500

Americans — are listed as employees of two companies that exist in a computer file on the fourth floor of a building on a palm-studded boulevard here in the Caribbean. Neither company has an office or phone number in the Cayman Islands.

The Defense Department has known since at least 2004 that KBR was avoiding taxes by declaring its American workers as employees of Cayman Islands shell companies, and officials said the move allowed KBR to perform the work more cheaply,

saving Defense dollars.

But the use of the loophole results in a significantly greater loss of revenue to the government as a whole, particularly to the Social Security and Medicare trust funds. And the creation of shell companies in places such as the Cayman Islands to avoid taxes has long been attacked by members of Congress.

A Globe survey found that the practice is unusual enough that only one other ma-

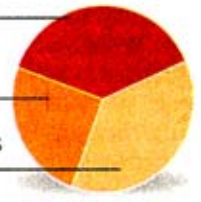
OFFSHORE, Page A20

According to US Central Command, there are 163,000 contractors working in Iraq. KBR says that it has 54,000 people working on its projects in Iraq. Of those:

Just over 21,000 are Cayman Island hires

13,288 are direct hires

The rest are subcontractors from other companies



SOURCE: KBR

GLOBE STAFF

# **Offshore Tax Haven Abuse Proliferating**

**“Experts have estimated that the total loss to the Treasury from offshore tax evasion alone approaches \$100 billion per year, including \$40 to \$70 billion from individuals and another \$30 billion from corporations engaging in offshore tax evasion. Abusive tax shelters add tens of billions of dollars more.”**

**– Press Release  
Senate Homeland Security and  
Governmental Affairs Permanent  
Subcommittee on Investigations  
February 17, 2007**

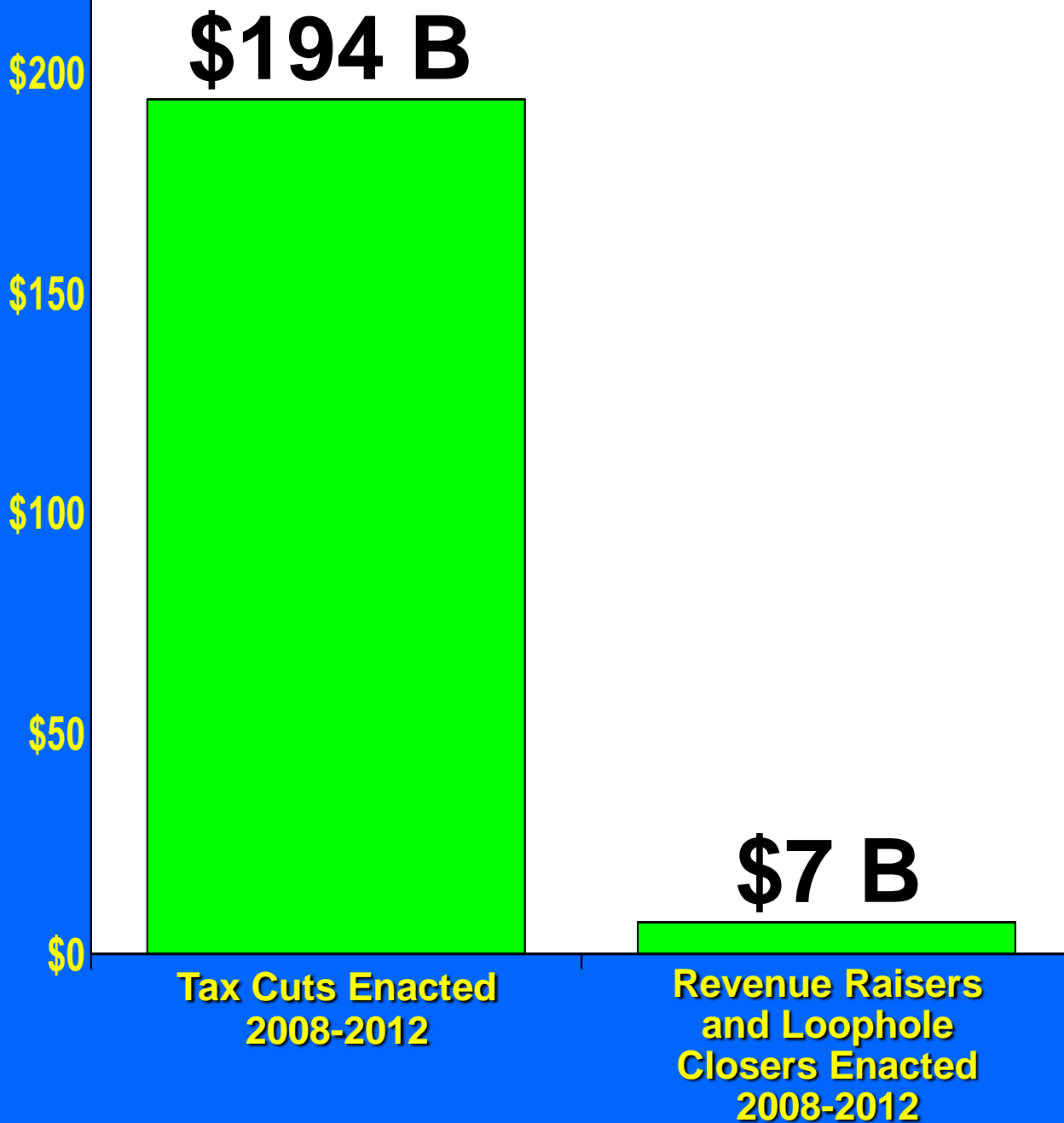


# **Loophole Closers in Bills President Threatened to Veto**

- **Codifying economic substance – prohibiting transactions with no economic rationale, done solely to evade taxes**
- **Shutting down schemes to lease foreign subway and sewer systems and depreciate assets (SILOs)**
- **Ending deferral of offshore compensation by hedge fund managers trying to evade current taxation**
- **Expanding broker information reporting**
- **Taxing people who expatriate to evade taxes**

# Democratic Record on Taxes Since Taking Control of Congress

(\$ in billions)

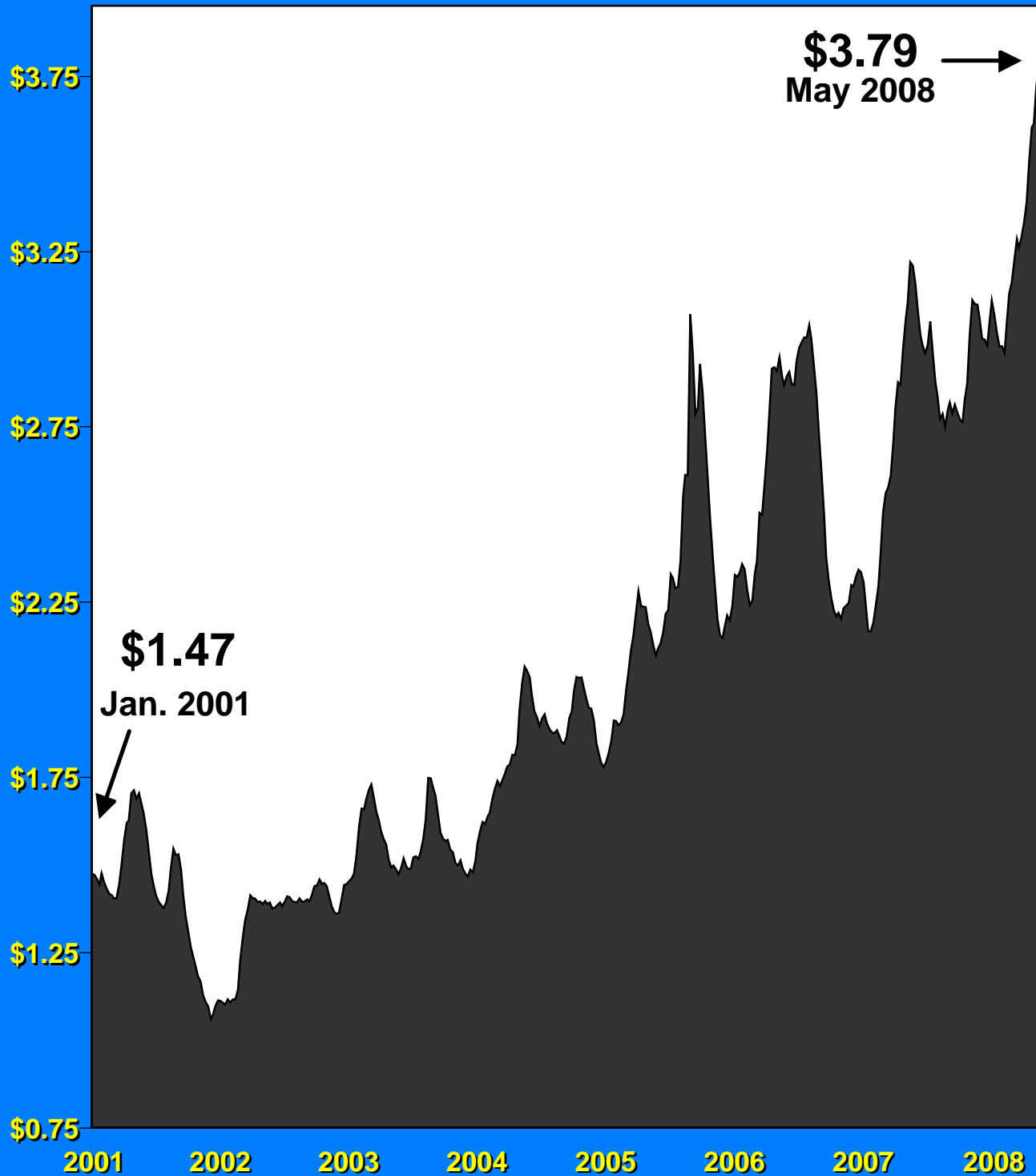


Source: CBO



# Price of Gasoline Soars

(Average price of gallon of gas in U.S., dollars)

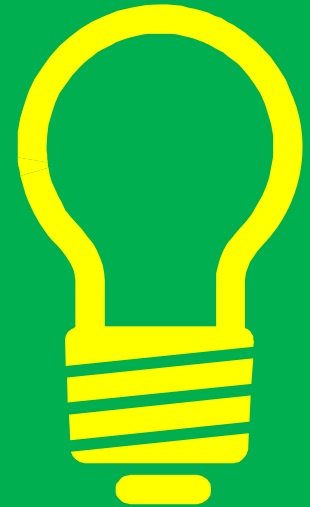


Source: Energy Information Administration  
Note: U.S. regular all formulations retail gas prices

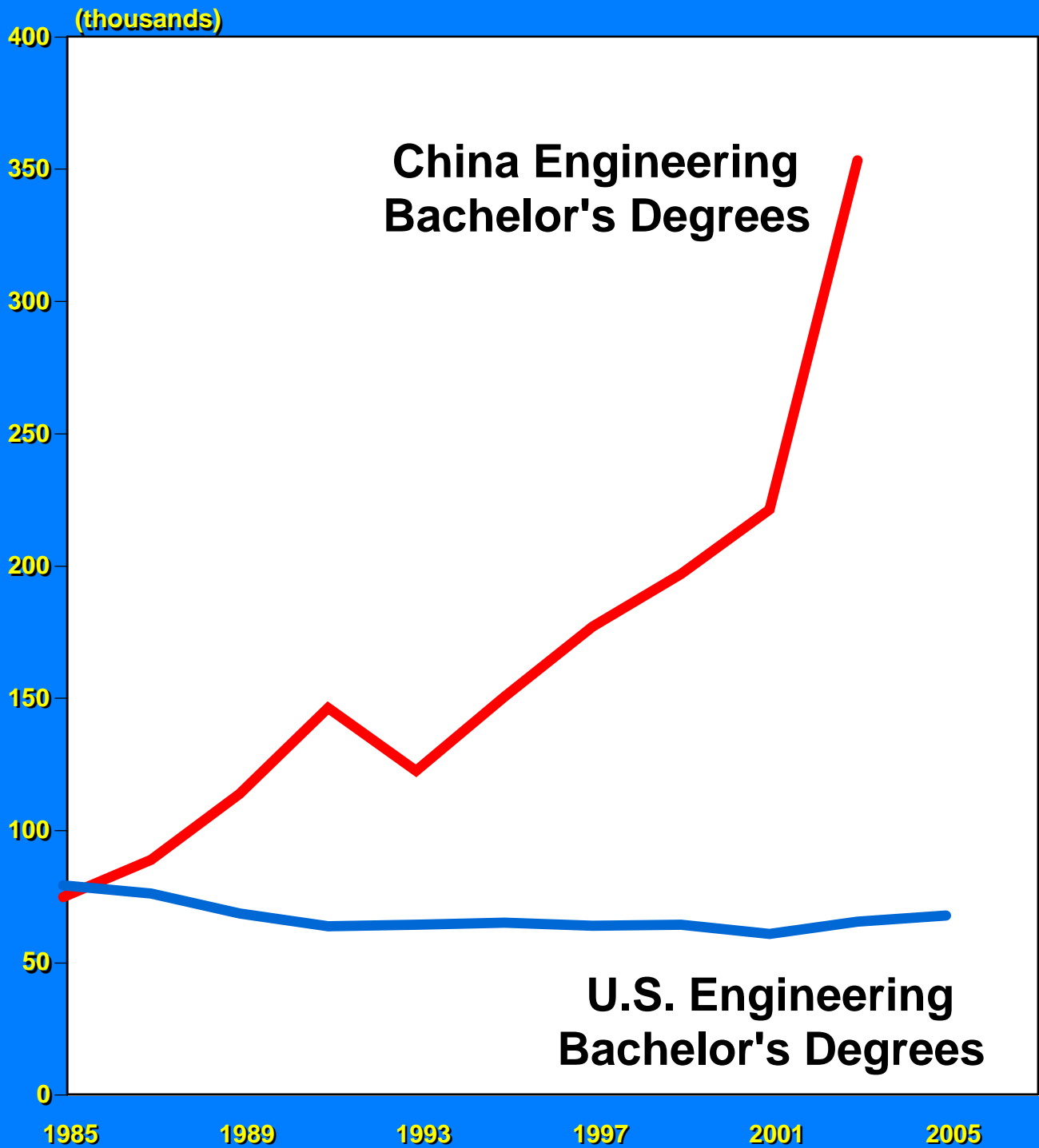
# Budget Resolution Invests in Energy

Creates green jobs, reduces dependence on foreign energy, strengthens economy, and helps with high home energy costs

- Energy tax cuts
- \$2.8 B over President's budget in discretionary funding for energy
- Energy Reserve Fund for investing in clean energy and the environment



# Falling Behind Global Competition: U.S. Lags China in Producing Engineers



Source: National Science Foundation

# Budget Resolution Invests in Education

Generates economic growth and jobs, prepares workforce to compete in global economy, makes college more affordable, and improves student achievement

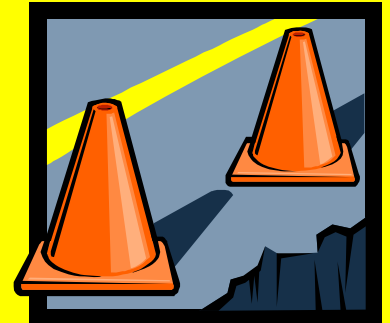
- Education tax cuts
- \$5.5 B over President's budget in discretionary funding for Department of Education and Head Start
- Education Reserve Fund for school construction and Higher Ed reauthorization





# Budget Resolution Invests in Infrastructure

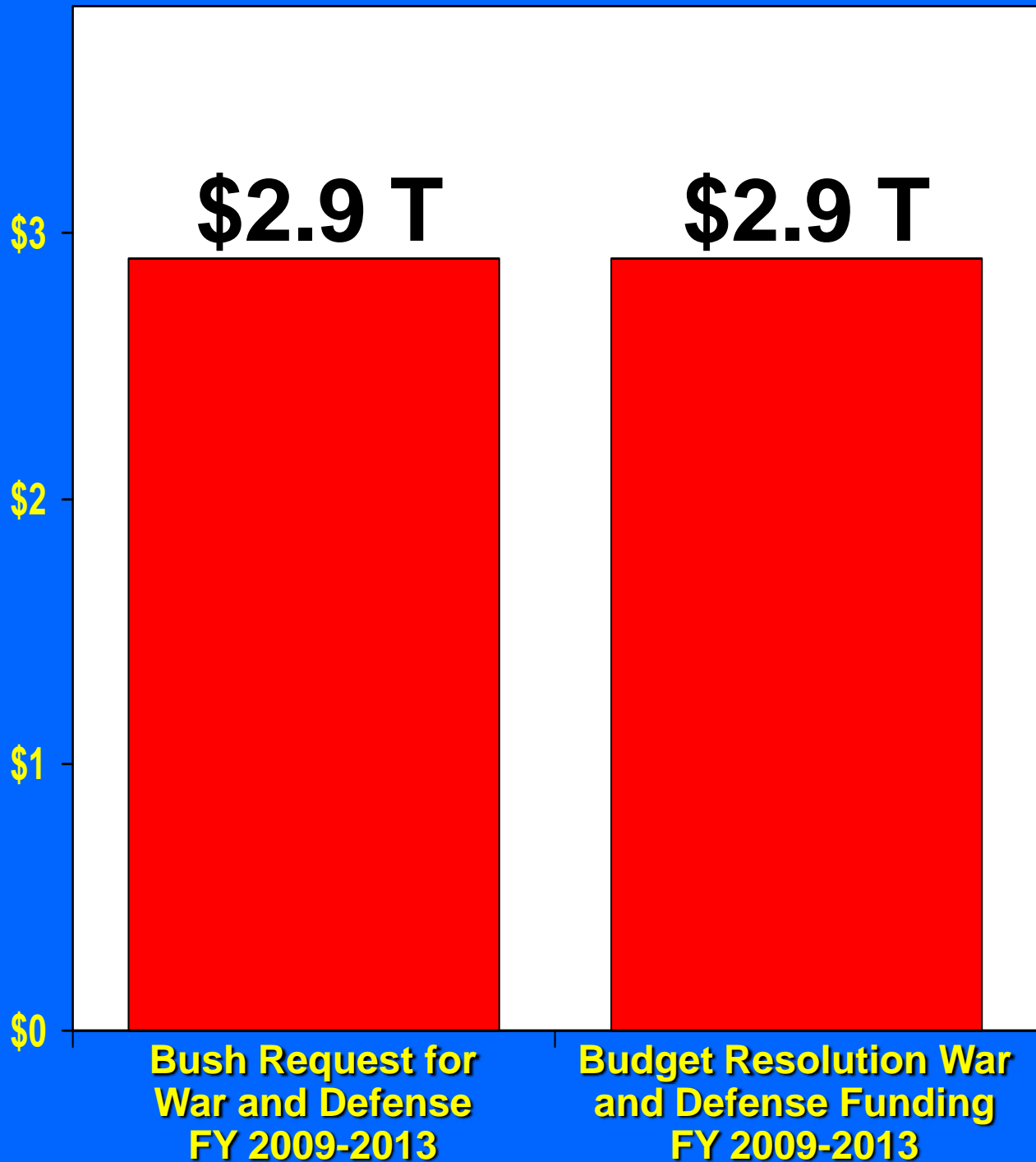
Repairs crumbling roads, bridges, transit, airports, and schools



- Reserve fund to allow for major infrastructure legislation
- Provides \$2.5 B more than President for key discretionary transportation accounts in 2009
- In addition:
  - Fully fund Highways
  - Fully fund Transit
  - Increase funding for Airport Improvement Program

# Budget Resolution Fully Funds Bush War and Defense Requests Over Five Years

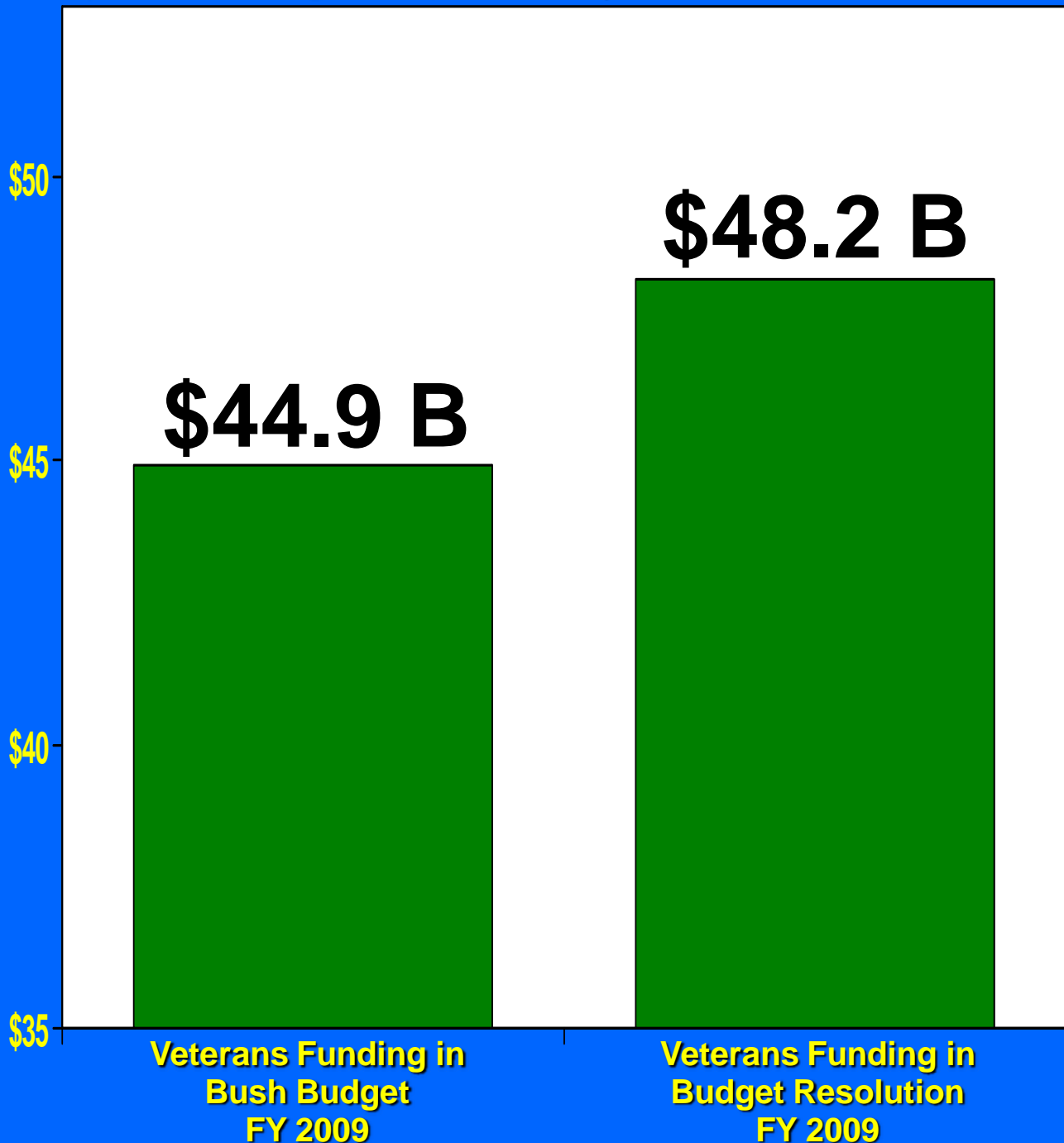
(\$ in trillions)



Source: OMB, SBC

# Budget Resolution Provides \$3.3 Billion More Than Bush Budget for Veterans

(Veterans funding in 2009, \$ in billions)

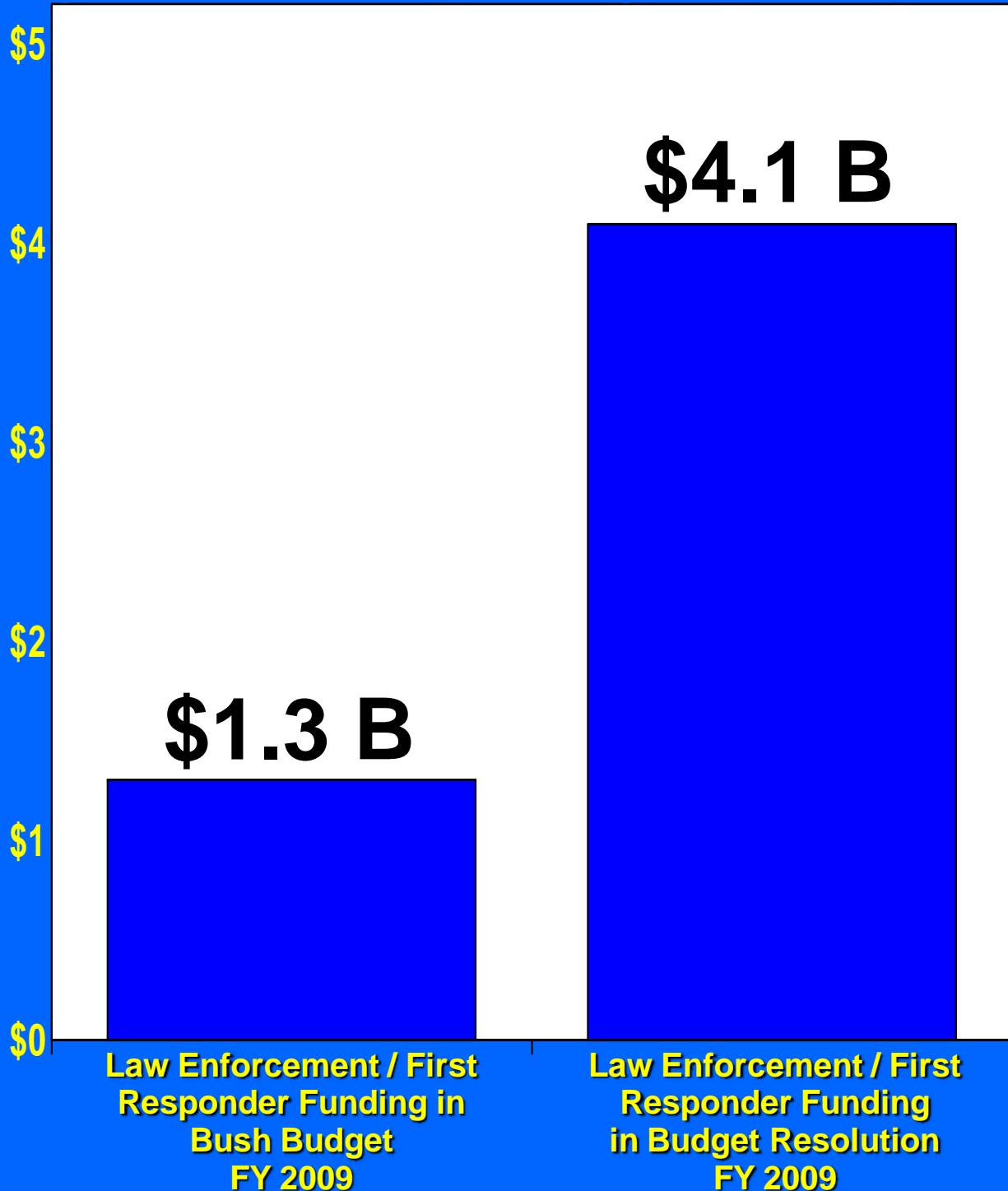


Source: CBO, SBC



# Budget Resolution Provides \$2.8 Billion More Than Bush Budget for Law Enforcement and First Responders

(Law enforcement and first responder funding in 2009, \$ in billions)



Source: CBO, SBC

Note: Law enforcement funding includes COPS program, Byrne Justice Assistance Grants, DHS Firefighter Grants, State Homeland Security Grants, and Urban Area Security Initiative Grants

# Budget Enforcement in Budget Resolution

- Discretionary caps for 2008 and 2009
- Maintains strong paygo rule
- Point of order against long-term deficit increases
- Point of order against short-term deficit increases
- Allows reconciliation for deficit reduction only
- Point of order against mandatory spending on an appropriations bill

# Budget Resolution Provisions Addressing Long-Term Fiscal Challenges

- Comparative Effectiveness reserve fund
- Health IT reserve fund
- Program integrity initiatives to crack down on waste, fraud, and abuse
- Long-term deficit increase point of order

# Conrad-Gregg Bipartisan Fiscal Task Force

- To address long-term fiscal imbalance
- Panel of lawmakers and Administration officials
- Everything on table
- Fast-track consideration; Congress must vote
- Bipartisan outcome