



# FACT SHEET NO TAX INCREASE ASSUMED IN BUDGET

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## **FY 2008 Budget Resolution Neither Assumes Nor Requires a Tax Increase**

The FY 2008 Budget Resolution balances the budget by 2012 and funds critical national priorities *without raising taxes*. Several press reports have inaccurately described the budget as explicitly assuming the expiration of some of President Bush's 2001 and 2003 tax cuts. This is simply wrong. The budget neither assumes nor requires the expiration of these tax cuts or any other tax increase.

### Assumes Only Modest Additional Revenue

Over the five years of the budget, revenues total \$14.828 trillion, which is virtually identical to the President's level of \$14.826 trillion, as estimated by his own administration. And revenues are only 2.1 percent above the President's level, as estimated by the Congressional Budget Office.

The key question is how this modest additional revenue can be achieved. The budget assumes that these additional revenues can be attained by closing the tax gap, shutting down abusive tax shelters, addressing offshore tax havens, and without raising taxes. For instance, the revenue "lost" from these sources could total about \$2.7 trillion over five years. Capturing just 11 percent of this total would close the gap between the President's revenues and the budget's totals.

Republican critics of the budget have claimed that the additional revenue can only be achieved by allowing upper-income tax cuts to expire. But that is not the working assumption of the budget. The budget assumes that every effort will be made to raise revenue from the tax gap, tax havens, and tax shelters, instead of increasing taxes on anyone.

### Extends Middle-Class Tax Cuts

By including the Baucus amendment adopted in the Senate, the budget provides \$180 billion for extending middle-class tax relief beyond 2010, including extending marriage penalty relief, the child tax credit, and the 10 percent bracket. It also supports reform of the estate tax to protect small businesses and family farms.

Congress has demonstrated strong bipartisan support for extending middle-class tax cuts – as reflected by a Senate vote of 97-1 for the Baucus amendment and a House vote of 364-57 for a similar measure. These votes show that there is support for extending middle-class tax cuts under virtually any circumstance.

The House-only “trigger” mechanism limits tax cuts to 80 percent of the projected surplus in 2012, based on an estimate from the Office of Management and Budget (OMB). However, using current OMB numbers, the 2012 surplus is projected to be \$290 billion under the budget resolution before adoption of the Baucus amendment. A surplus of that size would allow \$232 billion in tax cuts – more than enough to cover the \$180 billion cost of the Baucus amendment.

Provides AMT Relief

The budget also prevents the spread of the Alternative Minimum Tax (AMT), so that it does not impose higher taxes on middle-class families. It ensures that the number of taxpayers subject to the AMT will not be allowed to increase in 2007 – protecting some 20 million middle-class taxpayers from being subject to the tax.

Supports Other Tax Relief, If Costs Are Offset

The budget also includes a reserve fund specifically designed to allow for the extension of other expiring provisions and additional tax relief, as long as the costs are offset.

Sets Stage for Tax Simplification and Reform

The problem of tax cuts expiring in 2010 and the growing AMT problem, as well as general frustration with the tax code, highlight the need for an overhaul of our tax policies. By requiring that additional tax cuts are paid for, the budget sets up the right incentives for bipartisan tax simplification and reform. Working together, we can broaden and simplify the tax base to help keep rates low and generate needed revenues over the long term.

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