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THE HOUSE DEMOCRAT BUDGET

HIGHER TAXES, HIGHER SPENDING, AN ABSENCE OF REFORM

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The Democrat budget released today proposes the largest tax increase in history – $392.5 billion over 5 years – mainly to finance immense new spending through 2012. It also puts off any significant entitlement reform for at least 5 years, despite repeated warnings during committee hearings that delaying reform invites a fiscal and economic crisis for these programs.

Based on the figures introduced at today's committee markup, here are some of the key points of the Democrat budget plan:

HIGHER TAXES

- **The Largest Tax Increase in History.** Although the Democrats try to claim otherwise, the revenue numbers in the Mark clearly show tax increases totaling $392.5 billion over 5 years, compared with retaining provisions of the 2001 and 2003 tax laws that are currently in place. Taxes increase by $231 billion in 2012 alone, which is even greater than the $153-billion surplus the budget claims.

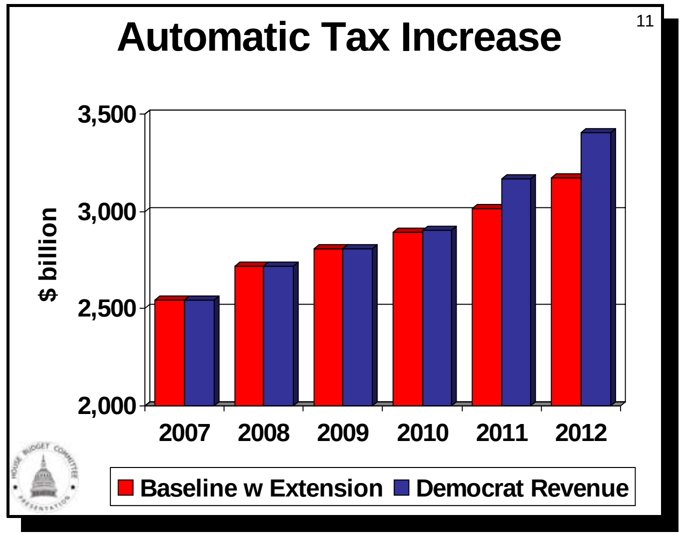
- **Tax Increases Are Widespread.** Tax increases would hit middle-income families, low-income earners, families with children, small businesses, and a range of others. Here is a sampling of the implicit tax increases:

Tax Increase	5-Year Total
Increase in Marginal Rates	$182 billion
Reduction of Child Tax Credit	$27 billion
Increase in Marriage Penalty	$13 billion
Increase in Death Tax	$91 billion
Increase in Capital Gains and Dividends Tax Rates	$32.5 billion
Other Tax Increases	$47 billion

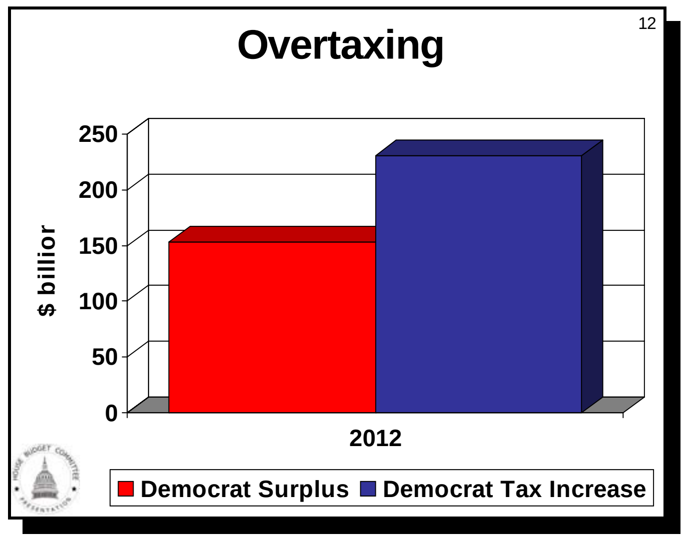
The Mark contains language claiming to protect current tax rates – *but the language is not supported by the budget figures, which embrace the automatic tax increases.*

This document was prepared by the Republican staff of the Committee on the Budget, U.S. House of Representatives.

- **Sets the Stage for at Least $115 Billion in Further Tax Hikes.** Ten of the Mark's 12 "reserve funds" call for more than $115 billion in higher spending if offset with commensurate savings or – as is far more likely – higher taxes.



- **Ignoring Economic Consequences.** These massive tax increases would likely reverse the economic gains that have developed since adoption of the 2001 and 2003 tax laws, which include: 7.6 million new jobs – an average of 168,500 per month; growth in real gross domestic product [GDP] of 3.5 percent per year over the past 15 quarters; increased business investment for the past 15 quarters; and a Dow Jones Industrial average roughly 41 percent higher than the 2003 level.



- **Ignoring Fiscal Benefits.** The Democrat tax increases also threaten the substantial deficit reduction that has occurred in the past several years.

  - Revenue increased in double-digit percentages in 2005 and 2006, and 9.3 percent in the first five quarters of fiscal year 2007 – reaching 18.5 percent of GDP, higher than the average of the past four decades.

  - This revenue growth has been the principal factor in reducing the budget deficit from $412.7 billion in 2004 to an estimated $176 billion this year, according to the Congressional Budget Office.

- **No AMT Fix.** The Democrats *fail to provide, in their numbers, even a one-year patch for the alternative minimum tax [AMT]*. Instead, the Chairman's Mark employs a "reserve fund" that allows AMT relief only if offset by equivalent tax increases or spending cuts – which are not spelled out.

- **The Mystical 'Tax Gap.'** The Mark includes budget enforcement language allowing an unspecified amount of increased appropriations to improve tax compliance – apparently seeking to close the so-called "tax gap." The Commissioner of the Internal Revenue Service has testified the IRS could collect, at best, about $20 billion of these taxes 5 years *after* implementing specific policies recommended in the President's budget.

HUGE SPENDING INCREASES

- **Largest Year-to-Year Appropriations Increase.** Having already increased current-year spending by $6.1 billion, and adding more than $20 billion to the Iraq supplemental, Democrats are proposing another increase of more than $22.5 billion in nondefense, nonemergency annual appropriations for fiscal year 2008.

- **Increases 'Advance Appropriations.'** The Mark also increases by about $2 billion, to $25.6 billion, the amount that can be appropriated in fiscal year 2009 or later.

- **Outspends Inflation Later.** For the years 2009-12, the Mark assumes annual nondefense, nonemergency appropriations will increase by an average of 2.4 percent per year, which is still greater than the projected rate of inflation.

- **Reckless Entitlement Spending Increases.** Despite warnings by numerous witnesses about the unsustainable rate of entitlement spending, the Mark's reserve funds nevertheless provide for higher mandatory spending if coupled with even more tax increases. As noted above, 10 of the Mark's 12 "reserve funds" create avenues for more than $115 billion in higher spending if offset with spending reductions or – as is more likely – higher taxes.

NO SIGNIFICANT REFORM OR OFFSETS

- **Democrat Budget Ignores the Warnings.** Ignoring repeated warnings about the unsustainable rate of entitlement spending growth, the Mark puts off any significant reform for at least 5 years – allowing the problem to worsen.

- **No Reform.** The only savings in the Mark are a negligible $75 million reconciled to the Education and Labor Committee (which is merely a lever to get higher education reauthorization considered under reconciliation procedures); and $410 million in receipts from selling defense commodities such as Tungsten. These are not reforms, and they do nothing to address the massive entitlement problem. In contrast, the Deficit Reduction Act of 2005 saved more than $38 billion over 5 years, and the President's budget for fiscal year 2008 proposed $96 billion in mandatory savings.

NO ACCOUNTABILITY

- **Retains Bias Favoring Higher Spending, Higher Taxes.** The Mark assumes that tax relief expires – causing automatic tax increases – but spending programs continue indefinitely.

- **Fails to Strengthen PAYGO.** It retains the weak House pay-as-you-go [PAYGO] rule, which allows Democrats to chase higher spending with higher taxes, and to enact spending increases immediately with savings that do not occur until later.

- **No Emergency Provision.** The Mark eliminates the domestic emergency reserve fund contained in the current budget resolution, and provides no criteria for domestic emergency spending – which is exempt from budget disciplines.

GIMMICKS

- **Straw Man Reserve Funds.** Instead of providing funding for promised initiatives, the Mark includes 10 reserve funds that promise extra funding for pet initiatives if offsets are included. The reserve funds have no real effect because budget rules already permit initiatives not assumed in the budget to be financed by offsets.

- **No 'Doc Fix.'** The Mark's budget levels fail to include an adjustment in Medicare physician payment rates – the so-called "Doc Fix." Without such an adjustment, physician payment rates will automatically decline under current law.

- **No Defense Firewall.** By not imposing a firewall around defense, the Mark allows Democrats to continue moving money from defense to nondefense, as they did with Base Realignment and Closure [BRAC] Commission funding.

DOUBLE STANDARD

- **No AMT Reform.** After repeatedly blasting Republicans for failing to provide a permanent reform of the alternative minimum tax [AMT], the Mark *fails to provide even a one-year patch.* Instead the Mark employs a "reserve fund" that allows AMT relief only if offset by equivalent tax increases or spending cuts – which are not spelled out.

- **No Additional Iraq Funding.** The Mark adopts the President's requested levels for Iraq funding. Yet after criticizing the President for showing no Iraq funding after 2009, the Mark adopts the same policy.