

CTJ and Joint Tax Estimates of Bush Tax Plan Agree, But . . .

On May 2, 2000, the Bush campaign released new estimates of the size of George W. Bush's tax cut plan. These estimates, attributed to the Joint Committee on Taxation, find that the Bush plan would reduce taxes by \$460 billion over the first five fiscal years (2002-06) and by \$1.3 trillion over nine fiscal years (2002-10).

On the surface, the Joint Tax figures look considerably smaller than the estimates of the cost of the Bush tax plan made earlier by Citizens for Tax Justice. CTJ pegged the five-year size of the Bush tax cuts at \$511 billion and the 10-year size at \$1.8 trillion. Including added interest on the national debt, CTJ estimated the total ten-year cost of the Bush tax cuts to be \$2.2 trillion.

Why are the estimates different? There are three reasons:

First, the Joint Committee on Taxation estimates released by the Bush campaign are for nine years, rather than ten. Although the Bush campaign talks about a "Ten Year" estimate (Bush's quotation marks) of the size of the Bush tax plan, the JCT estimate is actually for only nine years. In the tenth year, CTJ's estimate of the size of the Bush tax cut is \$306 million. Thus, most of the \$500 billion difference between JCT's and CTJ's estimates of the ten-year size of the Bush tax cuts stems from the fact that CTJ estimate is a ten-year figure, while JCT's is a nine-year figure.

Second, the Joint Committee figures do not include the additional interest on the national debt that the Bush tax plan would entail. The lion's share of projected future surpluses reflects reduced interest payments on the national debt due to debt reduction. Obviously, any tax cut (or spending increase) will mean less debt reduction and therefore higher interest payments. CTJ projects that over ten years, the Bush tax cuts will add \$365 billion to federal interest payments, bringing the total ten-year cost of the Bush plan to \$2.2 trillion. JCT does not include added interest in its nine-year estimate.

Third, the Joint Committee figures apparently assume that a large portion of the Bush tax cuts will be offset by the Alternative Minimum Tax. Although Bush has not publicly specified exactly what changes he would make to the alternative minimum tax, he has said that he would make the necessary adjustments to assure that his tax cuts are not offset by the AMT.¹ Based on that statement, CTJ assumes that the AMT rates would be reduced under the Bush plan, in line with his proposed reductions in the regular income tax rates.² The Joint Committee apparently did not make this

¹"Al Davis, chief economist for the House Ways and Means Committee Democratic staff, said in January the Bush tax plan wouldn't deliver some of the promised relief to middle-class taxpayers because it fails to take into account the effect of the Alternative Minimum Tax. After Davis' critique appeared in the industry magazine *Tax Notes*, the Bush campaign said that while the AMT wasn't addressed in the printed campaign materials, the staff intended not to have the effect Davis described." *Bloomberg News*, 3/27/00.

²CTJ assumed that the AMT rates would be reduced from the current 26% and 28% rates down to 22% and 24%. This reflects the historical pattern. For example, when the 1993 tax act increased the top income

assumption, but instead assumed that about a sixth of the Bush personal income tax cuts would be offset by the AMT. Currently, about 1.2 million taxpayers pay about \$4½ billion in AMT. Unless the AMT is adjusted, under Bush's plan close to 20 million taxpayers will pay about \$50 billion in AMT by 2010. Over ten years, failure to adjust the AMT would reduce the size of the Bush tax cuts by about \$270 billion, and would lower the amount of added interest on the national debt that Bush's plan would entail by about \$90 billion.

The bottom line is that over nine years, JCT and CTJ get the same \$1.3 trillion estimate of the size of the Bush tax cuts, assuming no reduction in AMT rates and ignoring added interest on the national debt. Unlike JCT, however, CTJ (1) offered a ten-year estimate of the cost of Bush's plan, (2) believed Bush's statement that he would adjust the AMT, and (3) included additional interest on the national debt.

The Cost of the Bush Tax Cuts

Joint Committee on Taxation & CTJ Estimates

(\$-billions)

	First Five Years 2002-06	Next Four Years 2007-10	First Nine Years 2002-10	Tenth Year 2011	TEN YEARS 2002-11
Joint Committee on Taxation estimate of the size of the Bush tax cuts — <u>without</u> AMT rate reduction or increased interest costs)	\$ 460	\$ 861	\$ 1,321	<i>not available</i>	<i>not available</i>
CTJ estimates:					
1(a) Bush tax cuts <u>without</u> AMT rate reduction, before increased interest costs (like JCT above)	\$ 460	\$ 861	\$ 1,321	\$ 244	\$ 1,564
1(b) Bush tax cuts <u>without</u> AMT rate reduction, <u>with</u> increased interest costs	506	1,077	1,582	337	1,920
2(a) Bush tax cuts <u>with</u> AMT rate reduction, before increased interest costs	511	1,020	1,531	306	1,837
2(b) Total cost of the Bush tax cuts with both AMT rate reduction and increased interest	\$ 558	\$ 1,241	\$ 1,799	\$ 403	\$ 2,202

Note: CTJ's estimate of the size of the Bush tax cuts over their first nine years if the AMT is not adjusted is virtually identical to the estimate by the Joint Committee on Taxation. Counting increased interest payments on the national debt, such a tax cut (with no AMT rate reduction) would entail a total cost of \$1.8 trillion over ten years. The Bush campaign has said, however, that it will take unspecified steps to fix the AMT problem; not to do so would push millions of taxpayers into the AMT and deny them the tax cuts Bush has promised. If we include the almost inevitable AMT fix, then CTJ's \$2.2 trillion estimate of the total cost of the Bush tax cuts remains accurate.

Sources: Citizens for Tax Justice, May 18, 2000; Bush campaign, May 2, 2000.