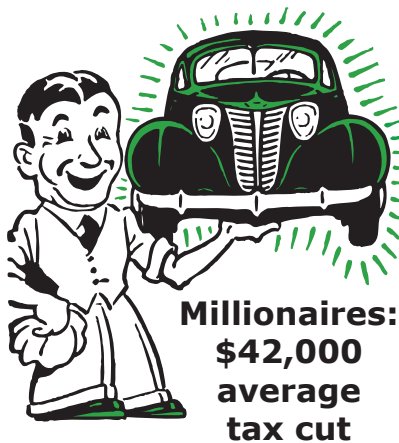


CHEATING ON TAXES **Congress Finds Loopholes to Pass Tax Cuts, Increase Deficits & National Debt**

In its determination to extend massive tax breaks to the wealthy, Congress has found a loophole in its own rules big enough to drive a truck through, with congressional leaders themselves at the wheel. The budget reconciliation process, designed to control deficits, will be used instead to increase them.



The idea, Congress claimed, was to reduce deficits. It's not working. The new tax-cut package about to be considered in the House and Senate this week will:

- **Grant big tax cuts** to millionaires, enough for a nice new car, and chump change to middle-income families, enough for about half a tank of gas.

- **Raise deficits**, and thus the national debt. Already, the federal deficit is expected to exceed \$300 billion this year.

- **Use gimmicks** to bypass Senate rules designed to prevent long-term deficits.



The problem is the distortion of a special budget procedure known as "reconciliation." This procedure makes it easier to meet budget goals without fear of filibusters in the Senate or other moves to block the will of Congress expressed in the budget resolution. Intended as a way to reduce deficits and force committees to cut spending or raise taxes as needed in the resolution, this would be the fourth time since 2001 that Congress used reconciliation to instead pass costly tax cuts and increase the deficit.

REVERSE ROBIN HOOD **Cutting Medicaid to Pay for Tax Cuts for the Wealthy**

A separate "reconciliation" bill passed in February, making \$39 million in cuts to entitlements including Medicaid over five years. It was sold on the idea of deficit reduction. Instead, the second "reconciliation" bill offers \$70 billion in tax cuts targeted to the wealthy, meaning the cuts in low-income services will be used to partially pay for the tax cuts.

According to the Urban Institute-Brookings Tax Policy Center, almost 9 of every 10 dollars in the agreement would go to households with income above \$100,000 — and over half, 55 percent, to the 3 percent of households with income over \$200,000. Millionaire households represent two-tenths of 1 percent of all households, but would see 22 percent of the benefits:¹

That analysis indicates:

- Middle 20 percent of households by income would receive **an average tax cut of \$20.**
- Top 1 percent of households by income would receive **an average tax cut of \$13,800.**
- Households with over \$1 million income would receive **an average tax cut of \$42,000.**

GOVERNMENT BY GIMMICK

Plan Masks Fiscal Reality of Long-Term Deficits

Under Senate rules, reconciliation bills may not increase long-term deficits. This one does; the question is whether this will be acknowledged. In the end, it means pretending tax cuts for wealthy households are partially “paid for” with more tax cuts for wealthy households.

Here’s how it works:

- The package includes a two-year extension of capital gains and dividend tax cuts, which are set to expire in 2008. According to the Tax Policy Center, 45 percent of that benefit would go to millionaire households.²
- To “compensate” in part for this revenue loss and “meet” the demands of the Senate rule, the package also includes a change in rules for converting traditional Individual Retirement Accounts (IRAs), to Roth IRAs. In the short term, this proposal raises revenue, which is used to help offset the cost of the capital gains/dividend tax cut in 2011-13. In the longer term, the proposal loses money, beginning in 2014. However, the official cost estimate ends in 2015 so the longer-term loss cannot be demonstrated officially — only with common sense.
- The IRA change only benefits households with income above \$100,000. Ultimately, those households get a bigger tax cut than they pay in tax for the conversion. Thus, this high-income tax benefit — by including a short-term increase those households later recoup — is being used to mask a long-term deficit.

¹ Friedman, Joel. “Reconciliation Tax Cuts Would Average \$42,000 for Households With Income Over \$1 Million, But Only \$20 for Middle-Income Households.” Center on Budget and Policy Priorities. May 4, 2006. <http://www.cbpp.org/5-4-06tax.htm>

² Ibid.