



Death Tax Relief and Fiscal Responsibility

“Republicans, instead, have put forth the bill that will cost the American people, again, almost \$800 billion; \$800 billion that we don't have, that we are going to have to borrow.”

- Nancy Pelosi on death tax relief, Congressional Record, June 22, 2006

“Tax revenue has surged along with growth in the economy.”

- Bloomberg, 5/16/06, “U.S. Budget Deficit Will Be Halved Ahead of Schedule, Snow Says”

Tax Cuts and the Budget

Tax cuts have two budgetary consequences. First, there is the impact on the federal budget. Second, there is the impact on the tax burden of the American people.

Before considering the impact of death tax relief on either, it is first necessary to take into account one important fact about the tax code and the federal budget: under current law – absent Congressional action to lower or raise taxes – the tax burden on the American people increases substantially. Federal revenues were 16.3 percent of GDP in 2004. In 2016 the Congressional Budget Office (CBO) projects federal revenue to be 19.8 percent of GDP. By 2050, federal revenues are projected to be 23.7 percent of GDP. These figures are for federal taxes only, and do not include state and local taxes.

With passage of the death tax relief provision in H.R. 5970, federal revenue still increases by three different measures: in nominal dollars, in comparison to inflation, and also as a percentage of GDP.

Opponents of death tax relief cite the impact this tax cut would have on federal revenues. But you do not have to believe the American people are over-taxed to reject this argument; you merely have to believe that the tax burden on the American people should not substantially increase.

The Ten-Year Outlook for Federal Revenue under Current Law

In the last three years, revenues have increased by \$620 billion or 35 percent. Federal revenues in 2006 are projected to be 18.3 percent of GDP, above the average of the last forty years.

Beyond 2006, without changes to the tax code, revenues are projected to continue to increase faster than GDP.

Figure 1: Federal Revenue Under Current Law
(in billions of dollars)

	2006	2010	2011	2012	2013	2014	2015	2016
Revenue	2,403	2,890	3,156	3,398	3,555	3,733	3,922	4,118
Percentage of GDP	18.3	18.1	18.9	19.4	19.4	19.5	19.7	19.8

Data based on CBO's *The Budget and Economic Outlook: An Update*, August 2006

As seen from the table, under current law, federal revenue increases from \$2.403 trillion in 2006 to \$4.118 trillion in 2016, an increase of \$1.715 trillion or 71 percent. As a percentage of GDP, revenue increases from 18.3 percent to 19.8 percent of GDP.

The Score for Death Tax Relief in Perspective

The Joint Tax Committee (JTC) score for H.R. 5970 projects that death relief causes federal revenue to be \$267 billion lower than would otherwise be the case under current law over the period from 2007 to 2016. What opponents of death tax relief do not note is two other numbers that put the JTC score in perspective: \$32.7 trillion and \$8.7 trillion.

\$32.7 Trillion. This is the amount, under current law, that the Congressional Budget Office projects the federal government will collect in taxes over the same 2007 to 2016 period. If the death tax relief provision in H.R. 5970 were to become law, the federal government would be projected to collect \$32.5 trillion in taxes over the next ten years. Enacting death tax relief lowers the federal government's revenue projections by less than one percent.

\$8.7 Trillion. This is the total amount by which federal revenue is projected to increase over ten years. To put it another way, the total amount by which federal revenue is projected to increase under current law is more than *thirty-two* times larger than the projected cost of death tax relief.

The Ten-Year Outlook for Federal Revenue with Passage of Death Tax Relief

The increase in revenue over the ten-year budget outlook is almost as dramatic with passage of death tax relief as it is under current law.

Figure 2: Federal Revenues with Passage of Death Tax Relief Provisions in H.R. 5970 (in billions of dollars)

	2006	2010	2011	2012	2013	2014	2015	2016
Revenue	2,403	2,889	3,142	3,359	3,511	3,682	3,865	4,057
Percentage of GDP	18.3	18.1	18.8	19.2	19.2	19.3	19.4	19.5

Data based on CBO's *The Budget and Economic Outlook*, August 2006, and the Joint Committee on Taxation Score for H.R. 5970

As seen from the table, the federal government is projected to have an extra \$1.654 trillion in revenues in 2016 compared to 2006 with passage of death tax relief. This is a projected increase of 69 percent.

The growth in federal revenue with passage of death tax relief is greater than the growth of inflation or the growth of GDP. By 2016 federal taxes are projected to consume 19.5 percent of GDP, up from 18.3 percent of GDP in 2006.

Figure 3: Growth in Federal Revenue from 2006 to 2016 in Perspective with Passage of Death Tax Relief Provision in H.R. 5970 (percent)

	Annual Growth Rate	Cumulative Increase
Nominal GDP	4.8	59
Inflation	2.3	28
Federal Revenue	5.4	69

Data based on CBO's *The Budget and Economic Outlook*, August 2006, and the Joint Committee on Taxation Score for H.R. 5970

Fiscal Responsibility and the Tax Burden

There are two different approaches toward fiscal responsibility. One approach is to assume the federal budget will spend as much as one wants and to cover this spending by however much is required in the way of increased taxes. It is true that under this approach taxes will not keep up with spending, and relief from the death tax is not affordable.

The other approach is to budget under the assumption that the tax burden on the American people will not increase and to control spending accordingly. House Republicans believe this is the more appropriate definition of fiscal responsibility and death tax relief is consistent with it.

Sources Cited: 1) Joint Tax Committee (JTC) score for H.R. 5970 and 2) Congressional Budget Office (CBO) The Budget and Economic Outlook, August 2006