Republican Study Committee
Rep. Jim Jordan (R-OH), RSC Chairman
Paul Teller, Executive Director
Budget and Spending Task Force
Weekly Report

Congressman Scott Garrett (R-NJ), Chairman September 21, 2011

# CR on Floor Today

The continuing resolution enacts a total non-emergency spending level equivalent to $1.043 trillion (on an annualized basis) through November 18, 2011. The legislation generally provides funding at FY 2011 levels minus 1.503%. The $1.043 trillion spending level would be:

- **$7 billion** *below* FY 2011;
- the **same** level as the spending cap for FY 2012 in the Budget Control Act;
- **$24 billion** *above* the House-passed FY 2012 budget resolution; and
- **$65** billion *above* the FY 2012 RSC budget resolution.

**Quote of the Week:**

*"Our tax system still siphons out of the private economy too large a share of personal and business purchasing power and reduces the incentive for risk, investment and effort – thereby aborting our recoveries and stifling our national growth rate."*

**-President John F. Kennedy, 1963**

**War Funding:** The legislation provides emergency-designated war funding at an annualized rate of $119 billion, which does not count toward the $1.043 trillion figure above.


**Disaster Funding:** The legislation includes $3.65 billion of disaster relief, which is counted within the $1.043 trillion amount.

**Advanced Technology Vehicles Manufacturing Loan Program:** The legislation rescinds $500 million from this program and transfers another $1 billion to the Federal Emergency Management Agency (FEMA), for a total spending cut to the program of $1.5 billion. The Advanced Technology Vehicles Manufacturing Loan Program is a $25 billion program meant to provide taxpayer-financed capital to American carmakers.

**Postal Service:** The legislation delays from the end of this month to November 18, 2011 the otherwise required Postal Service payments to its retirement and pension fund. The Postal Service has reported that it will exhaust its borrowing authority in FY2011 and be unable to make a mandatory $5.5 billion Retiree Health Benefits Fund payment on September 30, 2011.

**Federal Flood Insurance Program:** Section 131 of the legislation extends the flood insurance program through November 18, 2011. This extension does not include any of the reforms from H.R. 1309, the Flood Insurance Reform Act.

**Export-Import Bank:** The legislation extends this program, which provides financing to U.S. companies who export, through November 18, 2011. Many conservatives have argued for the elimination of this program. For one example, see this analysis from Citizens Against Government Waste.

# Blackburn to Introduce 2-Year Spending Freeze

Representative Marsha Blackburn (R-TN) is introducing legislation to freeze the FY 2013 and FY 2014 spending caps in the Budget Control Act (P.L. 112-25) at the same level as provided for FY 2012. The Budget Control Act caps non-emergency discretionary spending at $1.043 trillion in FY 2012, and then increases the cap in each subsequent year. The total ten-year increase compared to the FY 2012 figure is $830 billion. The Blackburn-authored legislation would prevent spending growth in the next two years with the aim of setting FY 2012 spending as the high water mark.

**Action Item:** To cosponsor this legislation contact Keith Studdard at Keith.Studdard@mail.house.gov.

THE WALL STREET JOURNAL.

# The Buffett Alternative Tax

*The rich don't pay lower average tax rates.*

Washington has repeated nearly every economic policy mistake of the 1930s in recent years, so why not repeat one of the bigger blunders of the 1960s too? We refer to President Obama's proposal yesterday for a new "Buffett Rule" to raise taxes on Americans earning more than $1 million a year. This may sound familiar to readers of a certain age, because it is how the current, and much-hated, Alternative Minimum Tax was born.

Mr. Obama, meet Joe Barr. As LBJ's last Treasury Secretary—he served only 30 days—Barr became famous for his January 1969 testimony before Congress that 21 millionaires had paid no income tax in 1967. No fewer than 115 tax returns reporting income above $200,000 had also paid no income tax, and Barr predicted a "taxpayer revolt" unless something was done about it.

Washington proceeded to bend tax policy to chase those 21 millionaires, and so we got the Minimum Tax of 1969 that later became the Alternative Minimum Tax. The AMT now hits some four million taxpayers, and 27% of households that paid it in 2008 had adjusted gross income of $200,000 or less.

Because it hits taxpayers with heavy deductions, the AMT wallops in particular the upper-middle-class suburbs in high-tax states like New Jersey, Connecticut, Illinois and California. Congress keeps passing an annual reprieve to prevent the AMT from hitting another 20 million or so taxpayers, most of whom are far from millionaires.

So here we are back at the same old political stand, though even Mr. Obama concedes that today those he routinely calls "millionaires and billionaires" pay at least some tax. The President's complaint, echoing billionaire Warren Buffett, is that too many billionaires pay a lower rate than regular salary earners. So even as he endorsed tax reform in general yesterday, Mr. Obama insisted that one of his reform "principles" is that people who make more than $1 million must pay a higher tax rate than middle-class earners.

There's one small problem: The entire Buffett Rule premise is false, as the nearby table shows. In 2008, the last year for which such data are available, the IRS reports that those who made more than $1 million in adjusted gross income paid an average income tax rate of 23.3%.

That's slightly lower than the 24.1% rate paid by those making between $500,000 and $1 million, probably because the richest are like Mr. Buffett and earn more from capital gains and dividends. The rate for a relative handful of the rich—400 people—fell to 18%, the modern equivalent of Barr's Gang of 21. But nearly all millionaires still paid a rate that is more than twice the 8.9% average rate paid by those earning between $50,000 and $100,000, and more than three times the 7.2% average rate paid by those earning less than $50,000. The larger point is that the claim that CEOs are routinely paying lower tax rates than their secretaries is Omaha hokum.

If Mr. Obama really wants all of these people to pay even more in taxes, there are only two ways to do so. One is to raise tax rates on capital gains, dividends and other investment income that is taxed at 15% and represents a great deal of income for the wealthy. This is probably Mr. Buffett's tax secret, though to our knowledge he hasn't released his returns to the public.

The problem is that this is a tax increase on capital investment, which the U.S. already taxes at prohibitive rates thanks to our high corporate tax rate of 35%. Capital gains and dividends are taxed twice, first as corporate profits and then as payouts to individuals. Their real capital gains tax rate is closer to 45% than 15%, which is why politicians of both parties have long supported a capital-gains rate differential.

The other way to raise taxes on the rare Buffett is with a new Minimum Tax, a la Joe Barr. But as we've seen with the AMT, while the politicians may start by chasing "millionaires and billionaires," over time they always end up taxing the middle class because that's where the real money is. Mr. Obama could tax every billionaire in America at a 100% rate and still wouldn't make a dent in the federal deficit. He would, however, succeed in making those taxpayers invest less and search for tax shelters, assuming they didn't move offshore.

We rehearse all of this because it shows that the real point of Mr. Obama's Buffett Rule and his latest deficit proposal isn't tax justice or good tax policy. It is all about re-election politics. Down in the polls and facing a sullen liberal base, Mr. Obama wants to rally the left behind him, and nothing fires them up like the pretense that government is sticking it to the rich. Mr. Obama is picking a tax fight that he apparently believes will carry him to re-election next year.

And what about the economy? Well, the plan Mr. Obama unveiled yesterday along with his Buffett Rule would sock the economy with $1.5 trillion in new taxes over 10 years, or about 1% of GDP. This includes the tax increases built into the 2013 expiration of the Bush-era tax rates but not those of ObamaCare. Anyone who believes this will help an economy that is creating few new jobs and growing by only 1% probably also believes that only the rich would pay the Buffett Alternative Tax.