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Budget and Spending Task Force
Weekly Report

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House to Consider Death Tax Extension This Week

This week, the House will consider H.R. 4154, the so-called "Permanent Estate Tax Relief for Families, Farmers, and Small Businesses Act of 2009" which extends the death tax at 2009 levels. In 2009, the death tax is set at a maximum 45% rate with a $3.5 million exemption. In 2010, the death tax will be repealed entirely. One motivation for the legislation is that, should the unpopular death tax be eliminated in 2010, it will be politically harder to allow it to go back into effect in 2011 and thereafter. Under current law, in 2011, the death tax goes back to pre-2001 levels: a 55% tax rate with a $1 million combined exemption for the death tax and the gift tax.

Fact of the Week: Interest payments on the federal debt will increase from **$202 billion** in the current fiscal year to **$722 billion** in FY 2019—an increase of **$500 billion**. The New York Times points out that this increase is more than spending for *education*, *energy*, *homeland security*, and the wars in *Afghanistan* and *Iraq* combined.

Under H.R. 4154, the $3.5 million exemption would NOT be indexed for inflation, which means that it will gradually hit more and more families and businesses, an impact similar to the Alternative Minimum Tax (AMT). Democrat Representatives such as Moore (KS), Capuano (MA), McDermott (WA), and Lowey (NY) have previously introduced bills that, while proposing to keep the death tax, would have indexed it to inflation.

Conservatives oppose the death tax for various reasons, including:

- An individual's death is what triggers the tax. Many conservatives would therefore argue that the tax is unfair and immoral.
- The tax reduces savings and investment. A study by former CBO Director Douglas Holtz-Eakin shows that eliminating the death tax would allow small business investment to rise about *3%* annually, adding some *1.5 million* jobs to the economy.
- The death tax is a form of double taxation since it taxes money that has already been subject to, for example, the income tax.
- The tax can be avoided by the super-rich (via creative tax shelters that involve less economically productive activities), while small businesses cannot so easily escape the tax.

No CBO score is publicly available for the legislation. However, reportedly, CBO will score the legislation as reducing revenues (compared to current law) by $234 billion over ten years. Traditionally, conservatives have argued, by contrast, that budget projections should assume the extension of tax cuts. Compared to such a baseline, the legislation is a tax increase. The rule for the legislation will reportedly, as with the "Doc Fix" legislation (H.R. 3961) Congress considered before recess, automatically engross statutory PAYGO (H.R. 2920) into H.R. 4154.

Second "Stimulus," Omnibus May Be Considered Before Christmas

At some point before Christmas, the House may consider the second "stimulus" of the year. It is unclear what the legislation will consist of, but *potential* items include: a COBRA extension (the "stimulus" provided federal subsidies to COBRA health coverage for employees that lose their jobs, otherwise set to expire on December 31, 2009), an extension of unemployment insurance benefits (which have already been extended so that individuals in some states can receive benefits for 99 weeks), a tax credit that Democrats will say is intended to spur job creation, more aid to the states, and a Social Security COLA increase. Also, at some point before Christmas, the House will likely also consider an FY 2010 omnibus to consist of the 7 out of 12 appropriations bills that the Congress has yet to enact this year.