



REPUBLICAN CAUCUS

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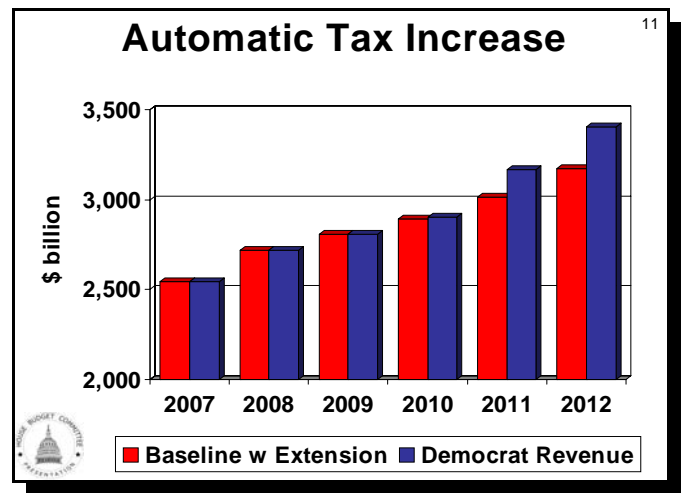
**THE HOUSE DEMOCRAT BUDGET  
 THE LARGEST TAX HIKE IN AMERICAN HISTORY**

22 March 2007

**SUMMARY**

The Democrat budget reported Wednesday proposes the largest tax increase in U.S. history – \$392.5 billion over 5 years – mainly to finance immense new spending through 2012. Although they try to insist otherwise, the figures in their budget assume these tax increases will occur automatically – and without them they cannot achieve a balanced budget, as they claim.

Based on the figures introduced at today’s committee markup, here are some of the key points of the Democrat tax increase plan:

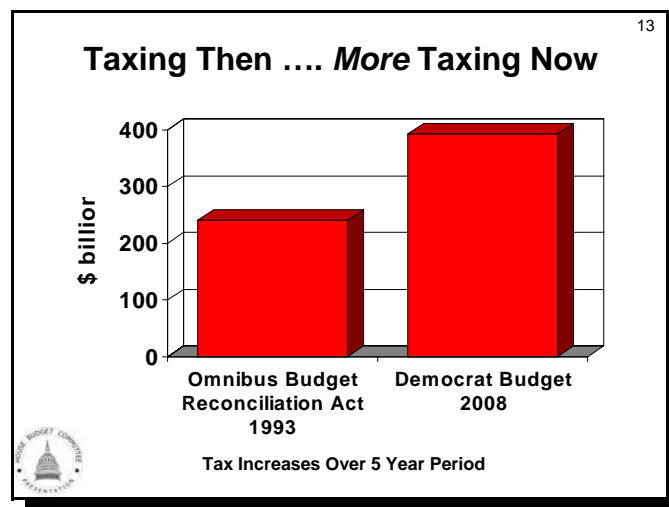


**HIGHER TAXES**

- **The Largest Tax Increase in History.** The revenue numbers in the Democrat budget increase taxes by \$392.5 billion over 5 years, compared with retaining provisions of the 2001 and 2003 tax laws that are currently in place. Taxes increase by \$231 billion in 2012 alone, which is even greater than the \$153-billion surplus the budget claims.

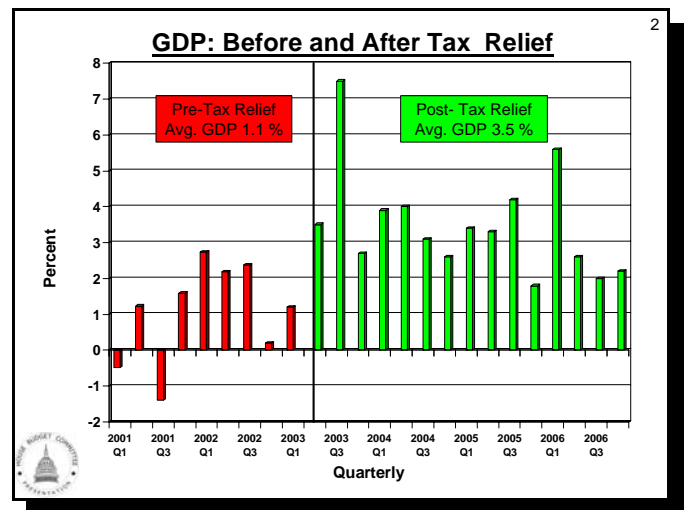
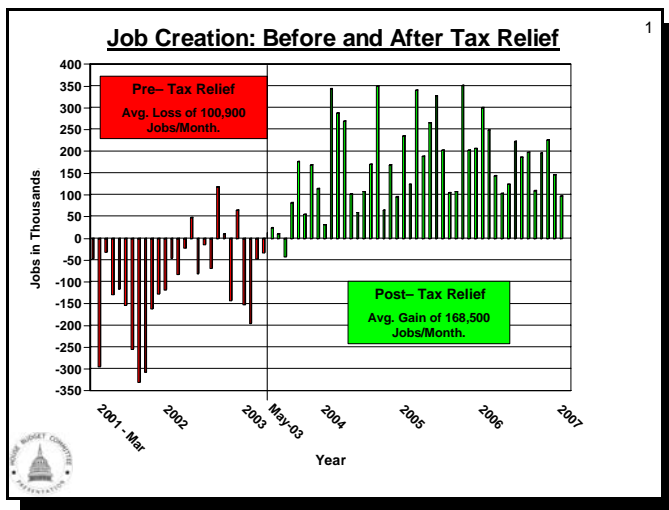
Tax Increase	5-Year Total
Increase in Marginal Rates . . . . .	\$182 billion
Reduction of Child Tax Credit . . . . .	\$27 billion
Increase in Marriage Penalty . . . . .	\$13 billion
Increase in Death Tax . . . . .	\$91 billion
Increase in Capital Gains and Dividends Tax Rates . . . . .	\$32.5 billion
Other Tax Increases . . . . .	\$47 billion

- **Tax Increases Are Widespread.** As shown in the table on the previous page, the tax increases would hit middle-income families, low-income earners, families with children, small businesses, and a range of others.
  - The budget contains language claiming to protect current tax rates – *but the language is not supported by the budget figures, which rely on the automatic tax increases to reach “balance.”*
  - Further, during markup, Democrats rejected every one of a series of amendments aimed at preventing tax increases.
- **Sets the Stage for at Least \$115 Billion in Further Tax Hikes.** Ten of the budget’s 12 “reserve funds” call for more than \$115 billion in higher spending if offset with commensurate savings or – as is far more likely – higher taxes.
- **Once a Tax Raiser, Always a Tax Raiser.** It is noteworthy that the last time Democrats held a majority in Congress – 1993-94 – they passed what was then the largest tax increase in history, about \$240 billion over 5 years. Now, in only the third month of their new majority, they have already passed an even larger tax increase.



- **No AMT Fix.** The Democrats *fail to provide, in their numbers, even a one-year patch for the alternative minimum tax [AMT]*. Instead, the Democrat budget employs a “reserve fund” that allows AMT relief only if offset by equivalent tax increases or spending cuts – which are not spelled out.
- **The Mystical ‘Tax Gap.’** The budget includes budget enforcement language allowing an unspecified amount of increased appropriations to improve tax compliance – apparently seeking to close the so-called “tax gap.” The Commissioner of the Internal Revenue Service has testified the IRS could collect, at best, about \$20 billion of these taxes 5 years *after* implementing specific policies recommended in the President’s budget.

- **Ignoring Economic Consequences.** These massive tax increases would likely reserve the economic gains that have developed since adoption of the 2001 and 2003 tax laws, which include the following:
  - *Job Growth.* A total of 7.6 million new jobs have been created – an average of 168,500 per month. In the prior 27 months, the economy *lost* 2.7 million jobs – an average of 100,000 jobs lost per month.
  - *Unemployment Declines.* The unemployment rate has fallen from 6.1 percent to 4.5 percent.
  - *Economic Growth.* In the past 15 quarters, real gross domestic product [GDP] has grown an average of 3.5 percent per year. In the nine prior quarters, average GDP growth was an anemic 1.1 percent.
  - *Investment Growth.* Business investment has increased for 15 straight quarters, reversing a previous nine-quarter decline.
  - *Stock Market Gains.* Despite recent market corrections, the Dow Jones Industrial Average remains 41 percent above its 2003 level.



- **Ignoring Fiscal Benefits.** These tax increases also threaten to reverse the substantial deficit reduction that has occurred in the past several years.
  - *Overall Revenue Growth.* Total Federal revenue has increased from 16.5 percent of GDP in 2003 to 18.5 percent this year – *exceeding* the average percentage of the past four decades.
  - *Annual Revenue Surges.* Revenue grew by 14.6 percent in 2005, 11.5 percent in 2006, and 9.3 percent in the first five months of fiscal year 2007.
  - *Deficit Reduction.* This revenue growth has the principal factor in reducing the budget deficit from \$412.7 billion in 2004 to an estimated \$214 billion this year, according to the Congressional Budget Office.