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4 pages

GOP Tax Cut Bill Would Add Almost \$7 Trillion to America's National Debt To Further Enrich the Wealthiest

On April 15 of this year, Rep. Jim Jordan (R-Ohio) and Rep. Jason Chaffetz (R-Utah) introduced a bill calling for a huge federal tax cut. They titled their bill (H.R. 5029) "The Economic Freedom Act." But it would better be called the "Endless Borrowing Act." It would add almost \$7 trillion to the national debt over the next ten years, mainly to further enrich the very wealthy.

According to its sponsors, H.R. 5029 was introduced "in conjunction with the Republican Study Committee," whose membership includes two-thirds of all House Republicans. The bill has also been endorsed by a number of anti-tax organizations and people whose relentless pursuit of debt-financed tax cuts for corporations and the wealthy has played a central role in the growth of the national debt over the past three decades. These include the Heritage Foundation, the anti-union National Taxpayers Union, the American Conservative Union, and the National Federation of Independent Business (which represents the nation's "largest" small businesses) — plus, of course, GOP political strategist Grover Norquist.

H.R. 5029 proposes to do the following:

- Cut the payroll taxes that pay for Social Security and Medicare in half. (This particular tax cut is for one year only).
- Completely eliminate taxes on capital gains, for both individuals and corporations.
- Eliminate almost three-quarters of the corporate income tax by (a) allowing businesses to write off equipment purchases immediately, rather than gradually as the equipment wears out, and (b) reducing the regular corporate tax rate to 12.5 percent (from the current 35 percent).
- Repeal the estate tax, a tax that falls almost entirely on the nation's wealthiest families.

**10-Year Cost:
\$6.9 Trillion**

Citizens for Tax Justice has analyzed the effects that H.R. 5029 would have on federal deficits and debt, as well as the distributional effects of the bill. These are our key findings:

- The bill would add a staggering \$6.9 trillion to federal deficits and debt over the upcoming decade. That's \$6,884,000,000,000 in additional government borrowing over the next ten years, equal to almost \$23,000 in added debt for every man, woman and child in our country.
- Starting in 2012, more than three-quarters of the proposed tax cuts would go to the best-off five percent of all taxpayers, with 62 percent going to the top one percent).
- In 2012, the average tax cut for the bottom 80 percent of all taxpayers would be \$399.
- In contrast, the average tax cut in 2012 for the best-off one percent would be \$157,522.

Average Tax Cuts
Top 1%: \$157,522 a year
Bottom 80%: \$399 a year

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“Of course, these estimates assume we’d still have a working government if this bill were enacted,” noted CTJ director Robert S. McIntyre. “And that’s quite a stretch. In fact, enactment of the Endless Borrowing Act would be a catastrophe for American families and our country’s survival.”

“Some might ask why we’d bother to spend the time to analyze such an obviously irresponsible and unfair tax plan,” McIntyre said. “That’s a reasonable question. But since the plan’s sponsors claim that it was introduced ‘in conjunction with’ a congressional caucus that includes two-thirds of all House Republicans, well, it seems necessary to take H.R. 5029 at least slightly seriously.”

CTJ’s revenue and distributional estimates do not take account of the major economic damage that H.R. 5029 would cause, nor the rampant tax-sheltering by upper-income people that it would almost certainly engender. Taking these into account would make the bill even more costly and even more skewed to the very wealthy.

Two pages of tables detailing the results of CTJ’s analysis of H.R. 5029 follow.

Distributional Effects of H.R. 5029, “The Economic Freedom Act”

Introduced by Rep. Jim Jordan (R-OH) and Rep. Jason Chaffetz (R-UT)
on April 15, 2010, in conjunction with the Republican Study Committee

Income group	Average tax cuts						% of total tax cut
	Average Income	Cut payroll tax in half	0% rate on capital gains*	Corporate 12.5% rate & expensing	Estate tax repeal	Total	
Lowest 20%	\$ 13,100	\$ -559	\$ -4	\$ -64	\$ —	\$ -626	2.3%
Second 20%	26,300	-1,227	-13	-201	—	-1,441	5.4%
Middle 20%	42,300	-2,228	-30	-400	—	-2,659	9.9%
Fourth 20%	69,200	-3,874	-94	-662	—	-4,629	17.3%
Next 10%	105,300	-5,857	-256	-973	—	-7,086	13.2%
Next 5%	148,000	-7,621	-630	-2,119	—	-10,371	9.7%
Next 4%	258,100	-9,050	-2,255	-5,713	-827	-17,845	13.3%
Top 1%	1,405,600	-15,351	-35,884	-68,944	-33,439	-153,618	28.7%
ALL	\$ 71,300	\$ -3,019	\$ -527	\$ -1,370	\$ -362	\$ -5,278	100.0%

Income group	Average tax cuts						% of total tax cut
	Average Income	0% rate on capital gains*	Corporate 12.5% rate & expensing	Estate tax repeal	Total		
Lowest 20%	\$ 13,700	\$ -5	\$ -68	\$ —	\$ -73	0.5%	
Second 20%	27,500	-18	-215	—	-233	1.8%	
Middle 20%	44,200	-40	-427	—	-467	3.5%	
Fourth 20%	72,500	-118	-705	—	-823	6.2%	
Next 10%	110,500	-333	-1,024	—	-1,357	5.2%	
Next 5%	155,700	-827	-2,181	—	-3,007	5.9%	
Next 4%	273,600	-3,016	-5,860	-895	-9,771	15.3%	
Top 1%	1,551,500	-50,215	-70,983	-36,324	-157,522	61.5%	
ALL	\$ 76,800	\$ -745	\$ -1,455	\$ -406	\$ -2,606	100.0%	

* Includes corporate effects, calculated after the cut in the regular corporate tax rate to 12.5%

NOTE: See notes to the revenue table for more information on the estimates.

Source: ITEP Tax Model, August 2010

Estimated Effects on the Federal Deficit of H.R. 5029, “The Economic Freedom Act”

Introduced by Rep. Jim Jordan (R-OH) and Rep. Jason Chaffetz (R-UT), in conjunction with the Republican Study Committee

Annual cost, calendar tax years, \$-billions	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2011-20
Cut payroll tax in half in 2011*	\$ -444	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ -444
Zero percent capital gains tax rate**	-78	-111	-119	-126	-132	-139	-145	-151	-157	-164	-1,322
Allow expensing of business equipment purchases and cut corporate tax rate to 12.5%***	-247	-265	-278	-286	-269	-277	-278	-281	-283	-292	-2,755
Repeal estate tax	-52	-59	-66	-73	-77	-81	-87	-91	-96	-102	-784
Subtotal	-822	-435	-462	-484	-478	-496	-509	-522	-537	-558	-5,305
Added interest on the national debt (-)	-14	-35	-58	-89	-124	-162	-206	-250	-296	-346	-1,580
TOTAL COST	\$ -835	\$ -471	\$ -520	\$ -573	\$ -602	\$ -659	\$ -715	\$ -772	\$ -833	\$ -904	\$ -6,884

* H.R. 5029 calls for cutting the payroll tax in half in 2010. Since 2010 is more than half over, the analysis here moves that tax cut to 2011

** The zero percent rate on “long-term” capital gains would apply to both individuals and corporations. The corporate effect of this proposal was calculated after the proposed cut in the regular corporate tax rate to 12.5%

*** These are two separate proposals in H.R. 5029, but they interact so much that they are analyzed together.

NOTE: All revenue estimates are compared to current law (under which the Bush tax cuts will all have expired)

Sources: CBO, OMB, ITEP Tax Model, CTJ calculations, August 2010