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Notes on the Latest Federal Budget Estimates

Don't be deceived by the Bush administration's spin

Having slashed personal income taxes, primarily on the wealthy, over the past six years, the Bush administration would like the public to believe that tax revenues are nonetheless doing just fine, and that the budget deficit is not really a problem. Nothing could be further from the truth, as a close look at the administration's own new estimates in its July 11 "Mid-session Review" reveals.

Personal income taxes remain far below their pre-Bush level. Personal income taxes (after refundable credits) are expected to be $1,012 billion in fiscal 2006, equal to 7.7 percent of the GDP. This continues the extraordinarily low personal income tax levels during the Bush administration: 7.9 percent of the GDP in fiscal 2002, 7.0 percent in 2003, 6.6 percent in 2004, and 7.1 percent in 2005.

- In comparison, personal income taxes were 10.1 percent of the GDP in fiscal 2000, before Bush took office.
- In other words, personal income taxes in fiscal 2006 are expected to be 23 percent below their fiscal 2000 level as a share of the GDP.

Personal Income Taxes*
As a % of GDP
Fiscal 2000 to 2006

2000	10.1%
2001	9.6%
2002	7.9%
2003	7.0%
2004	6.6%
2005	7.1%
2006**	7.7%
Addendum:	
Fiscal 2006 vs. fiscal 2000	**–23%**

*Personal income taxes net of refundable credits.
**Bush administration projection.

Corporate income taxes are not keeping up with skyrocketing profits. Corporate income taxes are expected to be $332 billion in fiscal 2006, equal to 2.5 percent of the economy (GDP). That primarily reflects extraordinarily high corporate profits, which in turn largely reflect stagnant wages for most workers.

- In the first quarter of calendar 2006, corporate profits hit a post World War II high of 12.7 percent of the GDP. The administration projects that profits will be 12.2 percent of GDP for the full year.[1]
- In only three other years in the post-war period have corporate profits exceeded 12 percent of the GDP: 1950, 1951 and 1965.
- In those other three years, however, corporate income taxes averaged 4.2 percent of the GDP — 65 percent higher than the corporate tax payments expected in fiscal 2006.

Corporate profits & corporate taxes as shares of GDP
In years since 1948 that profits have exceeded 12% of the GDP

	Profits / GDP	Taxes / GDP
1950	12.3%	4.0%
1951	12.1%	4.8%
1965	12.2%	3.8%
2006*	12.2%	2.5%
Addendum:		
1950, 1951 & 1965 average	12.2%	4.2%
Versus 2006	same	+65%

*Bush administration projections.

[1]The profit figures here are pretax profits after inventory valuation and capital consumption adjustments. Without these adjustments, the administration projects that profits will be 12.5% of GDP in 2006.

Projected corporate taxes as a % of GDP Fiscal 2006 to fiscal 2010	
2006	2.5%
2007	2.3%
2008	2.2%
2009	2.1%
2010	1.9%

Source: Bush adminstration.

In addition, other factors besides extremely high profits have temporarily boosted corporate tax payments in fiscal 2006. A partial turnaround of the huge corporate tax cuts enacted in 2002 and 2003 (net of other enacted corporate tax cuts) will add $14 billion to corporate tax payments in fiscal 2006. Accelerated revenues from corporate early repatriations of profits that had been parked offshore (and were allowed to be repatriated at a mere 5.75% tax rate) will also augment fiscal 2006 corporate payments. After 2006, however, the Bush administration expects corporate tax payments to fall steadily, down to only 1.9 percent of the GDP by fiscal 2010.

Huge budget deficits continue unabated. In fiscal 2006, the budget deficit is expected to be a staggering $470 billion, including $174 billion that will be diverted from the Social Security Trust Fund to pay for tax cuts and other government programs.[2] That's only marginally less that the $501 billion deficit recorded last year.

- In sharp contrast, before Bush took office, the regular budget was balanced—and no funds were diverted from Social Security to pay for regular government spending.
- In Bush's first 6 years in office, he has borrowed $3 trillion dollars, with much more to come absent major policy changes. All of that borrowing, of course will have to be paid back, with interest, by ordinary taxpayers and our children.

"The administration and its allies are fatuously claiming that the huge Bush tax cuts have somehow led to increased revenues, even while income taxes have actually plummeted and economic growth has lagged far behind previous economic recoveries," said Robert S. McIntyre, director of Citizens for Tax Justice. "If this is success, then what could possibly be failure?"

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[2]The Bush administration characterizes its projected 2006 deficit as "only" $296 billion by ignoring the $174 billion it is diverting from Social Security.