

House Revives “Pay-as-You-Go” Rules But Congress Must Still Resist Budget-Breaking Tax Proposals

Citizens for Tax Justice congratulates the U.S. House of Representatives on their successful reinstatement last week of the “pay-as-you-go” rules, or PAYGO, which helped Congress to balance the federal budget back in the 1990s. CTJ encourages the House, Democrats and Republicans, to resist the temptation to waive PAYGO in dealing with major policy issues such as the Alternative Minimum Tax.

Why PAYGO Is a Step in the Right Direction

The federal budget deficit for fiscal year 2006 was \$434 billion and will grow over the next five years. Half of the deficit is caused by the tax breaks enacted under President Bush — which primarily benefit the wealthy. To put that in perspective, only \$69 billion was spent on the entire Department of Homeland Security in 2006.

PAYGO will discourage Congress from increasing the deficit. It’s a procedural rule that requires any increase in federal spending or any new tax breaks to be offset elsewhere by increases in revenue or cuts in spending. The PAYGO rule that passed the House is not a law and can be waived by a majority of its members. So lawmakers could very well decide a proposal to meet some pressing need still warrants deficit spending and thus a waiver of the rule. The House-passed PAYGO rule does, however, signal that running up budget deficits is no longer routine business in the Capitol.

Congress Needs to Stay on This Diet

Members from both parties may be tempted to waive PAYGO in cases where they shouldn’t. For example, many legislators are concerned about the spreading reach of the Alternative Minimum Tax (AMT), which is a back-up tax meant to ensure that the very rich pay at least some taxes no matter what loopholes otherwise apply to them. The AMT was supposed to target only the very richest Americans. But unless it is changed, it will hit 17 percent of taxpayers in 2007, rising to 23 percent of taxpayers in 2010. Many Democrats are interested in reforming the AMT, and the new Senate Finance Committee Chairman, Max Baucus, supports repealing it altogether.

Repealing the AMT would reduce revenues by \$750 billion over next decade, and by much more if the Bush tax cuts are extended. Congress should resist such an irresponsible proposal, and instead find budget-neutral alternatives. For example, as Citizens for Tax Justice has argued elsewhere, the AMT can be “fixed” in a budget-neutral way by coupling extension of the expiring AMT relief for middle- and upper-income taxpayers with removal of the preferential AMT rates for investment income.

This Congress will be remembered for how well it faces the enormous budget problems left in the wake of the Iraq war and the massive Bush tax cuts. PAYGO marks a path of responsible leadership — and this Congress should stick to it.

