



Democrats' Budget Fails Future Generations

Smoke and Mirrors Used to Obscure Fact That Taxes, Spending, and Debt All Sharply Higher

- **Democrats' Budget Raises Taxes on Hardworking Families and Businesses**
 - By not extending existing tax policies past 2010, Dems raise taxes by more than \$900 billion – the largest tax hike EVER.
 - Family of four earning \$50,000/year will see 132% tax increase, to \$3,675 in 2011; equivalent to a 6% pay cut.
 - Child tax credit reduced by half; 15 million seniors see tax increase.
- **Democrats' Budget Increases Spending on Washington Programs**
 - Dems return to old tax-and-spend ways, increasing FY 2008-2012 annual spending by \$146 billion over President's request and a whopping \$205 billion over FY 2007 levels.
 - Mandatory spending grows unchecked by \$411 billion in FY 2008-2012.
 - Dems spend more than \$1 trillion of Social Security surplus.
 - During 2008-2011, gross debt increases by \$2.2 trillion.
 - The deficit increases by \$440 billion – 11 times as much as the Deficit Reduction Act saved over 5-year period.
- **Democrats' Budget Ignores Looming Fiscal Problems That Threaten Security of Future Generations**
 - Dems completely ignore the urgent need to address entitlement reform, especially as the first Baby Boomers begin retiring next year.
 - Dems' budget contains NO proposals that, on net, reduce mandatory spending or the debt.
- **Democrats' Budget Weakens Budget Enforcement**
 - Dems implement "Tax-Go," a pretense for raising taxes.
 - Caps on discretionary spending exist only in 2007 and 2008.
- **Democrats' Budget Contains Deceptive Gimmicks and Loopholes**
 - Assumed revenues from closing the tax gap are grossly overstated and are essentially an illusion; used as a "magic offset."
 - Reserve funds are used to force tax increase; neither spending nor revenues reflected in actual budget.
 - Important items ignored: AMT, emergency costs, Medicare doc fix.
- **Democrats' Budget Highlights Hypocrisy of Hollow Rhetoric**
 - Chairman Conrad says, "We need to be tough on spending." Number of spending cuts in Dems' budget: ZERO.
 - Chairman Conrad says, "I am prepared to get savings out of long-term entitlement programs." Net entitlement savings in Dems' budget: ZERO.



Democrats' Budget Raises Taxes **on Hardworking Families and Businesses** *\$900 Billion Tax Hike the Largest in History*

➤ **Democrats CLAIM They are Not Raising Taxes...**

- However, they can't explain a mysterious \$900 billion in new revenue that has materialized in their budget.
- Hmmm, what could generate more than \$900 billion in five years, except a huge tax hike?

➤ **But Democrats ARE Raising Taxes...**

- By letting existing pro-growth tax policies expire in 2010, the Dems' budget would gain more than \$900 billion in revenue.
- Dems' \$900+ billion tax hike is the largest in history.
- By increasing taxes to historical levels – from 18.4% of GDP to nearly 20% of GDP – and ignoring unsustainable growth in entitlement programs, Dems are putting the U.S. on a path to European tax levels.

➤ **How Will Tax Increase Impact American Families and Seniors?**

- 45 million working families with two children will see taxes increase by nearly \$3,000.
- Increase taxes 33% for those families earning less than \$15,000.
- Cuts the child tax credit in half to \$500.
- Cuts the standard deduction by \$1,700 for married couples.

Family of four with \$50,000 in earnings:

- They would see their taxes go up 132 percent to \$3,675 in 2011 if the President's tax relief is not made permanent.
- Those taxes would reduce take-home pay by more than 6%.

Single parent with two children and \$30,000 in earnings:

- He/she would see their taxes go up by 67 percent in 2011 if the President's tax relief is not made permanent.
- Those taxes would reduce take-home pay by more than 4%.

Senior Citizens:

- 15 million seniors would see their tax increase if current tax policy is not extended.
- For example, the tax bill for an elderly couple over age 65 with \$40,000 in income would see their taxes go up by 156 percent in 2011, to \$1489, if the President's tax relief is not made permanent.
- Those taxes would reduce seniors' retirement income by more than 3 percent.

➤ \$3,000 May Not Seem Like Much in Washington, But it's a LOT to Most Families:

- ✓ Groceries for a year (\$3,347)
- ✓ A year's worth of home heating oil and electricity (\$2,927)
- ✓ Almost two years of gasoline for 2 cars (\$3,196)
- ✓ More than a year's worth of health care expenses (\$2,574)



The Tax Gap: **Available Dollars or Wishful Thinking?** ***Democrats' Budget Relies on Tax Gap as Magic Offset***

➤ **Tax Gap Has Been Grossly Overstated by Democrats**

- The tax gap is the difference between revenue owed to the federal government and revenue actually collected by the federal government. It has nothing to do with closing “loopholes.”
- IRS Commissioner Everson testified before the Budget Committee that tax gap revenues could potentially grow to \$20 billion in 2010 or 2011, and that \$35 billion over five years is a reasonable range to expect.
- By comparison, the Dems’ budget has grossly overstated the tax gap – they claim they can collect \$100 billion over five years.

➤ **Closing Tax Gap is Difficult Task**

- Majority of tax gap is due to individuals inadvertently underreporting their income and overstating their deductions, not corporate tax evasion.
- Excessive and intrusive IRS auditing necessary to achieve Dems’ assumptions: increased mandatory withholdings, unfettered seize and levy authority, Form 1099 for all consumer business transactions, etc.
- Farmers, landlords, and families using babysitters, housekeepers and gardeners would be hit hardest.
- Increasing tax-compliance burden is unwelcome - Americans already spend 6.3 billion hours annually complying with the tax code, and billions of dollars for professional tax advice.
- Common sense says that if tax gap collection was simple or easily recouped, it would have been done successfully long before now.

➤ **Democrats Have Failed to Produce Concrete Plan**

- The IRS is currently working on closing the tax gap via enforcement measures, and the President’s budget provides 16 specific legislative tax-gap instructions that should bring in \$9 billion over five years.
- The Dems have failed to offer any specific legislative recommendations on how they plan to collect this huge \$100 billion number.
- Therefore, stating that additional revenues in the budget are from the “tax gap” seems to be a way to hide real tax increases.

➤ **Tax Gap Collections Should be Used for Debt Reduction, Not New Spending**

- Since closing the tax gap is about collecting revenue the government is currently owed, any revenue raised by closing the tax gap should be used to finance existing government obligations, not new spending.



Democrats' Budget Increases Spending on Washington Programs

Dems Quickly Return to Their Old Tax-and-Spend Ways

➤ **Democrats Waste No Time in Raiding Federal Piggy Bank For Extra \$18 Billion**

- Dems' budget sets discretionary cap for FY 2008 at \$949 - \$16 billion above President's request.
- Dems' budget increases limit on advance appropriations in FY 2009 by \$2 billion, making possible another \$2 billion in spending in FY 2008
- The end result is an \$18 billion total increase in FY 2008 spending, all in non-defense, compared to President's request.
- Non-defense spending in FY 2008 would be up 6.1 percent over FY 2007 levels.
- Total discretionary spending in FY 2008 would be nearly 9 percent higher than FY 2007 levels.

➤ **Democrats' Budget Grows Government Annual Appropriations More Than Five Percent**

- Dems increase total discretionary spending during 2008-2012 by \$146 billion over President's request and a whopping \$205 billion over FY 2007 levels.
- Mandatory spending continues to grow unchecked, increasing by \$411 billion over five years.

➤ **All That Spending Adds Up...**

- Gross debt increases by \$2.2 trillion during FY 2008-2012.
- During 2008-2012, the budget increases the deficit above baseline levels by \$440 billion - 11 times as much as the Republicans' Deficit Reduction Act saved over a five-year period.



Democrats' Budget Ignores Looming Fiscal Problems That Threaten Future Generations

➤ Long-Term Fiscal Challenges Must be Addressed Now

- Massive Baby Boom generation begins to retire in 2008.
- Over-65 population will nearly double by 2035, to 75 million people.
- By 2035, there will be only 2.1 workers for every retiree.
- Unfunded liabilities over next 75 years to reach \$66 trillion
- Entitlement growth is rising faster than overall budget...by 2017, it will account for nearly 70% of the budget.
- Left unchecked, SS, Medicare and Medicaid will consume 18% of GDP by 2030, 28.5% by 2050.

➤ Despite Democrat Promises to Find Solutions...

- "I have said I am prepared to get savings out of long-term entitlement programs." – Senator Conrad, FY 2008 Budget hearing, February 7, 2007
- "And we need to reform the entitlement programs." – Senator Conrad on CBS' "60 Minutes," March 4, 2007

➤ Democrats' Budget Does Nothing to Reduce Spending

- For all the entitlement spending programs throughout the Dems' budget, it contains no proposals that, on net, reduce entitlement spending or the debt.
- Long-term spending trends of all entitlement programs combined will remain on their current unsustainable path.
- In the Dems' budget, any assumed small reductions in entitlement programs are then used to expand existing entitlement programs or create new ones, so that there is no net effect on the debt.
- Left unchecked, entitlement spending continues to grow by \$411 billion over five years.



Democrats' Budget: Does Money Grow on Trees?

“Mr. Conrad, the Senate Budget Chairman, pulled off the neat magic trick of claiming his budget includes ‘no tax increase,’ even as it anticipates repeal of the Bush tax cuts after 2010. How does he pull the rabbit out of the hat? By positing what amounts to a giant asterisk where the tax increase is supposed to go and hoping no one will notice.” *Wall Street Journal editorial, “Conrad’s Tax*”, March 20, 2007*

“If there is virtue in Senator Conrad’s magic budget act, it is that it begins to reveal where Democrats would take fiscal policy after 2008 if they run the entire government. Voters may want to look behind the Conrad curtain before their lower tax rates and higher stock-market returns go ‘poof.’” *Wall Street Journal editorial, “Conrad’s Tax*”, March 20, 2007*

“[Republicans] will also criticize Democrats, with more justification, for failing to take on entitlement spending...If Democrats are serious about dealing with health-care entitlement spending, isn’t it time for them to demonstrate that?” *Washington Post editorial, “The ‘Pay-Go’ Test,” March 20, 2007*

“When voters placed the Democrats at the helm of our fiscal ship, most Americans were expecting a more moderate course, not close to \$2 trillion in additional taxes...Perhaps the most troubling aspect of Senator Conrad’s proposal is that it does nothing to address the massive unfunded liabilities of Social Security and Medicare...The entitlement crisis in America requires leadership, not lethargy.” *John Berthoud, President of National Taxpayers Union, March 15, 2007*

“The budget resolution reported by the Senate Budget Committee today assumes a significant tax increase, which is the last thing our economy needs as we work to extend the current expansion. I am also disappointed that the resolution doesn’t address entitlement reform. The rising costs of Social Security and Medicare, if left unchecked, will ultimately consume the bulk of the federal budget.” *U.S. Treasury Secretary Henry Paulson, March 15, 2007*

“[We are] concerned that the budget is just a smoke and mirrors scheme where the numbers don’t add up and there is no mechanism to pay for new spending...taxpayers should be skeptical.” *Thomas Schatz, President of Citizens Against Government Waste, March 15, 2007*

“Failing to address our most significant budget challenge – the unsustainable growth of important entitlement programs like Medicare, Medicaid, and Social Security – is a missed opportunity and a disservice to future generations.” – *OMB Director Rob Portman, March 14, 2007*

“Senate Democrats Offer Spending Plan, but No Way to Pay for It” – *New York Times* headline, March 14, 2007

“Mr. Conrad said one source of revenue, though he did not know how much, could come from cracking down on corporations and wealthy individuals who hide income in offshore tax havens. But he conceded that the reducing the so-called tax gap would not provide enough money on its own.” – *New York Times*, March 14, 2007

“Senate Democrats have drafted a budget...There is only one catch: they cannot say where all the money will come from.” – *New York Times*, March 14, 2007

“But at least in the case of the Senate plan, many of the hardest decisions would be postponed until later in the decade.” – *New York Times*, March 14, 2007

“After campaigning not to raise taxes, the first budget put forward by the new Democrat majority will raise taxes on working American families by \$400 billion, or \$3,800 per household. There is absolutely no question this tax increase will lead to slower economic growth, fewer jobs, and a lower standard of living for all Americans.” – *Grover Norquist, President of Americans for Tax Reform*, March 13, 2007

“It’s more about political positioning than actual budgeting” - *Robert Bixby, Executive Director of the Concord Coalition*, March 13, 2007

“The lower [tax] rates on capital gains and dividends has spurred equity markets and led to historic dividend payments for shareholders. Repeal of these lower rates, as proposed by Senator Conrad tonight, will have the reverse effect – reduced stock prices, fewer dividend payments and a lower standard of living for all Americans.” – *American Shareholders Association*, March 13, 2007

[The Democrats’ budget]...will require some budgetary gymnastics.” *Congressional Quarterly*, March 13, 2007