REVENUES

Federal revenues are taxes and other collections from the public that result from the government's sovereign or governmental powers. Federal revenues include individual income taxes, corporate income taxes, social insurance taxes, excise taxes, estate and gift taxes, custom duties and miscellaneous receipts (which include deposits of earnings by the Federal Reserve System, fines, penalties, fees for regulatory services, and others).

HISTORICAL TRENDS

The following table shows that revenues are expected to be 20.1 percent of GDP in 1998. This would be a postwar high and close to the World War II peak of 20.9 percent. After 1998, the ratio is projected to decline slightly to 19.3 percent by 2003.

The revenue/GDP ratio will remain historically high during the budget window. Over the period 1965 through 1997, revenues averaged 18.3 percent of GDP. In only a few years, and then only under unusual circumstances, did revenues reach 19 percent of GDP during this period. In 1969 and 1970, taxes were hiked to help finance the Vietnam War. From 1979 through 1982, high inflation pushed up revenues -- post 1982, the Reagan Administration's tax cut and subsequent indexing of tax brackets reduced the tax burden. In 1997, taxes reached 19.8 percent of GDP.

There have been some large shifts in the composition of revenues over the last three decades. The most visible is the government's increased reliance on social insurance taxes and its diminished reliance on corporate income and excise taxes. Those trends have eased in recent years, however; the social insurance tax share and the excise tax share have been essentially constant as a percentage of GDP since 1985, while corporate income tax collections have gone up. The individual income tax share, the largest share of all revenues, has risen steadily since 1993.

REVENUES

Historical and Projected Revenues
(Fiscal years, percent of GDP)

							----------CBO March 1998 baseline----------					
	1965	1975	1985	1995	1996	1997	1998	1999	2000	2001	2002	2003
Total Revenues	**17.0**	**18.0**	**17.9**	**18.8**	**19.3**	**19.8**	**20.1**	**19.9**	**19.6**	**19.4**	**19.4**	**19.3**
Individual	7.1	7.9	8.2	8.2	8.7	9.3	9.4	9.1	8.9	8.8	8.9	8.9
Corporate	3.7	2.6	1.5	2.2	2.3	2.3	2.4	2.3	2.2	2.1	2.0	2.0
Social Insurance	3.2	5.4	6.5	6.7	6.8	6.8	6.8	6.9	6.9	6.9	6.8	6.8
Other a/	2.9	2.1	1.8	1.7	1.5	1.5	1.5	1.7	1.6	1.6	1.6	1.6

a/ Includes excise taxes, estate and gift taxes, custom duties and miscellaneous receipts.

REVIEW OF THE TAXPAYER RELIEF ACT

Last year's Taxpayer Relief Act (TRA-97) was an integral part of the Balanced Budget Agreement. It provided needed tax relief to American families, delivering $141 billion in gross tax cuts and $80 billion in net cuts over the 1997-2002 budget window. Its centerpieces were:

- **$500 Child Tax Credit** ($73 billion in revenue losses)
- **Education Incentives** ($39 billion), including the HOPE and Lifetime Learning tax credits and the establishment of new individual retirement accounts for education
- **Increases in the unified credit against the estate and gift tax** and indexing the exemption for inflation. ($6 billion) By 2006, the exclusion totals $1 million by 2006.
- **Reduction in the long-term capital gains tax rate** from 28 / 15 percent to 20 / 10 percent, while extending the long-term holding period from 12 to 18 months. By 2001, the long-term capital gains tax rate was cut to 18 / 8 percent, with the long-term holding period rising to 5 years.

REVENUES

- **Expansion of access to deductible IRAs and the establishment of Roth IRAs.** Contributions to Roth IRAs are taxed, yet withdrawals of principal and interest are tax-free.

These gross tax cuts were partially offset by $60 billion in revenue raisers, most notably the extension and modification of excise taxes related to the Airport and Airway Trust Fund.

REVENUES IN THE BASELINE

The baseline projections for revenues assume that current tax law remains unchanged. The baseline takes into account that some provisions are scheduled to change or expire during the 1998-2003 period. Overall, the baseline assumes that those changes and expirations occur on schedule. One category of taxes, excise taxes dedicated to trust funds, is the sole exception to this rule. The baseline assumes that those taxes will be extended even if they are scheduled to expire, to be consistent with the spending assumptions. This year, there are three such cases: (1) excise taxes for the Highway Trust Fund (expires in 1999) which generates $27 billion in baseline revenues in 2008; (2) the Airport and Airway Trust Fund (expires in 2007) which generates $15 billion in 2008; and (3) the Leaking Underground Storage Tank Trust Fund (expires in 2005) which generates $0.2 billion in 2008.

All other expiring revenue provisions were not automatically extended in the baseline projections. These include five expiring provisions that had been temporarily extended last year, and fifteen more that are set to expire between 1999 and 2008. Extension of the former would reduce 2003 revenues by roughly $3.8 billion.

DESCRIPTION OF CHAIRMAN'S MARK

The Chairman's Mark assumes that any tax cuts will be deficit neutral. This will permit tax cuts if they are offset by revenue raisers and/or mandatory spending reductions. A tax cut reserve fund will be created to facilitate this process. This Mark assumes that revenues will grow from $1,679.7 billion in 1998 to $2,007.6 billion in 2003, an increase of $327.9 billion over the five-year period.

REVENUES

SUMMARY
($ billions)

		1998	1999	2000	2001	2002	2003
Chairman's Mark	REV	1679.7	1738.5	1783.5	1846.5	1929.8	2007.6
BBA Baseline	REV	1679.7	1738.5	1783.5	1846.5	1929.8	2007.6
Freeze Baseline	REV	1679.7	1738.5	1783.5	1846.5	1929.8	2007.6
Chairman's Mark compared to:							
BBA Baseline	REV	----	----	----	----	----	----
Freeze Baseline	REV	----	----	----	----	----	----

1999 Chairman's Mark Revenues
1999-2003 (5-year total, $ billions)

Chairman's Mark Baseline	$9,305.9
- Deficit Impact of Tax Cuts	0.0
1999 Chairman's Mark Revenues	$9,305.9

This Mark does not assume revenues from a legislated tobacco settlement. However, it does provide that should such a settlement generate revenues, the Federal share of those proceeds would be dedicated to the Medicare Part A trust fund.

As always, the Ways and Means Committee in the House and the Finance Committee in the Senate will determine the specific amounts and structure of any statutory tax relief package. The tax-writing committees will be required to balance the interests and desires of many parties (while protecting the interests of taxpayers generally) in crafting the tax cut within the context of the broad parameters adopted in the Chairman's Mark.

REVENUES

The following measures are an illustration of the type of five year tax relief that could be consistent with the Chairman's Mark:

-- Some **marriage penalty relief** -- for instance, potentially increasing the standard deduction for joint filers, that could reduce taxes by up to $10.5 billion;

-- **Further relief for child care expenses for all families** of up to $9.0 billion;

-- **S.1133, The "Parent and Student Savings Account Plus"** which would expand the use of Education IRAs and expand the exclusion for employer-provided education by $3.7 billion;

-- **Extension of the Research and Experimentation (R&E) credit** worth $2.0 billion;

-- **Extension of the Generalized System of Preferences (GSP)** worth $1.1 billion;

-- **Measures to reform the IRS** providing roughly $3 billion in relief (this figure could be revised depending on upcoming Senate action);

-- **Technical adjustments to simplify TRA-97** of just under $1 billion**;**

-- **An acceleration of the phase-in for making self-employed health costs fully deductible** providing $300 million in relief.

Roughly $30 billion in revenue raisers and/or mandatory spending reductions would offset these gross tax cuts. Examples could include repealing Schmidt Baking with respect to vacation and severance pay, altering taxpayer carryforward/back of the foreign tax credit, adopting some of the President's measures (potentially the REIT measures, exclusion of premature loss on receivables, and proposed extension of Superfund taxes), and partially repealing the exclusion on income earned abroad.

Other tax cuts are also possible (including the President's proposals), providing revenue raisers and/or mandatory spending cuts have offset these.