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THE BUDGET FOR ALL

A technical report on the Congressional Progressive Caucus budget for fiscal year 2013

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Introduction

Last year, the Congressional Progressive Caucus (CPC) introduced the *People's Budget,* a budget alternative for fiscal year (FY) 2012, which would have achieved fiscal sustainability while investing in economic recovery, strengthening the middle class, and protecting vital social insurance programs (Social Security, Medicare, Medicaid, and the Affordable Care Act). For FY2013, the CPC has released the *Budget for All* as an alternative to President Barack Obama's budget request for FY2013 (referred to hereafter as "the president's budget") as well as to provide a stark contrast to the vision set forth by the House Republican Budget Resolution for FY2013 (the budget proposal released by Rep. Paul Ryan, or "the Ryan budget").

The CPC solicited the assistance of the Economic Policy Institute (EPI) Policy Center in analyzing and scoring the specific policy proposals in the *Budget for All* and modeling their cumulative impact on the federal budget over the next decade. The policies in the *Budget for All* reflect the decisions of the CPC leadership and staff, not those of EPI.[1] Upon CPC's request, the nonpartisan Citizens for Tax Justice (CTJ) independently scored the major individual income tax reforms proposed by the *Budget for All*. All other policy proposals have been independently analyzed and scored by EPI based on a variety of other sources, notably data from the Congressional Budget Office (CBO), Joint Committee on Taxation (JCT), Office of Management and Budget (OMB), Tax Policy Center (TPC), and Social Security Administration (SSA).

This working paper will explain the budget baseline assumptions, policy choices, policy impacts, and budgetary modeling used in developing the *Budget for All*. Where policies in the *Budget for All* have been carried over from the *People's Budget,* this working paper draws accordingly from the *People's Budget: A technical analysis* (Fieldhouse 2011a), the EPI Policy Center's analysis of last year's CPC budget alternative.[2]

A credible baseline

The CBO March 2012 baseline (CBO 2012a)—known as the current law baseline—is the starting point for modeling the budgetary impacts of the policies proposed by the *Budget for All.* The current law baseline, however, has proven in the past to be a poor metric of likely budget policy and fiscal sustainability because it assumes Congress will allow all temporary tax and spending provisions to expire on schedule (many of which are actually renewed on an annual basis). Consequently, we compare the *Budget for All* with both the *current law* baseline as well as with a *current policy* baseline. Our current policy baseline assumes that the automatic enforcement spending cuts scheduled to take effect in FY2013 by the *Budget Control Act* (P.L. 112-25), i.e., the debt ceiling deal, do not occur, overseas contingency operations (OCO, or funding for overseas military operations) are gradually wound down,[3] the scheduled reduction in Medicare physician

1. Many of the policies included in the budget, however, overlap with policies in *Investing in America's Economy: A Budget Blueprint for Economic Recovery and Fiscal Reasonability*, a progressive budget plan released by Our Fiscal Security (OFS), a partnership of The Century Foundation, Demos, and the Economic Policy Institute (see Fieldhouse and Thiess 2010).

2. In addition to drawing from *The People's Budget: A technical analysis* (Fieldhouse 2011a), analysis of certain progressive revenue proposals has been drawn from *For Joint Select Committee, many good options: Progressive revenue proposals would narrow budget gap by trillions* (Fieldhouse 2011b), EPI's analysis of *Living Within Our Means and Investing in the Future: The President's Plan for Economic Growth and Deficit Reduction* (OMB 2011a), and supplemental revenue options.

payments is prevented (i.e., the "doc fix" is maintained), the 2001 and 2003 income tax cuts are continued, the American Recovery and Reinvestment Act (ARRA) expansion of refundable tax credits is maintained, the 2011–12 estate and gift tax cuts are continued, the 2011 parameters of the alternative minimum tax (AMT) are indexed for inflation, and the business tax extenders (routinely extended credits such as the research and experimentation credit) are continued.[4]

Any gimmick-free budget modeled from the current law baseline must acknowledge the budgetary impact of these current policies. The *Budget for All* credibly does so through a combination of baseline adjustments and policy changes. The current law baseline, modified by these baseline adjustments, comprises the "CPC adjusted baseline."

The first current law baseline adjustment assumed is the removal of discretionary spending caps and automatic sequestration cuts in the *Budget Control Act* (BCA) from the CBO March 2012 baseline. The BCA was a two-phase package of spending cuts negotiated in exchange for raising the statutory debt ceiling (typically an unpopular but *pro forma* vote), trading a dollar of spending cuts for every dollar of increased borrowing headroom. The first phase enacted discretionary spending caps to reduce outlays, and the second phase established a Joint Select Committee on Deficit Reduction (JSC), which was tasked with finding at least $1.2 trillion in budgetary savings over the next decade. In the event that the JSC failed to agree to a package of deficit reduction—and it did indeed fail at this task—the BCA set a second-phase automatic enforcement trigger (or sequestration) that would cut *further* into discretionary and, to a lesser degree, non-exempt mandatory spending. The scheduled sequestration cuts are front-loaded, meaning they decrease as a share of GDP with time, posing an unnecessary risk to the fragile economic recovery. To avoid this near-term fiscal drag and to maintain discretionary budget policy, the *Budget for All* removes both the spending caps and sequestration cuts currently in the March 2012 baseline, which would, all else equal, allow for outlays to increase by $1.5 trillion over FY2013–22.[5] Specifically, nondefense discretionary (NDD) outlays would increase by $582.7 billion, defense discretionary outlays would increase by $768.9 billion, nondefense mandatory outlays would increase by $134.2 billion, and defense mandatory outlays would increase by $155 million (CBO 2012a).[6]

The *Budget for All* would additionally maintain the so-called AMT patch to reflect the likelihood that this Congress, as well as future Congresses, will prevent an increase in the number of households seeing tax increases as a result of falling under the alternative minimum tax (AMT); without this patch the number of households subject to the AMT would rise from roughly four million households in 2011 to some 31 million in 2012 and beyond (TPC 2012a).[7] Maintaining the AMT patch over FY2012–22 results in revenue loss of $813.1 billion (CBO 2012b).

3. The CBO's current law baseline assumes that supplemental OCO spending grows with inflation.

4. These policy adjustments are found in Tables 1–6 of CBO's January 2012 Budget and Economic Outlook (CBO 2012b). Specifically, the number of troops deployed in overseas military operations is assumed to be reduced to 45,000 by 2015 (resulting in $838 billion in primary spending reduction). Additionally, removing the automatic *Budget Control Act* sequester cuts increases primary spending by $984.5 billion, the "doc fix" increases primary spending by $325.5 billion, maintaining the AMT patch reduces revenue by $813.1 billion, continuing individual income and estate tax provisions reduces revenue by $4.6 trillion (which includes the ARRA expansion of refundable credits), and maintaining the business tax extenders reduces revenue by $850.8 billion (all over FY2012–22). Debt service is adjusted accordingly, increasing interest outlays by $1.1 trillion. The only temporary tax provision assumed to expire is the two-percentage-point employee-side payroll tax cut, which is scheduled to expire at the end of 2012.

5. The current policy baseline assumes that only the second phase sequestration cuts do not occur.

6. Function tables for the CBO March 2012 *Updated Budget Projections: Fiscal Years 2012 to 2022* (CBO 2012a) were provided by House Budget Committee minority staff. The scheduled mandatory sequestration cuts include $117 billion from Medicare (budget authority, not outlays) and $48 billion from other non-exempt programs (CBO 2012b).

Lastly, the *Budget for All* would maintain Medicare physician payments at current rates, rather than seeing the 27 percent reduction in reimbursements that would result under current law (Aizenman 2011). Maintaining the "doc fix" over FY2012–22 increases spending by $325.5 billion over the entire budget window (CBO 2012b).

These summarize the CPC modifications to the CBO baseline. Unless otherwise specified, all subsequent policy modifications described in this technical analysis are scored relative to the CBO March 2012 baseline, as adjusted by these three policies (hereafter referred to as the "CPC adjusted baseline"). The impact of policy modifications will be contrasted with the CPC adjusted baseline, and also with the current law and current policy baselines.

Budget priorities and policy choices

The policy options comprising the *Budget for All* fall into six broad categories: investing in job creation and economic growth, realigning Department of Defense priorities, building on health care reform, reforming government, strengthening Social Security for future generations, and reforming and modernizing the tax code. What follows is a detailed description of the policy choices included in the *Budget for All* and the outlay or revenue impact of those policies.

I. Investing in job creation and economic growth

Many of the policy choices in the *Budget for All* are driven by the current economic context as well as labor market projections over the short and medium term. The Great Recession led to the loss of more than 8.7 million jobs and an unemployment rate that remains above 8 percent more than 30 months after the official *end* of the recession (and more than four years since the economic downturn began). Though the labor market has made steady gains thus far in 2012, the total jobs gap (the number of jobs needed to return to pre-recession unemployment and labor-force participation rates) remains around 10 million: 5.3 million jobs lost since the onset of the recession that have yet to be regained, plus 4.7 million jobs not gained since the start of the recession, but needed to keep up with population growth (Shierholz 2012). Sustained, high unemployment resulting from years of depressed demand for goods and services has led to lower revenue collections and higher spending on automatic stabilizers such as unemployment insurance. Many of the policies in the *Budget for All* are aimed at reversing this trend.

To highlight the importance of not enacting policies that may slow the rate of economic growth in the near term, note that the improved rate of employment growth experienced over the last three months (an average of 245,000 jobs added per month) would have to continue for another five years before the economy would return to pre-recession unemployment rates (Shierholz 2012). In their January 2012 *Budget and Economic Outlook* (CBO 2012b), the CBO projected continued slow recovery over the next two years due to the lingering effects of the financial crisis and the recession, as well as the fiscal drag (spending cuts and tax increases) scheduled under current law. According to the CBO's projections, real GDP will grow by 2 percent in 2012 and only 1.1 percent the following year, before accelerating in 2014.[8] In the fourth quarter of 2011, economic output remained $883 billion (5.4 percent) below potential—the level of output associated with full employment and non-inflationary resource utilization—and the CBO projects the output gap will

7. Without the AMT patch, the reach of the tax expands because the AMT was not indexed for inflation and because the George W. Bush-era income tax cuts reduced individual income tax liability without correspondingly adjusting the AMT.

8. This is measured by the change from the fourth quarter of the previous calendar year.

persist through 2018 (CBO 2012c; Department of Commerce 2012). The CBO projects the unemployment rate will remain around 7 percent at the end of calendar year 2015 (CBO 2012b).

Beyond near-term economic and labor market distress, ample evidence exists that there is a large longer-run deficit in needed physical infrastructure investments in the U.S. economy. Even stronger evidence exists arguing that human capital investments, like universal high-quality pre-kindergarten educational programs, would yield enormous returns that would make the overall economy richer. Lastly, the looming threat of global climate change argues for significant resources to be spent mitigating greenhouse gases (GHGs) and putting the economy on a low-GHG track in the decades to come. In short, we would argue that any federal budget proposal that does not include measures to meet these pressing priorities (priorities that are, in fact, *at least* as pressing as the need to simply close long-run budget gaps between spending and revenue) should be judged as sorely lacking.

Furthermore, the more front-loaded these investment efforts are, the better it is for an American economy that will likely be contending with high unemployment for years to come. Debt-financed public investments in the next few years would greatly help efforts to drive down joblessness, and the cost of this debt—measured by the long-term costs of borrowing—is historically low. Not only can we afford to front-load public investments today rather than tomorrow, but it also makes economic sense to do so.

The *Budget for All* would finance $793 billion in job creation policies over FY2012–22 ($690 billion over FY2013–22). Roughly half of these investments are frontloaded over FY2012–14 to address the ongoing jobs crisis, but other investments to create jobs, as well as investments in transportation and revitalizing U.S. manufacturing, are sustained over the entire budget window. Specifically, the *Budget for All* would spend an additional $246.7 billion for a surface transportation reauthorization bill, $227 billion for direct job creation programs, $183.7 billion to reinstate the Making Work Pay tax credit, and $135.2 billion in tax credits targeted toward innovation and revitalizing manufacturing, all over FY2012–22. Additionally, the budget would finance $1.6 trillion worth of investments in the NDD budget, relative to the CPC adjusted baseline.

Transportation and infrastructure investments

The *Budget for All* would adopt the surface transportation reauthorization proposal from President Obama's budget request for FY2012: a six-year, $556 billion reauthorization.[9] The plan would rebuild and modernize the national surface transportation infrastructure and expand investments in highways, highway safety, passenger rail, and high-speed rail, among other projects. The proposal includes $50 billion in immediate investments for FY2012, for supporting near- and long-term economic growth by improving roads, bridges, transit systems, border crossings, railways, and runways. These are investments that will boost economic activity and employment in the near and long term, particularly in industries suffering from protracted unemployment. The administration's proposal would also allocate $53 billion for high-speed rail and expanded access to light rail over the next six years (OMB 2011b).[10]

9. The score for FY2022 is extrapolated from the FY2012–21 budget window using CBO's projections for CPI-U (CBO 2012b).

10. See Department of Transportation, p. 121 (OMB 2011b), for a full description of the administration's proposed FY2012 surface transportation reauthorization bill.

Additionally, the plan would establish a National Infrastructure Bank (I-Bank), which would provide loans and grants to support individual projects and broader activities of significance to our nation's economic competitiveness. The *Budget for All* would adopt the six-year plan to establish the I-Bank as presented in the president's FY2012 budget (as part of the six-year surface transportation reauthorization proposal). Over the first six years of the budget window, the *Budget for All* would invest $5 billion per year in an I-Bank, for a total investment of $30 billion over FY2012–22.

Relative to current law, this surface transportation reauthorization proposed by the *Budget for All* would increase outlays by $246.7 billion over FY2012–22 ($240.8 billion over FY2013–22). Additionally, the *Budget for All* would reclassify Highway Trust Fund outlays as mandatory spending, as repeatedly proposed in the president's budget requests.[11] Accordingly, $486.1 billion in surface transportation outlays are reclassified from discretionary to mandatory spending over FY2013–22 (CBO 2012d).

Direct job creation

The last time the United States faced un- and under-employment as widespread and prolonged as what has been experienced in the last four years, the federal government successfully put millions of Americans back to work through the Civilian Conservation Corps, Public Works Administration, and Works Progress Administration. To alleviate the jobs crisis, the *Budget for All* would adopt Congresswoman Jan Schakowsky's (D-Ill.) *Emergency Jobs to Restore the American Dream Act of 2011* (H.R. 2914). This direct job creation package would invest $113.5 billion in both 2012 and 2013, and was recently estimated to create roughly two million jobs over the next two years.[12] The *Emergency Jobs to Restore the American Dream Act* would make investments in local communities in a number of ways. It would fund the jobs necessary for large-scale school rehabilitation projects as well as restoration and rehabilitation of parks and public lands; create part-time work-study jobs for hundreds of thousands of eligible college students; fund the hiring and rehiring of teachers, police officers, and firefighters; fund grants to hire health care providers; create a community corps of citizens to do much-needed work on the local level, including energy audits, addressing blight, rural conservation work, housing rehabilitation, and recycling and reclamation of reusable materials; and would create jobs in early childhood care and education by providing additional funding for Early Head Start.

Job creation tax measures

The *Budget for All* would both reinstate the Making Work Pay (MWP) tax credit and finance a number of business tax credits aimed at expanding manufacturing and insourcing jobs to the United States. The MWP refundable tax credit was the largest tax provision included in ARRA. The credit replaced 6.2 percent of earned income up to a maximum of $400 ($800 for joint filers) for working individuals who are not claimed as dependents. In December 2010, Congress replaced the MWP credit with a costlier 2-percentage-point payroll tax holiday, as part of the *Tax Relief, Unemploy-*

11. All programs that spend out of the Highway Trust Fund have budget authority (BA) defined as mandatory, but outlays are characterized as discretionary.

12. H.R. 2914 would allocate $113.5 billion in each of FY2012 and FY2013, but the timeframe for the *Emergency Jobs to Restore the American Dream Act* bill has been shifted in the *Budget for All* to allow for more feasible implementation halfway into FY2012. Other than the timing of grants, the legislation is unaltered. Adjusting from calendar years to fiscal years, the proposal as modified for the *Budget for All* would increase outlays by $85.1 billion in FY2012, $113.5 billion in FY2013, and $28.4 billion in FY2014 (see **Table 2**). EPI recently estimated that the original bill would increase nonfarm payroll employment by 1.1 million jobs in FY2012 and 1.1 million jobs in FY2013 (see Fieldhouse and Thiess 2011). In line with those estimates, Rep. Schakowsky's staff estimates that the bill would support two million jobs.

ment Insurance Reauthorization, and Job Creation Act (H.R. 4853). But the payroll tax cut was not targeted (making it more expensive than MWP), the lower income replacement rate resulted in a tax increase on households making under $20,000 ($40,000 for joint filers), and worries have been raised that the structure of the payroll tax cut threatens to undermine the dedicated funding source of Social Security (Fieldhouse 2011c).[13] The *Budget for All* lets the payroll tax holiday expire on schedule on January 1, 2013, and reinstates the MWP tax credit for 2013–15. Reinstating MWP through 2015 would cost $183.7 billion over FY2013–22.[14]

Beyond investing in refundable tax credits, the *Budget for All* would devote $135.2 billion over FY2012–22 for tax credits to foster innovation, manufacturing, and insourcing jobs to the United States. The largest such credit would provide a permanently enhanced research and experimentation tax credit, as proposed in the president's budget. This would cost $99.3 billion over FY2012–22 (JCT 2012). Other job creation tax policies in the *Budget for All* include a temporary 10 percent tax credit for new jobs and wage increases; a new manufacturing communities tax credit; additional tax credits for investment in qualified property used in qualified advanced energy manufacturing projects; a tax credit for the production of advanced technology vehicles; a tax credit for medium- and heavy-duty alternative-fuel commercial vehicles; and doubling the amount of expensed start-up expenditures.[15] Additionally, the *Budget for All* would adopt the president's proposals to develop a national network of manufacturing innovation institutes and to help entrepreneurs and small businesses access capital. Collectively, these policies would cost $35.9 billion over FY2012–22.[16] See **Table 2** for specific policy scores, which come from JCT's re-estimate of the president's budget request (JCT 2012).

Frontloaded and sustained public investments

In addition to these targeted job creation measures, transportation investments, and tax credits,

the *Budget for All* invests heavily in the NDD budget, which houses a range of critical public investments in areas including education, workforce training, energy, basic scientific research, and health, among other areas. These public investments are again front-loaded in the *Budget for All* to support economic activity as well as to sustain essential government investments and services during the continuing economic weakness projected over the near term. As noted earlier, the BCA enacted deep cuts to both the nondefense and defense discretionary budgets, and the *Budget for All* would repeal $582.7 billion in NDD spending cuts embedded in the CBO March 2012 baseline.

13. The MWP credit was reduced (i.e., phased out) by 2 percent of adjusted gross income (AGI) above $75,000 ($150,000 for joint filers).

14. This estimate is based on the Urban-Brookings Tax Policy Center's analysis of *Investing in America's Economy: A Budget Blueprint for Economic Recovery and Fiscal Responsibility* (Fieldhouse and Thiess 2010) as adapted and independently scored for the Solutions Initiative and funded by the Peter G. Peterson Foundation. The Peterson Foundation convened organizations with a variety of perspectives to develop plans addressing the nation's fiscal challenges. The American Enterprise Institute, the Bipartisan Policy Center, the Center for American Progress, the Economic Policy Institute, the Heritage Foundation, and the Roosevelt Institute Campus Network each received grants. All organizations had discretion and the independence to develop their own goals and propose comprehensive solutions. The Peterson Foundation's involvement with this project does not represent endorsement of any plan. The final plans developed by all six organizations were presented as part of the Peterson Foundation's second annual Fiscal Summit in May 2011.

15. See the Treasury Department's FY2013 Green Book, pp. 27–33, for a full explanation of the administration's proposal (Department of the Treasury 2012).

16. While the *Budget for All* is a proposal for the FY2013–22 budget window, certain policies—particularly job creation policies—have been proposed for the current fiscal year (FY2012). The FY2012–22 11-year window is sometimes referenced when budgeting priorities impact FY2012.

Beyond removing the effects of the BCA, the *Budget for All* would finance an additional $1.7 trillion in NDD budget authority (BA) over FY2012–22, which translates to a $1.6 trillion increase in NDD outlays over this period.[17] In the near term, NDD BA is increased by $75 billion for the remainder of FY2012, $150 billion for FY2013, and $200 billion for FY2014. These front-loaded investments will complement targeted job creation measures and sustained transportation investments in accelerating a return to an economy operating nearer its potential. Sustaining these investments is also critical for building the country's stock of public and human capital.

The *Budget for All* would finance $175 billion in NDD BA for FY2015 and $150 billion in each of FY2016–19, beyond which time these investments are maintained as a share of the economy. The *Budget for All* would apportion these increases to the budget functions as follows: 10 percent for International Affairs (Function 150); 5 percent for General Science, Space, and Technology (F250); 10 percent for Energy (F270); 5 percent for Natural Resources and Environment (F300); 5 percent for Commerce and Housing Credit (F370); 5 percent for Community and Regional Development (F450); 15 percent for Education, Training, Employment, and Social Services (F500); 10 percent for Health (F550); 20 percent for Income Security (F600); 10 percent for Veterans Benefits and Services (F700); and 5 percent for Administration of Justice (F750). Over FY2012–22, the *Budget for All* would increase outlays for International Affairs by $156.2 billion; General Science, Space, and Technology by $78.1 billion; Energy by $156.2 billion; Natural Resources and Environment by $78.1 billion; Commerce and Housing Credit by $78.1 billion; Community and Regional Development by $78.1 billion; Education, Training, Employment, and Social Services by $234.3 billion; Health by $156.2 billion; Income Security by $312.4 billion; Veterans Benefits and Services by $156.2 billion; and Administration of Justice by $78.1 billion. It should be noted that the NDD BCA cuts removed by the *Budget for All* have not been apportioned by budget function, but all of these functional increases would be larger relative to current law.

In aggregate, these public investments would increase NDD outlays by $2.1 trillion over FY2012–22 relative to current law. Under the *Budget for All,* NDD spending as a share of GDP would average 4 percent of GDP, slightly above the historical average over FY1962–2011 of 3.9 percent of GDP (OMB 2012c).[18] By FY2022, NDD spending would total 3.5 percent of GDP, compared with 2.5 percent of GDP under current law, 2.4 percent of GDP under the president's budget (OMB 2012d), and just 2.1 percent of GDP under the Ryan budget for FY2013 (see **Figure E**). By the end of the budget window, NDD outlays under the *Budget for All* would be 38.2 percent higher than levels projected under current law, 45.9 percent higher than those of the president's budget, and 64.8 percent higher than those of the Ryan budget (CBO 2012a; House Budget Committee 2012).

These NDD investments bring the total job creation and public investments in the *Budget for All* to $2.4 trillion above the CPC adjusted baseline over FY2012–22, or $2.9 trillion over current law (see **Table 2**). Investments and job creation measures would exceed $300 billion per year over FY2013–15 relative to current law, providing fiscal support for faster economic recovery.

17. Congress appropriates budget authority (BA) for discretionary budgeting priorities, but there is a lag in the spendout of these authorized appropriations, known as outlays. Outlays are the relevant variable for economic growth and the budget deficit, and this analysis will focus on discretionary outlays accordingly. Budget authority is referenced on occasion to detail budgeting priorities.

18. Highway trust fund outlays are kept as discretionary outlays instead of being reclassified as mandatory for the sake of historical comparison in these calculations and in Figure E.

II. Realigning Department of Defense priorities

Growth in spending by the Department of Defense

Discretionary spending by the Department of Defense has grown sharply from $295 billion (3 percent of GDP) in FY2000 to $699.8 billion (4.7 percent of GDP) in FY2011 (CBO 2012b).[19] For FY2012, discretionary Department of Defense outlays are projected to total $672.5 billion (4.3 percent of GDP), including $614 billion (4 percent of GDP) in non-emergency outlays, i.e., excluding funding for overseas wars (CBO 2012a).[20] Additional funding for military operations for Afghanistan, Iraq, and other combat missions has totaled $1.4 trillion over FY2001–12, of which $1.3 trillion went to the Department of Defense (CBO 2012b).[21] These overseas contingency operations (OCOs) have been financed almost entirely off-budget in emergency supplemental appropriations bills. The president's budget requested $96.7 billion in BA for OCOs in FY2013 and includes a $44.2 billion annual placeholder thereafter, for total costs of $494.2 billion over FY2013–22 (OMB 2012a).[22]

Over the last three years, a rare consensus has emerged among a wide range of Washington policymakers: Any credible, balanced deficit reduction plan must tackle spending by the Department of Defense. Budget proposals ranging from the president's budget requests to reports from the National Commission on Fiscal Responsibility and Reform, the Bipartisan Policy Center, and Our Fiscal Security, among others, all agree that future budgets must "bend the curve" of defense spending. Other proposals have stressed that OCOs should be placed on budget or financed by a war tax.[23] Along with this newfound political resolve, specific plans have emerged for realigning our defense priorities. Notably, the Sustainable Defense Task Force (SDTF), a bipartisan group of defense experts, released a report in June 2010 that detailed a series of options, which, if taken together, would save $960 billion over a decade (SDTF 2010).

The BCA included reductions to spending by the Department of Defense, but much of this reduction—particularly from the automatic sequester—is not expected to materialize, as reflected in the current policy baseline.[24] The CBO March 2012 baseline includes a $260.3 billion reduction in Department of Defense outlays from the first BCA phase of discretionary spending caps and a $508.6 billion reduction in Department of Defense outlays from the second BCA phase of automatic sequesters, both over FY2013–22.[25] But the sequester was a blunt instrument intended to force action by the JSC—it is not obvious that it is consistent with realistic and maximally efficient spending reductions. Under

19. Discretionary defense outlays in nominal dollars. GDP shares also calculated using nominal dollars. See Table F-4 (CBO 2012b).

20. Function level breakdowns of the CBO March 2012 *Updated Budget Projections: Fiscal Years 2012 to 2022* (CBO 2012a) were provided by House Budget Committee minority staff.

21. Funding is measured in BA, not outlays. See CBO (2012b), p. 71, for a year-by-year breakdown of spending on Afghanistan, Iraq, and other war-related activities since 2001.

22. The administration proposes capping OCO funding for FY2013–21 at $450 billion and set the $42.2 billion BA placeholder accordingly.

23. For example, see *The Future is Now: A Balanced Plan to Stabilize Public Debt and Promote Economic Growth*, p. 8 (Galston and MacGuineas 2010).

24. Similarly, the sequester is not assumed to take effect in the CBO's Alternative Fiscal Scenarios. See *The Budget and Economic Outlook: Fiscal Years 2012 to 2022*, p. xiii (CBO 2012b).

25. The CBO baseline also includes a much smaller $155 million reduction in mandatory spending by the Department of Defense (over FY2013–21).

the automatic enforcement mechanism, Department of Defense budget authority reductions are roughly held constant in nominal dollars instead of being gradually phased in, which is problematic for two reasons. First, the reduction in budget authority falls from 0.34 percent of GDP in 2013 to 0.23 percent of GDP in 2022, front-loading cuts in a manner adverse to economic recovery. Second, spending and acquisition reforms are more feasibly implemented on a gradual basis. As noted above, the *Budget for All* removes these effects of the ill-conceived BCA in its baseline policy adjustments, and all policies are scored relative to this CPC adjusted baseline.

Responsibly end the war in Afghanistan and other overseas contingency operations

The *Budget for All* provides a reasonable defense spending trajectory consistent with a sustained but on-time reduction of military operations in Afghanistan and other overseas contingency operations. The *Budget for All* provides $128.7 billion in OCO budget authority for FY2013 (the funding level in the CBO March 2012 baseline), after which time all OCO funding is ended.[26] This funding level is intended to be more than sufficient to safely and deliberately withdraw American soldiers from Afghanistan and other military operations on the administration's stated timetable.[27] Responsibly ending OCOs would save $1.1 trillion over FY2013–22, relative to the CBO baseline. Relative to the OCO placeholders in the president's budget, this withdrawal would reduce BA by $365.5 billion and outlays by roughly $335.9 billion.

Reduce base spending by the Department of Defense

The *Budget for All* would also gradually phase in reductions in non-emergency funding for the Department of Defense, which would cumulatively reduce outlays by $749.3 billion over FY2013–22, relative to the CPC adjusted baseline. Budget authority for National Defense (F050) over FY2013–22 was compiled by CPC staff and provided to the EPI Policy Center. The savings are well within the bounds of those identified as reasonable by the SDTF report (SDTF 2010).

The *Budget for All* would gradually reduce active duty military personnel strength through attrition; sharply reduce private contracting; and overhaul weapons acquisitions, modernization, and strategic capabilities. No savings are assumed from military personnel wages, pensions, or TRICARE, the military health care program for active duty personnel, military retirees, and their dependents. As noted earlier, International Affairs (F150) outlays would be increased by $156.2 billion over FY2012–22.

Taken in conjunction with responsibly ending foreign military operations, the realignment of conventional and strategic forces would result in $1.9 trillion worth of savings, relative to the CPC adjusted baseline.

III. Building on health care reform

Access to quality, affordable health care is a key component of rebuilding a strong middle class. Spiraling health care costs have strained the budgets of families in recent decades, as growth in the cost of health benefits has contributed to

26. This includes $117.3 billion for National Defense (050) and $11.4 billion for International Affairs (150).

27. Congressional Research Service experts assessed that a similar policy of maintaining baseline funding for one fiscal year in the Congressional Progressive Caucus Budget Alternative for Fiscal Year 2012 (the *People's Budget*) would be more than sufficient to ensure safe and deliberate withdrawal from Afghanistan and Iraq. See *The People's Budget: A technical analysis,* p. 11 (Fieldhouse 2011a).

real wage and salary stagnation. Health care excess cost growth—the growth in per capita national health care expenditure exceeding per capita GDP growth—poses a grave challenge for families, businesses, state and local governments, and the federal government. Further, policies that merely shift costs from the federal budget to consumers, businesses, and state and local budgets are not, we would argue, responsible solutions, but are instead myopic attempts to fix an *accounting* problem while leaving the underlying *economic* problem unresolved.

The *Budget for All* would adopt policies that build on the *Patient Protection and Affordable Care Act of 2010* (ACA) to ensure access to affordable, quality care and expand coverage to millions of Americans. The *Budget for All* thus does not rely on benefit cuts or reducing beneficiary rolls to find budgetary savings. The approach to health care policy taken in this budget is diametrically opposed to the approach taken by House Budget Committee Chairman Paul Ryan (R-Wis.) in his Chairman's mark, i.e., the Ryan budget (House Budget Committee 2012). The *Budget for All* would implement a public insurance option, negotiate drug prices with pharmaceutical companies, adopt the administration's reforms for drug development, and take steps to reduce fraud and waste in Medicaid, all for estimated ten-year cost savings of $278 billion (above the savings projected from the implementation of the ACA). Additionally, the *Budget for All* would crack down on Medicare Hospital Insurance (HI) payroll tax avoidance (ten-year savings of $13.1 billion) and end subsidies for junk and fast food advertising to children to promote health (ten-year savings of $15 billion). The Ryan budget, on the other hand, relies on Medicare cost-shifting as well as dramatic cuts to Medicaid and the Children's Health Insurance Program (CHIP) in order to achieve budgetary savings—savings that would principally finance large tax cuts for the most affluent American households.

The Ryan budget would lead to an eventual replacement of Medicare's coverage guarantee with a voucher system that would gradually shift more and more costs from the federal government to seniors. The CBO notes that under this plan, average real spending for new enrollees in Medicare would be significantly less than under either current law or current policy baseline scenarios. By 2050, Ryan's Medicare plan would spend 35 percent less for new enrollees than under current law, and 42 percent less than under current policy (CBO 2011c). The CBO recently estimated that Medicare is currently 11 percent cheaper than an equivalent private insurance plan—an efficiency premium that compounds over time but that the Ryan budget would forsake (CBO 2012e). While CBO notes that the exact implications of reduced spending are difficult to project, they could very likely include higher costs faced by beneficiaries, reduced access to health care, diminished quality of care, and less investment in new, high-cost technologies. In regards to Medicaid, CHIP, and the ACA health insurance exchange subsidies, the Ryan budget would halve spending in those areas between now and 2040 (while under current law, spending in those areas would double, due simply to population and health care cost growth). The Center on Budget and Policy Priorities estimated that the Ryan budget would cut $2.4 trillion over ten years from Medicaid and other health programs for people with low or moderate incomes (CBPP 2012).

The *Budget for All* would take a decidedly different approach. It would build on the efficiency and savings already passed under the ACA, which is expected to reduce deficits by $210 billion over FY2012–21 and decrease budget deficits by roughly half a percent of GDP in the following decades, saving literally trillions of dollars (CBO 2011a).

Public insurance plan

The *Budget for All* would begin building on the efficiencies already enacted in the ACA by implementing a public insurance option to compete with private insurance plans. Beginning in 2014, the ACA will establish health insurance exchanges, through which individuals and families may purchase private coverage. This will increase choice and competition relative to today's largely fragmented, regional insurance markets. With the addition of a public option, the Secretary of the Department of Health and Human Services would administer a public health insurance plan to be offered alongside private plans through the exchanges. The public plan would exploit economies of scale to negotiate payment rates for prescription drugs, would pay physicians roughly 5 percent more than Medicare reimbursement rates, and would pay hospitals and providers comparable rates as paid under Medicare. Based on the potential for administrative and other savings, the CBO estimates that insurance premiums for the public plan would be roughly 5–7 percent lower than those of private plans offered in the insurance exchanges (CBO 2011b).

According to the CBO, this option would produce savings of $88 billion over FY2012–21 (CBO 2011); extrapolating to the new budget window, we estimate that a public insurance option would save $104.1 billion over FY2013–22. Over the decade, outlays would fall by $31 billion (due to a reduction in targeted subsidies for the purchase of insurance in the exchanges), and revenues would increase by $73.1 billion (largely resulting from interactions with the tax exclusion for employer-sponsored health insurance).

Negotiate drug prices with pharmaceutical companies

The *Budget for All* would implement the president's proposal to align Medicare drug payment policies with Medicaid policies for lower-income beneficiaries. Under current law, drug dispensers pay specified rebates for drugs consumed by Medicaid beneficiaries, while Medicare Part D (the prescription drug benefit) plan sponsors negotiate drug prices with manufacturers at unspecified levels. When enacted, Medicare Part D failed to harness the purchasing power of the federal government to negotiate wholesale prices for pharmaceutical drugs. There are substantial differences in the rebate amounts and net prices for brand-name drugs; Medicare receives lower rebates and pays higher prices than Medicaid (OMB 2011a). Additionally, Medicare per capita spending is growing significantly faster in Part D than in Parts A or B (HI and Medical Insurance, respectively). This proposal would allow Medicare to receive the same rebates that Medicaid receives for brand-name and generic drugs provided to low-income beneficiaries. OMB estimates this policy would save $155.6 billion over FY2013–22 (OMB 2012a).

Adopt administration proposals for drug development

The *Budget for All* would additionally adopt the administration's proposals to build on the ACA by prohibiting brand-name and generic drug companies from delaying the availability of new generic drugs and biologics. The high cost of prescription drugs causes hardship for many Americans and can result in people forgoing medications or skipping doses. These proposals would increase the availability of generic drugs and biologics by authorizing the Federal Trade Commission (FTC) to prohibit companies from entering in "pay-for-delay" agreements that block consumer access to safe and effective generics. A 2010 FTC study found that these types of agreements delayed entry of generics and cost consumers as much as $3.5 billion per year (OMB 2011a). The administration's proposals would additionally accelerate access to affordable generic biologics by modifying the length of exclusivity on brand-name biologics, shortening the exclusivity period for brand-name biologic manufacturers from 12 years to seven years. Reducing this period would increase availability and encourage faster development of generic biologics. Together, these proposals would save $14.8 billion over FY2013–22 (OMB 2012a).

Reduce waste, fraud, and abuse in Medicaid

The *Budget for All* is committed to reducing waste, fraud, and abuse where possible, and would pursue responsible Medicaid savings by enacting the following policies previously outlined by the administration (OMB 2011a):

- requiring manufacturers that improperly report items for Medicaid drug companies to fully repay states by directing them to pay a "rebate" equal to the amount the state paid for those items
- tracking high prescribers and utilizers of prescription drugs in Medicaid, and using monitoring systems to look for fraud and abuse by providers or beneficiaries
- enforcing Medicaid drug rebate agreements to ensure Medicaid is receiving proper prices and rebates
- increasing penalties on drug manufacturers for fraudulent non-compliance with drug rebate agreements
- requiring drugs to be properly listed with the Federal Drug Administration in order to receive Medicaid coverage, as is required for Medicare
- prohibiting states from using federal funds as the state share of Medicaid or CHIP, unless authorized under law

By pursuing these and other policies to reduce waste, fraud, and abuse in Medicaid, the *Budget for All* would save $3.2 billion over FY2013–22 (OMB 2012a).[28]

Narrowing Exceptions for Withholding Taxes (NEWT) Act

Medicare HI payroll taxes are assessed on all wages and salaries, either 1.45 percent paid by both the employer and employee, or the full 2.9 percent paid by the self-employed. Under current law, however, the Medicare payroll tax for the self-employed can be circumvented using an S corporation, a type of "pass-through" entity. The losses and gains of S corporations are passed onto their shareholders' individual income tax base, but these profits are not included in the base for the Medicare HI tax.

The *Budget for All* would enact the *Narrowing Exceptions for Withholding Taxes (NEWT) Act* (H.R. 3840), which would broaden the Medicare HI tax base to include S corporation income for the employee-shareholders of professional services business with three or fewer principal shareholders.[29] These have been identified as the most likely to abuse the system by artificially over-reporting profits and under-reporting wages and salaries. This loophole closer was included in the House-passed *American Jobs and Closing Tax Loopholes Act of 2010* (H.R. 4213), and was estimated to raise $11.2 billion over FY2010–20 (JCT 2010), including $6.3 billion in off-budget revenue effects. Extrapolating from this score, we estimate that the *Budget for All* would raise $13.1 billion in revenue over FY2013–22 by enacting the NEWT Act, of which $9.7 billion is on-budget and $3.4 billion is off-budget.

28. The administration's proposals in the FY2013 budget lack specificity (see pp. 111–12 in OMB 2012b). The descriptions listed are from the more specific policy proposals in *Living Within Our Means and Investing in the Future: The President's Plan for Economic Growth and Deficit Reduction* (see p. 41 in OMB 2011a).

29. These professional services businesses include those related to health, lobbying, financial services, consulting, accounting, law, engineering, architecture, performing arts, and athletics.

End tax deductions for the direct advertising of unhealthy foods to children

To promote public health and achieve budgetary savings, the *Budget for All* would enact H.R. 4310—a bill to amend the Internal Revenue Code of 1986 to protect children's health by denying any deduction for advertising and marketing directed at children to promote the consumption of food at fast-food restaurants or of food of poor nutritional quality. The JCT estimated that H.R. 4310 could raise between $15–19 billion in revenue over ten years; the *Budget for All* books the low end of this revenue estimate as savings.[30]

IV. Reforming government

The *Budget for All* would pursue other policy changes to strengthen democracy and reform government programs that are of broader scope than defense, health, Social Security, or tax proposals. These include public financing of elections, comprehensive immigration reform, reducing agriculture subsidies, and restoring solvency to the unemployment insurance system, which has been greatly strained by the recession. We estimate these policies would result in net savings of $90.5 billion over FY2013–22.

Public financing of elections

The *Budget for All* is dedicated to leveling the playing field and reducing the influence of money in politics and campaigns. It would invest in the public financing of elections by dedicating $10.9 billion toward the *Fair Elections Now Act* (S. 752 and H.R. 1826).[31] Introduced in 2009 by Sens. Dick Durbin (D-Ill.) and Arlen Specter (D-Pa.), and Reps. John Larson (D-Conn.) and Walter Jones, Jr. (R-N.C.), the Act would allow federal candidates to choose to run for office without relying on large contributions, money bundlers, or donations from lobbyists. Additionally, the *Fair Elections Now Act* would free politicians from constant fundraising obligations, allowing them to focus more time on constituents and policymaking.

Participating candidates would raise a large number of small contributions from their local communities (capped at $100 per person per year) in order to qualify for Fair Elections funding (Fair Elections Now 2012). After meeting the small contributions qualifications, candidates would receive Fair Elections funding in the primary and the general election. For House races, candidates would receive $900,000, split 40 percent for the primary and 60 percent for the general election. For Senate races, candidates would receive $1.25 million, plus $250,000 per congressional district in their state. The primary-general election funding split would be the same as for House races. Qualified candidates could also receive additional matching Fair Elections funds if they continued to raise small donations from their constituents. Donations of $100 or less would be matched by $5 from the Fair Elections fund for every $1 raised, limited to three times the initial allocation of money for the primary, and again for the general election. Additionally, Fair Elections would help to offset the excessive cost of purchasing media coverage. Participating candidates would receive a 20 percent

30. There is no year-by-year score of this proposed 2010 act, so we assume the low end of JCT's estimate ($15 billion) and hold annual savings constant in real dollars. The source for this is a November 22, 2010, letter to Rep. Dennis Kucinich (D-Ohio) that is not publicly available.

31. Specifically, $1 billion is allocated for FY2013, and funding is adjusted for inflation thereafter. Fair Elections Now estimates that the bill could cost between $700 million and $850 million annually—the $1 billion dedicated real funding stream is meant to be slightly conservative (Fair Elections Now 2012).

reduction from the lowest broadcast rates, could receive media vouchers, and would have the opportunity to exchange those vouchers for cash with their national political party committee.

Comprehensive immigration reform

The *Budget for All* would enact comprehensive immigration reform, establishing a path to citizenship for undocumented immigrants. Comprehensive immigration reform would result in more taxpayers paying income and payroll taxes and would also qualify residents for child, tuition, and other tax credits as well as benefits earned by social insurance contributions. Based on the CBO's score of Senate Amendment 1150 to the *Comprehensive Immigration Reform Act of 2007* (S. 1348), we estimate that the *Budget for All's* comprehensive immigration reform would raise $48.3 billion in revenue and increase mandatory outlays by $22.7 billion over FY2013–22, for net savings of $25.6 billion (CBO 2007).[32] Specifically, off-budget revenue (e.g., Social Security contributions) would increase by $57.1 billion, and on-budget revenue would decrease by $8.8 billion. On-budget mandatory outlays (i.e., the refundable portion of tax credits) would increase by $21.5 billion, and off-budget mandatory outlays (e.g., Social Security benefits) would increase by $1.2 billion.

Unemployment insurance solvency

Unemployment insurance (UI) is a critical component of the social safety net; it kept 3.2 million Americans out of poverty in 2010 (Census Bureau 2011). However, states were unprepared for a recession of this magnitude and the accompanying prolonged rise in unemployment and UI claims, which have drained many states' UI trust funds. As of March 22, 2012, outstanding loans from the Federal Unemployment Account (FUA), the federal loan fund to help states finance UI during downturns, totaled $40.1 billion owed by 28 states and the U.S. Virgin Islands (Department of Labor 2012).

The *Budget for All* would enact Sen. Dick Durbin's *Unemployment Insurance Solvency Act* (S. 386), which would improve the solvency of state unemployment trust funds by temporarily suspending states' interest payments on FUA debt owed to the federal government. Beginning in 2014, the *Unemployment Insurance Solvency Act* would also raise the Federal Unemployment Tax Act (FUTA) annual wage base from $7,000 to $15,000 per covered worker, indexing the revised wage base to wage growth for subsequent years. Finally, it would reduce the net FUTA rate from 0.8 percent to 0.38 percent (thus keeping the FUTA tax paid by employers for workers who had reached the FUTA threshold at the current annual amount of about $56 per employee in the first year of implementation).[33] We estimate that the *Budget for All* would save $36.1 billion over FY2013–22 by enacting these reforms.

Scale back agriculture subsidies

The president's budget request proposed $30.3 billion in mandatory savings from agriculture subsidies, and the *Budget for All* adopts the following reforms to agriculture subsidies from the president's budget (OMB 2012a): The *Budget for*

32. We simply shift CBO's score from the FY2008–17 budget window to the FY2013–22 budget window. The *Budget for All* assumes no increase in spending subject to appropriations specifically for comprehensive immigration reform. See **Table 2** for the allocation of public investments and increases in non-defense discretionary spending.

33. The statutory 6.2 percent rate is offset by a credit of 5.4 percentage points for states with no delinquent loans, for a net tax rate of 0.8 percent. The statutory rate would be reduced to 5.78 percent, for a net rate of 0.38 percent.

All would eliminate direct payments, which are based on historical crop production rather than current yields or market prices, for savings of $22.7 billion over FY2013–22 (OMB 2012e). The *Budget for All* would lower insurance companies' rate of return on investment for participating in crop insurance from 14 percent to 12 percent, for savings of $1.2 billion over ten years (OMB 2012e). The *Budget for All* would also revise the base for capping crop insurance administrative expenses from the unusually high premiums in 2010 to the more tempered 2006 levels ($0.9 billion, adjusted for inflation), which would save $2.9 billion over ten years (OMB 2012e).[34] Lastly, the *Budget for All* would slightly reduce the premium for catastrophic (CAT) coverage policies, thereby lowering reimbursement to crop insurance companies and saving $255 million over ten years.

Additionally, the *Budget for All* would reduce the subsidy for producers' crop insurance premiums from roughly 60 percent to 50 percent, which the CBO estimated would save $11.8 billion over FY2012–21 (CBO 2011). Extrapolating from this score, we estimate that this reduction in premiums would save $12.7 billion over FY2013–22. Added to the reforms proposed in the president's budget, these policies in the *Budget for All* would save $39.7 billion over FY2013–12.[35]

V. Strengthening Social Security for future generations

The *Budget for All* recognizes that none of the pressing long-run budget challenges facing the country stems from Social Security. The program, by law, cannot borrow and must spend only what it takes in from dedicated revenue sources and what it has accumulated in the Social Security Trust Fund by running past surpluses. The *Budget for All* also recognizes that millions of Americans rely on the economic security that comes from the Social Security system. While poverty has risen dramatically as a result of the Great Recession, poverty rates among seniors have actually edged down, largely because of the economic security afforded by Social Security. The Census Bureau estimates that Social Security kept 20.3 million Americans out of poverty in 2010 (Census Bureau 2011).

The *Budget for All* preserves Social Security benefits. It does, however, correct the revenue shortfall that stems from rising wage inequality in recent decades, which has allowed more and more of the earnings of high-income workers to escape taxation. Currently, wages and salaries above $110,100 are not subject to the payroll tax, meaning that high-income individuals pay less as a share of their income than everyone else. As income inequality has widened, a greater share of income has accrued above this taxable maximum, with the percent of earnings covered by the program slipping from 91 percent in 1983 to just 83 percent in 2009 (CBO 2011b).[36]

The *Budget for All* proposes phasing out the taxable maximum over five years and crediting high earners with increased benefits based on higher contributions stemming from eliminating the payroll tax cap. This policy alone would solve almost 100 percent of the very long-term (75-year) shortfall facing Social Security (SSA 2011).[37] Revenue would increase

34. Administrative costs do not fluctuate with commodity prices (which have risen recently, driving up premiums), and this reform will not impede administration or delivery of crop insurance.

35. The savings from lowering the crop insurance premium to 50 percent are added to the president's savings, less the $3.3 billion in savings from the more modest crop insurance premium proposals in the president's budget. The incremental $9.4 billion in savings is distributed proportionately, relative to the proposal in the CBO's *Reducing the Deficit: Spending and Revenue Options*, p. 26 (CBO 2011b).

36. See p. 169 (CBO 2011b).

by $1.45 trillion while outlays due to larger benefit payments would rise by $27.3 billion. On net, this policy would increase the Social Security Trust Fund by $1.4 trillion over the ten-year budget window.

VI. Reforming and modernizing the tax code

Individual income tax reforms

The U.S. tax code has seen effective tax rates paid by households at the top of the income distribution fall markedly since the 1950s and 1960s (Piketty and Saez 2007). The income cutoff for married joint filers in the highest tax bracket has fallen from roughly $3 million in the early 1950s (adjusted to current dollars) to $1 million in 1970, to $379,000 in 2011.[38] The top marginal tax rate applied above that top income cutoff has fallen from just over 90 percent in the 1950s, to 70 percent in the 1970s, to 50 percent in the mid-1980s, and to 35 percent for most of the past decade (TPC 2011a). While the share of total taxes paid by the highest-income 1 percent of households has increased (as pre-tax income gains have gone disproportionately to upper-income earners), effective federal tax rates—measuring overall progressivity—have fallen from 37 percent for the top 1 percent in 1979 to 29.5 percent in 2007 (CBO 2010).

Beyond the reductions in individual income tax rates, the reduction in the statutory capital gains tax rate—from 28 percent in 1987, to 20 percent in 1997, to just 15 percent in 2003—has substantially lowered effective tax rates for households receiving a large share of their income as investment income, typically those at the very top of the income distribution. Likewise, the rate on qualified dividends, which until recently was taxed as ordinary income, was cut from 39.6 percent to just 15 percent in 2003. This preferential treatment of capital income over earned income is highly regressive because capital income is heavily concentrated at the top of the income distribution and because many high-income individuals have the ability to reclassify their compensation as investment income. The TPC estimates that for 2011, 70.5 percent of capital gains and dividends taxes were paid by the highest-income 1 percent of households and 48.8 percent by households in the top 0.1 percent (at income cutoffs of $533,000 and $2.2 million, respectively) (TPC 2011b).[39] In recent testimony before the Senate Finance Committee, economist and tax expert Leonard Burman identified the lower rate on capital gains as "the biggest loophole" and argued that "tax breaks on capital gains undermine the progressivity of the tax system" (Burman 2011). Indeed, the preferential treatment of capital income gives rise to the highly publicized, remarkably low effective tax rates paid by Berkshire Hathaway CEO Warren Buffett and former Massachusetts Governor Mitt Romney (Buffett 2011, Fieldhouse 2012).

In his 2012 State of the Union address, President Obama called for tax reform adhering to the "Buffett Rule," which states that millionaires should not pay a lower effective tax rate than middle-class households: "If you make more than $1 million a year, you should not pay less than 30 percent in taxes." The Congressional Research Service recently concluded, "Tax reforms that are consistent with the Buffett rule would likely include raising tax rates on capital gains and dividends" (Hungerford 2011). The *Budget for All* would reform the individual income tax code in accordance with the

37. The long-range actuarial balance is -2.22 percent of taxable payroll. Eliminating the Social Security cap and not crediting greater benefits along with contribution increases would more than solve the long-term shortfall. Crediting benefits along with contribution increases, which the *Budget for All* does, would solve around 97 percent of the long-term (i.e., 75-year) shortfall.

38. The income cutoffs for married joint filers in the top marginal tax bracket (TPC 2012b) have been adjusted to February 2012 dollars using CPI-U-RS.

39. TPC distributional analysis is measured in tax units for tax year 2011. Cash income cutoffs are measured in 2011 dollars.

Buffett Rule, restoring a higher degree of progressivity—so that effective tax rates rise with income—and raising more revenue from those best able to contribute.[40]

Gradual reduction of Bush-era income tax rate cuts

The *Budget for All* gradually phases out most of the George W. Bush-era individual income marginal tax rate cuts over the next decade. The 33 percent and 35 percent brackets from tax year 2012 are allowed to expire on schedule on January 1, 2013 (reverting to prior rates of 36 percent and 39.6 percent, respectively), as proposed in the president's budget request for fiscal year 2013. As in the president's budget, the taxable income threshold for entering the 36 percent bracket from the 28 percent bracket would be raised so that no households with adjusted gross income (AGI) under $200,000 ($250,000 for joint filers) would see a marginal tax rate increase. Unlike the president's budget request, however, the personal exemption phase out (PEP) and the limitation on itemized deductions (Pease) would be fully reinstated on schedule. The 25 percent and 28 percent brackets would be temporarily extended while the economy remains weak, delaying their scheduled reversion to 28 percent and 31 percent, respectively. The modified 28 percent bracket would be maintained through tax year 2016 but then allowed to revert to 31 percent on January 1, 2017. The existing 25 percent bracket would be maintained through 2018 but then would be allowed to revert to 28 percent on January 1, 2019.

The 10 percent bracket, the extension of the 15 percent tax rate for joint filers, marriage penalty relief expanding the standard deduction for joint filers, and the $5,000 extension of the Earned Income Tax Credit (EITC) phase out for joint filers would be continued for the full decade. The *Budget for All* also proposes maintaining family and education incentives included in the 2001 and 2003 tax cuts, including the higher $1,000 child tax credit, dependent care credit, adoption credit, employer-provided child care credit, and preferential tax treatment of Coverdell Education Savings Accounts, employer-provided education assistance, student loan interest, select tax-free scholarships, and tax-exempt bonds for school construction. Additionally, the *Budget for All* would permanently extend the ARRA expansion of refundable tax credits, specifically the third EITC tier for larger families, the lower $3,000 earnings threshold for the refundable portion of the child tax credit, and the American Opportunity [tuition] Tax Credit (AOTC).

Beyond this phase-out of the Bush-era reduction in the top four marginal income tax rates, the *Budget for All* would adopt the five higher marginal tax rates from Rep. Jan Schakowsky's (D-Ill.) *Fairness in Taxation Act of 2011* (H.R. 1124). Effective January 1, 2013, the following brackets and rates would be added to the income tax code: a 45 percent bracket starting at taxable income above $1 million; a 46 percent bracket starting at taxable income above $10 million; a 47 percent bracket at taxable income above $20 million; a 48 percent bracket at taxable income above $100 million; and a 49 percent bracket at taxable income above $1 billion.[41] (See **Appendix II** for the new individual income tax rate structure.)

Across this modified rate structure, the *Budget for All* would also tax all capital gains and dividends as ordinary income, repealing the preferential tax treatment for long-term capital gains. (Qualified dividends are scheduled to again be taxed

40. For a broader discussion of why it is appropriate to ask the highest-income households to contribute more in taxes, see Fieldhouse and Shapiro (2011).

41. The taxable income cutoffs cited are for the single, married filing jointly, and head of household filing statuses. The income cutoffs would be halved for the married filing jointly status, with the 45 percent rate starting at taxable income above $500,000 and the top 49 percent rate starting at taxable income over $500,000,000. These new brackets would be indexed to inflation beyond 2013.

as ordinary income starting January 1, 2013, so revenue is only raised from increasing rates on capital gains, relative to current law.) Equalizing the tax treatment of investment income and income derived from work would be retroactively made effective January 1, 2012, to deter a flood of capital gains realizations at the current top 15 percent preferential rate, as occurred before the *Tax Reform Act of 1986* (which also equalized the tax treatment of investment income and ordinary income).[42]

The collective budgetary impact of these policy modifications to the individual income tax were scored by the non-partisan Citizens for Tax Justice (CTJ) using the Institute on Taxation and Economic Policy (ITEP) microsimulation model, which is similar to models used by official scorekeepers at the Treasury Department and the Joint Committee on Taxation.[43] As noted earlier, the baseline adjustments include patching the AMT for the entire budget window, and CTJ scored these tax policies accordingly.[44] This score of taxing capital gains as ordinary income takes into account behavioral responses of capital gains realizations to higher capital gains tax rates.[45] Based on CTJ's comprehensive score, the *Budget for All's* individual income tax reforms would cost $2.2 trillion over FY2013–22, relative to current law, because of the extension of certain Bush-era tax cut provisions and the expansion of refundable tax credits.[46]

These tax policies would, however, save $1.7 trillion relative to full continuation of the Bush-era tax cuts and even save $1.3 trillion relative to President Obama's individual income tax proposal.[47] Adding the *Fairness in Taxation Act* brackets (the 45–49 percent rates) and taxing capital gains as ordinary income is estimated to raise $1.1 trillion over the ten-year window, relative to the Obama policy rate structure (Obama policy).[48] Sunsetting the 28 percent and 25 percent tax brackets in 2017 and 2019, respectively, would raise an additional $216.6 billion over the budget window, relative to maintaining Obama policy.

42. No revenue increase has been scored, however, from retroactively taxing capital gains and dividends as ordinary income for tax year 2012. Unless otherwise specified, all tax changes are assumed to take effect January 1, 2013.

43. See ITEP (2012) for an overview of the ITEP microsimulation model.

44. Due to data limitations, the ITEP microsimulation model scored no revenue effects from the top 48 percent and 49 percent tax brackets, implying a slightly conservative estimate.

45. CTJ's methodology for estimating behavioral responses (i.e., the elasticity of capital gains realization to capital gains tax rates) can be found in the Appendix to their recent report *Policy Options to Raise Revenue* (CTJ 2012a).

46. CTJ scored this policy in calendar years, which have been adjusted to fiscal years using a 25-75 split. This score includes all refundable tax credit outlay effects, which total $358.2 billion over FY2013–22 in both the president's budget request and the *Budget for All*. Net of these outlay effects (which are scored as mandatory outlays in the *Budget for All*), these policies would result in $1.8 trillion of revenue loss over the ten-year budget window. Over the ten-year window, outlay effects from maintaining certain Bush-era income tax changes include $48.1 billion for maintaining the 10 percent tax bracket, $4.1 billion for expanding the 15 percent rate bracket and standard deduction for married couples filing jointly (i.e., marriage penalty relief), $34 billion for expanding the EITC, $139 billion for increasing the child tax credit to $1,000, $1.8 billion for maintaining the dependent care tax credit, and $0.4 billion for maintaining the adoption tax credit. Outlay effects from maintaining the ARRA expansion of refundable tax credits include $13.7 billion for maintaining the third EITC tier for larger families, $86.2 billion for lowering the $3,000 earnings threshold for the refundable portion of the child tax credit, $3.9 billion for expanding the child and dependent care tax credit, and $27 billion for maintaining the AOTC. See footnote 2 of the Joint Committee on Taxation's re-estimate of the president's budget request for fiscal year 2013 (JCT 2012).

47. The ARRA expansion of refundable tax credits is excluded from the cost of the Bush-era tax cuts but included in President Obama's tax proposal and the *Budget for All.*

48. Under current law (i.e., assuming the Bush-era income tax cuts expire as schedule on January 1, 2013), CTJ estimates that repealing the capital gains preference in itself would raise $533 billion over the next decade (CTJ 2012a).

Repeal the step-up basis for capital gains

For assets sold by the individual who purchased them, capital gains taxes are assessed on the difference between the sale price and the purchase price, known as the basis for capital gains. For assets bequeathed to heirs, however, the basis price for the heirs is reset to the market value at the time of transfer (rather than the purchase price). This step-up basis for capital gains at death allows families to avoid capital gains taxation altogether and exacerbates the lock-in effect (where individuals delay selling assets because of capital gains taxation). Because the step-up basis enables the circumvention of the capital gains tax altogether, it is also a costly tax expenditure. The OMB estimates that the step-up basis for capital gains at death will amount to $182.2 billion in lost revenue over FY2013–17 (OMB 2012b). To complement the taxation of capital gains as ordinary income, the *Budget for All* would also repeal the step-up basis for capital gains. Extrapolating from the OMB estimate, repeal would raise $433.8 billion over FY2013–22.

Limit tax preferences for upper-income households

Itemized deductions and other tax expenditures that reduce taxable income are regressive because their value—a filer's marginal tax rate—rises with income. Itemized deductions are particularly regressive because they do not benefit tax filers claiming the standard deduction (typically lower-income workers). For example, the home mortgage interest deduction—the second most costly tax expenditure—is worth 35 cents on the dollar to someone with a taxable income of $1 million, but just 15 cents on the dollar to an itemizing married couple (filing jointly) with $60,000 in taxable income. It has no value at all for a family taking the standard deduction, and the majority of tax filers do not itemize deductions. In 2009, only 45.7 million tax returns itemized deductions, just 32.5 percent of the 140.5 million tax returns that year (IRS 2012a, 2012b).

The *Budget for All* would decrease the regressivity of itemized deductions while maintaining incentives built into the tax code by limiting to a maximum of 28 percent the rate at which itemized deductions can reduce tax liability. This policy would only affect itemizing tax filers currently in the top two income brackets. The president's budget requests for FY2010–12 all proposed limiting the rate at which itemized deductions can reduce tax liability to a maximum of 28 percent. In tax year 2019, the *Budget for All* would expand this limit on upper-income tax preferences to the proposal in the president's budget request for fiscal year 2013, which expanded the 28 percent limit to specified above-the-line deductions and exclusions.[49] The policy would also be harmonized with a similar limitation added to the Alternative Minimum Tax. This would make many tax expenditures less regressive and costly while affecting only 2.2 percent of tax filers (TPC 2011c).

Replace the tax exclusion for interest income on state and local bonds with a direct subsidy for the issuer

Bonds issued by state and local governments receive preferential tax treatment. Interest from public purpose state and local government bonds can be excluded from a bondholder's AGI. According to the OMB, the exclusions on interest from state and local bonds for public and other tax-preferred purposes will result in forgone revenue of $306.2 billion over FY2013–17, making this preference one of the costliest tax expenditures (OMB 2012b). This preferential tax treatment acts as an indirect subsidy, reducing borrowing costs for state and local governments. The current tax treatment also confers a disproportionately large tax benefit upon upper-income earners.

49. See the Treasury Department's FY2013 Green Book, pp. 73–74, for a full explanation of the administration's proposal (Department of the Treasury 2012).

The *Budget for All* would replace the tax exclusion for interest with a direct subsidy to borrowers (i.e., state and local governments), which would be a more cost-effective way of reducing their borrowing costs. Under this policy, state and local governments would make taxable interest payments to borrowers and receive a 15 percent subsidy from the federal government for the interest paid on those bonds. This would simplify the tax code, increase budgeting transparency, and more cost-effectively subsidize borrowing by state and local governments. According to the CBO, this policy would generate $142.7 billion over FY2012–21 (CBO 2011b). Extrapolating from this score, we estimate that the *Budget for All* would raise $176.2 billion over FY2013–22 by replacing this tax exclusion with a direct subsidy.

End the exclusion of foreign-earned income

All U.S. citizens are taxed on their worldwide income regardless of residency. The tax code, however, currently allows U.S. citizens living abroad to exclude up to $95,100 of foreign earnings from their taxable income (IRS 2012c). Foreign residents may also exclude or deduct some of the value of housing allowances and meals provided by their foreign employers. According to the OMB, the exclusion of foreign-earned income will result in forgone revenue of $32.2 billion over FY2013–17 (OMB 2012b). Extrapolating from this score, we estimate that the *Budget for All* would raise $71.3 billion over FY2013–22 by ending this tax exclusion. Expatriates would still be able to credit any taxes paid to foreign governments against U.S. tax liability.

Deny the home-mortgage interest deduction for vacation homes and yachts

The tax code currently allows taxpayers to deduct interest paid on up to $1 million in secured mortgage debt for primary and/or secondary residences. Additionally, homeowners can deduct interest on up to $100,000 of debt from home equity loans on primary or secondary residences, regardless of their purpose. The IRS defines a qualified home as "a house, condominium, cooperative, mobile home, house trailer, boat, or similar property that has sleeping, cooking, and toilet facilities" (IRS 2011). Consequently, the home mortgage interest deduction can be applied to vacation homes and yachts—wholly unrelated to the goal of promoting home ownership. The *Congressional Black Caucus (CBC) Alternative Budget for Fiscal Year 2012* proposed denying the home mortgage interest deduction for vacation homes and yachts (by limiting the deduction to a primary residence), which was estimated to raise $12.5 billion over FY2012–21 (CBC 2011). The *Budget for All* would also adopt this policy to deny the home mortgage interest deduction for both vacation homes and yachts. Extrapolating from the CBC's policy score, we estimate that this reform would raise $12.8 billion over FY2013–22.

Corporate income tax reform

Business interests have successfully lobbied a plethora of tax loopholes into the corporate income tax since the last comprehensive reform of the tax code—the *Tax Reform Act of 1986*. The *Budget for All* would eliminate some of the more egregious tax loopholes and enact progressive tax reforms, dedicating the savings to public investments and deficit reduction.

Reform the U.S. international tax system

The *Budget for All* would adopt the president's recommendations to reform the U.S. international tax system, which the JCT estimated would raise $168.3 billion over FY2013–21 (JCT 2012).[50] Deferring the deduction of interest ex-

50. See Section XI of the Joint Committee on Taxation's re-estimate of the president's budget request for fiscal year 2013 (JCT 2012).

pense related to deferred income would save $59.8 billion.[51] Determining the foreign tax credit on a pooling basis (on the consolidated earnings and foreign taxes paid by all subsidiaries of a multinational corporation) would save $57.1 billion. Taxing excess returns associated with transfers of intangibles offshore would generate $19.2 billion.[52] Disallowing the deduction for non-taxed reinsurance premiums paid to affiliates would save $12.9 billion. Modifying rules for dual capacity taxpayers would save $9.6 billion. Preventing the use of leveraged distributions from related foreign corporations to avoid dividend treatment would raise $3.1 billion. Taxing the gain from sales of partnership interest on a look-through basis would raise $2.5 billion. Limiting earnings stripping by expatriated entities (limiting the deductibility of interest paid so U.S. firms could not inappropriately reduce tax liability from U.S. operations) would generate $1.8 billion. Clarifying tax rules to limit shifting of income through intangible property transfers would generate $1 billion. Extending Section 338(h)(16) to certain asset acquisitions would raise $960 million. Removing foreign taxes from a Section 902 corporation's foreign tax pool when earnings are eliminated would save $354 million.[53]

Eliminate oil and gas preferences

The *Budget for All* would also adopt the proposals contained in the president's budget to eliminate tax preferences carved out over the years for fossil fuel producers, which the JCT estimated would raise $24.9 billion over FY2013–21 (JCT 2012).[54] Eliminating this tax code spending would help level the playing field between renewable energy sources and fossil fuels, complementing the pricing of carbon.[55] For oil and natural gas production, the policy would repeal percentage depletion for oil and natural gas wells, the expensing of intangible drilling costs, the exception to passive loss limitation for working interests in oil and natural gas properties, the deduction for tertiary injectants, and the preferential two-year amortization for independent producers' geological and geophysical expenditures (the amortization period would rise to seven years). For coal production, policies include repeal of the expensing of exploration and development costs, the percentage depletion for coal and hard mineral fossil fuels, and the preferential capital gains treatment for royalties.[56]

Ending Excessive Corporate Deductions for Stock Options Act

Under current law, corporations are allowed to treat stock options asymmetrically for tax and shareholder reporting purposes. When stock options are realized, a corporation is allowed to deduct the value of options at realization (marked to market) for tax purposes, but allowed to report only the value of options when granted to the public, regulators, and investors. This stock option loophole has recently been highlighted by Facebook, which will likely claim around $7.5 billion in deductions as some 187 million options are exercised (Yang 2012). Facebook will be deducting options

51. Multinationals are currently able to deduct some of the interest cost related to deferred source income from controlled foreign subsidiaries not subject to U.S. taxation.

52. Excessive transfer pricing of intangible assets to controlled foreign companies would be treated as Subpart F income subject to taxation regardless of whether income is repatriated.

53. See the Treasury Department's FY2013 Green Book, pp. 85–100, for a full explanation of the administration's proposals to reform the U.S. international tax system (Department of the Treasury 2012).

54. See Section XIII of the Joint Committee on Taxation's re-estimate of the president's budget request for fiscal year 2013 (JCT 2012).

55. See the subsection entitled "Price carbon" later in this working paper.

56. See the Treasury Department's FY2013 Green Book, pp. 111–124, for a full explanation of the administration's proposals to eliminate fossil fuel preferences (Department of the Treasury 2012).

valued at roughly $40 per share for tax purposes but, when reporting on profitability to investors and the public, stock options granted to co-founder Mark Zuckerberg will be reported as only six cents per share. Because of the stock option loophole, Facebook will erase all of its tax liability for the year *and* be refunded roughly $500 million for previously paid taxes—savings of roughly $3 billion (CTJ 2012b).

The *Budget for All* would close this loophole by enacting the *Ending Excessive Corporate Deductions for Stock Options Act of 2011* (S. 1375), which would save $25 billion over FY2013–22 (Levin 2011).[57] Corporations would only be allowed to deduct as much as they expense on their financial statements, and the deduction for stock options would be capped at $1 million, harmonizing the tax treatment of stock options with the cap on deductibility of other executive compensation.

Employee Misclassification Prevention Act

Employers are required to withhold employees' income taxes, withhold employees' share of payroll taxes, and pay their own share of payroll taxes for all employees—but are not required to do any of this for independent contractors. The lack of withholding requirements for independent contractors allows for tax evasion and encourages the re-classification of employees as independent contractors. Misclassifying an employment relationship, particularly treating employees as independent contractors, reduces an employer's tax liability but also undermines labor protections, denying workers access to workers' compensation and overtime pay. The *Budget for All* would enact the *Employee Misclassification Prevention Act* (H.R. 3178), which would increase reporting requirements and impose stiffer fines on violators and repeat offenders misclassifying their employees. The *Employee Misclassification Prevention Act* has not been scored, so the *Budget for All* instead books the $7.6 billion in additional revenue the JCT estimated would be raised by the president's budget's proposal to issue guidance about worker classification and require reclassification of all misclassified workers.[58] This is meant as a conservative estimate.

Repeal the lower-of-cost-or-market ("LCM") method of inventory accounting

The *Budget for All* would also adopt the president's budget's proposals to repeal the lower-of-cost-or-market ("LCM") method of inventory accounting, which the JCT estimated would raise $3 billion over FY2013–21 (JCT 2012).[59] LCM inventory accounting results in asymmetric tax treatment of inventory valuation and understates businesses' taxable income.

Excise taxes and corrective tax policies

Besides taxing work and savings, the government also levies corrective excise taxes to reflect goods' truer societal costs. Taxes on consumer goods such as cigarettes, alcohol, and gasoline are all meant to reflect their negative social externalities. Intuitively, taxing harmful goods or services can be more desirable than taxing productive things (i.e., work and

57. The JCT score of S. 1375 is not publicly available, so we apportion the cumulative $25 billion revenue increase to hold annual savings constant in real dollars.

58. See the Treasury Department's FY2013 Green Book, p. 148, for a full explanation of the administration's proposals to increase certainty with respect to worker classification (Department of the Treasury 2012).

59. See the Treasury Department's FY2013 Green Book, p. 131, for a full explanation of the administration's proposal to repeal LCM inventory accounting (Department of the Treasury 2012).

savings). A number of excise and corrective tax policies would be enacted in the *Budget for All.* These include a financial transactions tax, a financial crisis responsibility fee, carbon pricing, and reinstating Superfund taxes. On net, these policies would save $1.9 trillion over FY2013–22.

Tax financial transactions and speculation

Small taxes on transactions of financial products have the potential to raise large sums of revenue while dampening speculative trading and encouraging more productive investment. The federal government collected general revenue from a stock transfer tax and issuance tax from 1914 to 1966, and a small tax on share issuance and transfers is still in place to finance the operations of the Securities and Exchange Commission (Pollin, Baker, and Schaberg 2002).

The *Budget for All* would institute a financial transactions tax that would raise $849.5 billion over FY2013–22. This is a corrective tax, meant to dampen speculative financial trading. This policy was scored (taking behavioral responses into consideration) by the Tax Policy Center for the Peter G. Peterson Foundation's Fiscal Solutions Initiative.[60] The specified financial transactions tax base was set to tax stock transactions at 0.25 percent, bond transactions at 0.004 percent, option premiums at 0.25 percent per year to maturity, foreign exchange transactions at 0.004 percent, and futures and swaps at 0.01 percent. (Rates are set on a range of financial assets to minimize tax arbitrage opportunities.)

Financial crisis responsibility fee

The *Budget for All* would impose a fee on the largest financial institutions, encouraging large firms to decrease their liabilities and helping to rectify the problem of "too big to fail" financial institutions that was all too apparent during the financial crisis. The proposal would also help to level the playing field between small financial institutions (which do not benefit from an implicit government guarantee because they are not viewed as "systematically important" by credit markets) and larger financial institutions. Specifically, the budget would impose a leverage tax on large banks with more than $50 billion in assets to meet the $90 billion revenue targets set by the president's budget request for FY2011, recouping almost three-fold the net taxpayer cost of the Troubled Asset Relief Program (TARP).[61]

Price carbon

Pricing carbon through either a carbon tax or the auctioning of permits would reduce the emission of GHGs, widely believed to be causing global warming, and also yield significant revenue on an annual basis. This proposal would price carbon at $20 per metric ton of CO2 emissions (CO2e) starting in 2013, indexing the initial price at a 5.6 percent annual rate. The TPC has estimated that this policy would generate $1.2 trillion in revenue over FY2013–22.[62] Based

60. This estimate is based on the Urban-Brookings Tax Policy Center's analysis of *Investing in America's Economy: A Budget Blueprint for Economic Recovery and Fiscal Responsibility,* as adapted and independently scored for the Solutions Initiative and funded by the Peter G. Peterson Foundation. See endnote 14.

61. The CBO estimated that a 0.15 percent leverage tax on covered liabilities of banks with assets exceeding $50 billion would raise $70.9 billion over FY2012–21 (CBO 2011a). Extrapolating from this score, such a leverage tax would raise $75.4 billion over FY2013–21. The *Budget for All* would set the tax rate (and, if needed, tax base) to raise the $90 billion revenue targets in the president's budget for fiscal year 2011, which is well below the societal cost of the financial crisis. The CBO currently estimates the net taxpayer subsidy of TARP at $34 billion (CBO 2011d).

62. This estimate is based on the Urban-Brookings Tax Policy Center's analysis of *Investing in America's Economy: A Budget Blueprint for Economic Recovery and Fiscal Responsibility,* as adapted and independently scored for the Solutions Initiative and funded by the Peter G. Peterson Foundation. See endnote 14.

on the same policy parameters, the CBO estimates that CO_2e would be reduced by 20 percent by 2025 and 50 percent by 2050 (CBO 2011b).

Without other changes, pricing carbon has the potential to be regressive, as many low-income households likely spend a large share of their income on carbon-intensive energy such as gasoline and heating fuel. To address this possibility, the *Budget for All* would rebate a portion of the revenue from carbon abatement to low- and middle-income households. Based on TPC's score of this policy, we estimate that rebating 25 percent of total carbon pricing revenue as refundable tax credits would produce net savings of $897.2 billion over FY2013–22; this is expected to hold harmless roughly the bottom 25 percent of households by income.

Reinstate Superfund taxes

The *Budget for All* would adopt the president's proposal to reinstate Superfund taxes, which would raise an estimated $19.7 billion over FY2013–22 (JCT 2012). The Environmental Protection Agency (EPA) Superfund program was once predominantly funded by dedicated taxes, but it is now largely funded by general revenue. A stable source of funding would allow for better planning for multiyear hazardous chemical waste cleanup than reliance on year-to-year appropriations. This policy would re-impose an excise tax of 9.7 cents per barrel of crude or refined petroleum, an excise tax of $0.22 to $4.87 per ton on various chemicals, and a corporate environmental income tax of 0.12 percent on corporations' modified AMT income exceeding $2 million.[63]

Wealth taxes

Restoring progressive taxation of inherited wealth

The tax on large estates and gifts is the most progressive federal tax and the only existing federal tax on the transfer of wealth (TPC 2011d), but it has been greatly reduced in scope over the last decade. The Bush-era tax cuts gradually increased the estate tax exemption from a scheduled $1 million ($2 million for married couples) to $3.5 million ($7 million for married couples) while reducing the top rate from 55 percent to 45 percent in 2009. The Bush-era tax cuts completely eliminated the estate tax in 2010, exempting bequeathed estates valued in billions of dollars from paying any inheritance tax for one year.[64] As part of the *Tax Relief, Unemployment Insurance Reauthorization, and Job Creation Act of 2010* (P.L. 111-312), Congress reinstated the estate tax at a record exemption of $5 million ($10 million for married couples) and at a lower 35 percent rate for 2011–12, the most generous parameters since 1931 (Jacobson, Raub, and Johnson 2011). Between the exemption and estate tax planning, however, effective rates are much lower than the statutory marginal rate; the effective rate on taxable estates has *never* exceeded 22 percent and fell below 15 percent in 2011 (TPC 2011e). The exemption also means that the reach of the estate tax is minimal; only 0.13 percent of deaths will trigger any estate tax liability in 2011, down slightly from 0.24 percent if the 2009 parameters had been maintained (TPC 2011f).

63. See the Treasury Department's FY2013 Green Book, pp. 126–27, for a full explanation of the administration's proposals to increase certainty with respect to worker classification (Department of the Treasury 2012).

64. For instance, former New York Yankees owner George Steinbrenner, who passed away in 2010, bequeathed an estate worth $1.1 billion. Zero federal tax was paid on this inheritance, whereas estate tax liability would have been closer to $500 million under 2009 parameters and $600 million under 2001 parameters of the estate tax (Wall Street Journal 2010).

Under current law, the estate tax is scheduled to revert to an exemption of $1 million ($2 million for married couples) and a top 55 percent rate on January 1, 2013. CBO's March 2012 current law baseline includes $515.7 billion in estate and gift tax revenue over FY2013–22 (CBO 2012a). A continuation of the temporary estate and gift tax parameters enacted in December 2010, however, would decrease revenue by $433 billion over FY2013–22, relative to current law (OMB 2012a).

Progressive estate tax reform

The *Budget for All* would enact progressive estate tax reform by lowering the exemption and adding a progressive schedule of higher marginal tax rates than under current policy. Starting January 1, 2013, the exemption for the estate tax would be lowered to $2.5 million ($5 million for married couples). The taxable portion of estates beyond these exemptions would be subject to a progressive series of marginal tax rates as follows: a 45 percent rate up to $10 million; a 50 percent rate up to $50 million; a 55 percent rate up to $500 million; and a 65 percent rate on the portion of estates worth more than $500 million. Family farms would also be allowed to lower the value of their farmland by $3 million when calculating estate tax liability. This estate tax reform is a modified version of Sen. Bernie Sanders' (I-Vt.) *Responsible Estate Tax Act of 2010* (S. 3533), but with the exemption lowered to $2.5 million from $3.5 million (to $5 million from $7 million for married couples).[65] If implemented January 1, 2013, we estimate that the *Responsible Estate Tax Act* would result in $243 billion in revenues over FY2013–22 relative to current law, and raise $190 billion more than current estate tax policies.[66] There is no official score of the modified version of the *Responsible Estate Tax Act*, so the *Budget for All* books $243 billion in revenue loss relative to current law—a conservative estimate—but still $190 billion *more* than current policies.

High-net-worth surcharge

The *Budget for All* would work toward reduced inequality, greater progressivity in the tax code, and deficit reduction by instituting a small annual surcharge on high-net-worth individuals. Specifically, the *Budget for All* would phase in a tax on net wealth over $10 million, beginning with a 0.1 percent tax in 2013. The tax would be increased by 0.1 percentage point annually until reaching a 0.5 percent tax in 2017, beyond which the surcharge would remain a constant 0.5 percent on net wealth exceeding $10 million.

We estimate that this policy would increase revenues by $319.1 billion over FY2013–22. The base for this policy score was provided to the EPI Policy Center by economist Edward Wolff of New York University, who estimated that a 1 percent tax on wealth over $10 million would raise $58.7 billion in 2009 and affect just 0.4 percent of the population. The EPI Policy Center adjusted this figure using net wealth data from the Federal Reserve Flow of Funds data, inflating the 2009 revenue estimate with the growth in household net wealth from 2009 through the fourth quarter of 2011 (Federal Reserve 2012). From there, revenue was statically scaled down from a 1 percent to 0.5 percent tax and held constant as a share of GDP. The revenue score, including phase-in period, was calculated in calendar years and then adjusted to fiscal years.

65. See *Sanders Bill Restores Estate Tax on Billionaires* (Sanders 2010).

66. This score is modeled from a June 25, 2010, JCT letter to Sen. Sanders that is not publicly available. JCT estimated that the *Responsible Estate Tax Act* would result in $191.8 billion in revenue loss over FY2010–20, relative to current law.

Adding it all up

The *Budget for All* approaches budgeting by emphasizing economic responsibility in the near term and fiscal responsibility in the longer term. In the first few years of the budget window, the *Budget for All* runs bigger budget deficits than projected under either current law (bigger deficits through FY2016) or current policy (bigger deficits through FY2013). The near-term increase in deficits is overwhelmingly driven by spending increases to support economic recovery (and, to a much lesser extent, targeted job creation tax credits). Relative to current law, the *Budget for All* invests $1.1 trillion over FY2012–15, which includes job creation spending and tax measures, greater public investments in the non-defense discretionary budget, and undoing both phases of the BCA. The job creation measures are particularly front-loaded to address current economic needs: 51 percent of total job creation measures are allocated over FY2012–14, when economic support is most needed (see **Table 2**).[67]

By running larger deficits in the near term, the *Budget for All* delays reaching primary balance until 2016, one year after it is reached under current law. Slowing the rate at which deficit reduction is implemented is a key part of fostering economic recovery; as noted earlier, the fiscal drag scheduled under current law is projected to slow real GDP growth to just 1.1 percent in 2013. The primary spending increase proposed over FY2013–17 totals $1.3 trillion, relative to current law, and $1.0 trillion, relative to current policy.[68] Revenues in the *Budget for All* are $697 billion higher than under current law over the same period, and $3 trillion higher than projected under current policy.

In the latter half of the budget window, the *Budget for All* shifts its focus to longer-term fiscal responsibility, back-loading deficit reduction for a strengthened economy but insuring the full funding of those public investments that are vital for long-term growth. The primary spending increase proposed over FY2018–22 totals $1.0 trillion, relative to current law, and $823 billion, relative to current policy.[69] Over the same period, revenues are $1.7 trillion higher than under current law and $4.8 trillion higher than under current policy. Whereas spending increases are heavily front-loaded in the first half of the budget window, progressive revenue increases ramp up to a greater extent in the latter half of the window, avoiding a bigger fiscal drag than would occur if fiscal retrenchment took hold prematurely. Revenue increases, particularly on upper-income households, are also expected to have much less of an adverse effect on growth than government spending cuts, particularly while large output gaps persist.

The policies outlined in this document result in a deficit of less than 1 percent of GDP from FY2017 through the end of the ten-year window. By FY2022, the *Budget for All* runs a deficit of $180 billion, or 0.7 percent of GDP (see **Figure A**). At the end of the ten-year window, the *Budget for All* would run a deficit $123 billion (0.5 percent of GDP) lower than projected under current law and $1.1 trillion (4.6 percent of GDP) lower than projected under current policy. Cumulative deficits over FY2013–22 are $79 billion higher than under current law and $6.8 trillion lower than under

67. Of $792.6 billion of targeted job creation measures, $405.9 billion is spent out over FY2012–14. These targeted job creation measures exclude the increase in NDD spending which would also boost employment, but is less front-loaded. In addition to these targeted job creation measures, NDD outlays would increase by $304.1 billion over FY2012–14, relative to the CPC adjusted baseline, compared with an increase of $1.6 trillion over FY2012–22

68. The total spending increase (including debt service) proposed over FY2013–17 totals $1.4 trillion, relative to current law, and $951 billion, relative to current policy.

69. Over FY2018–22, total outlays (including debt service) in the *Budget for All* are $1.1 trillion higher than under current law, but $9 billion less than under current policy.

current policy.[70] The *Budget for All* would see debt held by the public peak at 80.4 percent of GDP in FY2014, before dropping to 70.6 percent of GDP by FY2018 and 62.3 percent of GDP by FY2022 (see **Figure B**). By FY2022, the *Budget for All* gets debt held by the public within 1 percentage point of GDP of levels projected under current law, and 27.2 percentage points lower than projected under current policy. The *Budget for All* accommodates larger deficits than the Ryan budget over FY2012–16 and smaller out-year deficits over FY2017–22 (see **Figure C**). The *Budget for All* achieves the same level of debt held by the public by the end of the ten-year budget window as the Ryan budget, but without making harmful cuts to the social safety net and discretionary programs (see **Figure D**). In fact, the *Budget for All* achieves an equivalent level of debt while preserving the safety net, protecting the middle class, and investing heavily in job creation measures.

Appendix I: Mechanics of budget modeling

The Economic Policy Institute has scored the policies proposed by the *Budget for All* and modeled their cumulative impact relative to the CBO March 2012 baseline. **Table 1** stacks the major policy alterations to the CBO March 2012 baseline and broadly separates policy proposals into four categories: baseline adjustments, revenue policies, spending policies, and Social Security reform. All policies are depicted as the net impact on the primary budget deficit (excluding net interest) rather than impact on receipts and outlays. Note that many revenue policies in Table 1 include related outlay effects (i.e., refundable portions of tax credits), and some policies in the spending adjustments include revenue effects. These are treated separately for modeling purposes, and are reflected as such in **Summary Tables 1–6**. Spending changes in Table 1 reflect outlays rather than budget authority. Debt service is calculated from the net fiscal impulse to the primary budget deficit, and the unified budget deficit is adjusted accordingly.[71]

In some instances it is necessary to extrapolate from existing official scores (e.g., those from CBO, JCT, and OMB) to adjust from a previous budget window to the FY2013–22 budget window. In these instances, the out-year scores are adjusted as a rolling average of the change in revenue or outlays for the last three years of an official score. Where available, revenue and outlay effects, as well as on- and off-budget effects, are extrapolated separately. All policy changes affecting Social Security are modeled as off-budget revenue and outlay effects and are reflected in Summary Tables 1–6 as such.

Unless otherwise specified, all tax policies are assumed to be implemented January 1, 2013. Tax policies modeled from scores starting before FY2013 assume 75 percent of the revenue score for that year (for the three fiscal quarters in calendar year 2013). More broadly, fiscal year scores are calculated as 25-75 weighted average calendar year scores where necessary.

Finally, it should be noted that not all possible interaction effects between tax policies are taken into consideration in this budget model; stacking and running all of the tax policies through a microsimulation model was beyond the scope of our technical support for budget modeling. Many of the individual income tax proposals, however, were collectively modeled by the CTJ using the ITEP microsimulation and accordingly account for interaction effects, including those with the AMT and refundable tax credits. Additionally, many of the corporate income tax policies have been taken from

70. Cumulative deficits over FY2012–22 are $245 billion higher than under current law and $6.7 trillion lower than under current policy.

71. Debt service is calculated by the CBO's debt service matrix for the March 2012 baseline.

the JCT's re-estimate of the president's budget request for fiscal year 2013; these policies have been stacked and should have minimal interaction effects.

Appendix II: Individual income tax rate schedule

As detailed in **Section VI**, the *Budget for All* phases out Bush-era individual income tax rate cuts for the top four marginal rates in three steps: 2013, 2017, and 2019. Additionally, five higher tax brackets are added at income thresholds at and above $1 million in taxable income in 2013. The schedule of individual income tax rates across filing status and years of implementation are presented in **Appendix II Tables A, B, and C**. Taxable income thresholds are presented in 2012 dollars for the 10–39.6 percent brackets and 2013 dollars for the 45–49 percent brackets. All tax brackets would be adjusted for inflation beyond 2013.

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Appendix Tables

Appendix II - Table A. Individual Income Tax Structure in the *Budget for All* for Tax Years 2013-2016

Single

Taxable Income		
Over	But not over	Marginal Rate
$0	$8,700	10%
$8,700	$35,350	15%
$35,350	$85,650	25%
$85,650	$195,950	28%
$195,950	$388,350	36%
$388,350	$1,000,000	39.6%
$1,000,000	$10,000,000	45%
$10,000,000	$20,000,000	46%
$20,000,000	$100,000,000	47%
$100,000,000	$1,000,000,000	48%
$1,000,000,000	and over	49%

Married filing jointly

Taxable Income		
Over	But not over	Marginal Rate
$0	$17,400	10%
$17,400	$70,700	15%
$70,700	$142,700	25%
$142,700	$237,700	28%
$237,700	$388,350	36%
$388,350	$1,000,000	39.6%
$1,000,000	$10,000,000	45%
$10,000,000	$20,000,000	46%
$20,000,000	$100,000,000	47%
$100,000,000	$1,000,000,000	48%
$1,000,000,000	and over	49%

Head of household

Taxable Income		
Over	But not over	Marginal Rate
$0	$12,400	10%
$12,400	$47,350	15%
$47,350	$122,300	25%
$122,300	$216,800	28%
$216,800	$388,350	36%
$388,350	$1,000,000	39.6%
$1,000,000	$10,000,000	45%
$10,000,000	$20,000,000	46%
$20,000,000	$100,000,000	47%
$100,000,000	$1,000,000,000	48%
$1,000,000,000	and over	49%

Married filing separately

Taxable Income		
Over	But not over	Marginal Rate
$0	$8,700	10%
$8,700	$35,350	15%
$35,350	$71,350	25%
$71,350	$118,850	28%
$118,850	$194,175	36%
$194,175	$500,000	39.6%
$500,000	$5,000,000	45%
$5,000,000	$10,000,000	46%
$10,000,000	$50,000,000	47%
$50,000,000	$500,000,000	48%
$500,000,000	and over	49%

Sources: TPC 2012b, 2012c

Appendix II - Table B. Individual Income Tax Structure in the *Budget for All* for Tax Years 2017-18

Single

Taxable Income		
Over	But not over	Marginal Rate
$0	$8,700	10%
$8,700	$35,350	15%
$35,350	$85,650	25%
$85,650	$195,950	31%
$195,950	$388,350	36%
$388,350	$1,000,000	39.6%
$1,000,000	$10,000,000	45%
$10,000,000	$20,000,000	46%
$20,000,000	$100,000,000	47%
$100,000,000	$1,000,000,000	48%
$1,000,000,000	and over	49%

Married filing jointly

Taxable Income		
Over	But not over	Marginal Rate
$0	$17,400	10%
$17,400	$70,700	15%
$70,700	$142,700	25%
$142,700	$237,700	31%
$237,700	$388,350	36%
$388,350	$1,000,000	39.6%
$1,000,000	$10,000,000	45%
$10,000,000	$20,000,000	46%
$20,000,000	$100,000,000	47%
$100,000,000	$1,000,000,000	48%
$1,000,000,000	and over	49%

Head of household

Taxable Income		
Over	But not over	Marginal Rate
$0	$12,400	10%
$12,400	$47,350	15%
$47,350	$122,300	25%
$122,300	$216,800	31%
$216,800	$388,350	36%
$388,350	$1,000,000	39.6%
$1,000,000	$10,000,000	45%
$10,000,000	$20,000,000	46%
$20,000,000	$100,000,000	47%
$100,000,000	$1,000,000,000	48%
$1,000,000,000	and over	49%

Married filing separately

Taxable Income		
Over	But not over	Marginal Rate
$0	$8,700	10%
$8,700	$35,350	15%
$35,350	$71,350	25%
$71,350	$118,850	31%
$118,850	$194,175	36%
$194,175	$500,000	39.6%
$500,000	$5,000,000	45%
$5,000,000	$10,000,000	46%
$10,000,000	$50,000,000	47%
$50,000,000	$500,000,000	48%
$500,000,000	and over	49%

Sources: TPC 2012b, 2012c

Appendix II - Table C. Individual Income Tax Structure in the *Budget for All* for Tax Years 2019 and Beyond

Single		
Taxable Income		
Over	But not over	Marginal Rate
$0	$8,700	10%
$8,700	$35,350	15%
$35,350	$85,650	28%
$85,650	$195,950	31%
$195,950	$388,350	36%
$388,350	$1,000,000	39.6%
$1,000,000	$10,000,000	45%
$10,000,000	$20,000,000	46%
$20,000,000	$100,000,000	47%
$100,000,000	$1,000,000,000	48%
$1,000,000,000	and over	49%

Married filing jointly		
Taxable Income		
Over	But not over	Marginal Rate
$0	$17,400	10%
$17,400	$70,700	15%
$70,700	$142,700	28%
$142,700	$237,700	31%
$237,700	$388,350	36%
$388,350	$1,000,000	39.6%
$1,000,000	$10,000,000	45%
$10,000,000	$20,000,000	46%
$20,000,000	$100,000,000	47%
$100,000,000	$1,000,000,000	48%
$1,000,000,000	and over	49%

Head of household		
Taxable Income		
Over	But not over	Marginal Rate
$0	$12,400	10%
$12,400	$47,350	15%
$47,350	$122,300	28%
$122,300	$216,800	31%
$216,800	$388,350	36%
$388,350	$1,000,000	39.6%
$1,000,000	$10,000,000	45%
$10,000,000	$20,000,000	46%
$20,000,000	$100,000,000	47%
$100,000,000	$1,000,000,000	48%
$1,000,000,000	and over	49%

Married filing separately		
Taxable Income		
Over	But not over	Marginal Rate
$0	$8,700	10%
$8,700	$35,350	15%
$35,350	$71,350	28%
$71,350	$118,850	31%
$118,850	$194,175	36%
$194,175	$500,000	39.6%
$500,000	$5,000,000	45%
$5,000,000	$10,000,000	46%
$10,000,000	$50,000,000	47%
$50,000,000	$500,000,000	48%
$500,000,000	and over	49%

Sources: TPC 2012b, 2012c

Tables and Figures

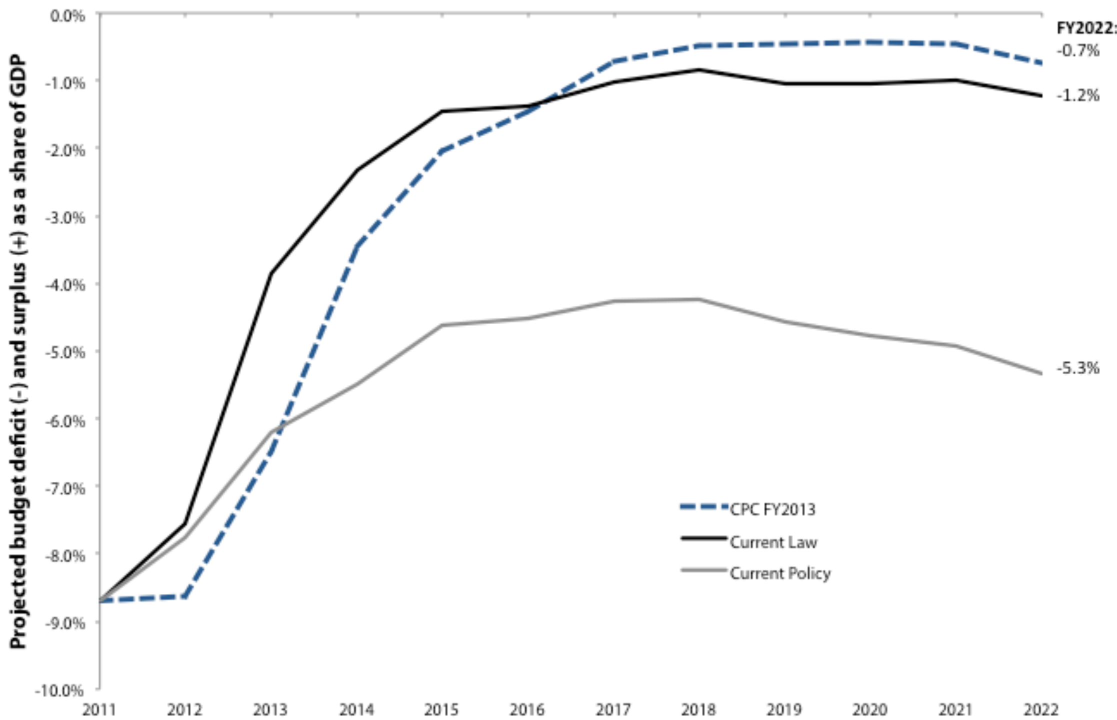
Table 1. Policy Modifications for CPC FY2013 Budget Alternative

CBO March 2012 current law baseline **(Billions of dollars)**	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	Total 2013-2017	Total 2013-2022
Total Deficit	**-1,171**	**-612**	**-385**	**-257**	**-259**	**-201**	**-175**	**-224**	**-234**	**-237**	**-303**	**-1,713**	**-2,887**
Baseline policy adjustments (Impact on primary budget deficit, billions of dollars)													
Remove the BCA - both phases	0	-82	-119	-134	-144	-152	-158	-165	-173	-181	-177	-631	-1,486
Patch AMT	-9	-89	-39	-45	-52	-61	-73	-86	-101	-119	-140	-286	-804
Patch SGR	-9	-19	-21	-23	-26	-29	-32	-36	-40	-43	-47	-119	-316
Net baseline adjustments (Primary impact)	**-18**	**-190**	**-179**	**-202**	**-223**	**-242**	**-263**	**-287**	**-314**	**-343**	**-363**	**-1,036**	**-2,607**
Additional revenue policy adjustments (Impact on primary budget deficit, billions of dollars)													
Bush tax cuts: Maintain credits, 10%, & 15%, extend 28% thru CY16, extend 25% thru CY18, plus Fairness in Taxation Act, equalization, & Obama policy refundable tax credits	0	-143	-191	-200	-212	-219	-233	-222	-229	-247	-267	-966	-2,163
Repeal the step-up basis for capital gains at death	0	18	36	38	41	43	46	48	51	54	58	176	434
Cap the value of item. deductions at 28%	0	20	25	28	30	33	35	59	71	76	81	136	459
Replace the exclusion for state and local government bond interest with a direct subsidy	0	3	6	9	12	16	19	23	26	29	34	46	176
End the exclusion of foreign-earned income	0	4	6	6	7	7	7	8	8	8	9	31	71
Deny the home mortgage interest deduction for yachts and vacation homes	0	1	1	1	1	1	1	1	2	2	2	6	13
NEWT Act	0	1	1	1	1	1	1	1	2	2	2	6	13
Curb corporate deductions for stock options	0	2	2	2	2	2	3	3	3	3	3	12	25
Repeal lower-of-cost-or-marketing (LCM) accounting	0	0	0	1	1	1	0	0	0	0	0	2	3
End direct advertising of certain foods (H.R. 4310)	0	1	1	1	1	1	2	2	2	2	2	7	15
Obama policy reforms to int'l tax system	0	7	15	16	17	18	19	19	20	19	18	73	168
Increase certainty regarding worker classification	0	0	1	1	1	1	1	1	1	1	1	3	8
Eliminate fossil-fuel preferences	0	2	3	3	3	3	3	2	2	2	2	15	25
Price carbon at $20 (refunding 25%)	0	55	76	80	84	88	93	97	103	108	114	383	897
Reinstate Superfund taxes	0	2	2	2	2	2	2	2	2	2	2	9	20
Unemployment Insurance Solvency Act	-5	-6	22	20	10	2	-3	-2	-3	-2	-3	49	36
Financial transactions tax	0	55	76	79	82	86	88	91	94	97	100	378	849
Financial crisis responsibility fee	0	8	8	9	9	9	9	9	9	10	10	43	90
Progressive estate tax reform	0	-12	-19	-22	-23	-24	-26	-27	-28	-30	-31	-101	-243
High net worth surcharge (0.5% over $10 million)	0	5	11	19	27	36	40	42	44	46	48	99	319
Comprehensive immigration reform	0	1	5	0	-3	2	4	4	5	5	3	5	26
Additional spending policy adjustments (Impact on primary budget deficit, billions of dollars)													
Job creation credits and provisions	-96	-177	-99	-71	-26	-11	-12	-12	-13	-14	-15	-395	-449
Investments (NDD plus-ups over removing BCA)	-41	-103	-160	-171	-159	-153	-151	-149	-152	-158	-165	-746	-1,521
President's FY12 surface transportation bill	-6	-13	-15	-18	-22	-25	-28	-30	-30	-30	-30	-93	-241
End OCO (both 050 and 150) after FY13	0	0	79	112	126	132	138	141	144	147	150	449	1,168
Base DoD cuts	0	16	36	56	71	79	85	93	100	104	108	259	749
Negotiate Rx payments for Medicare	0	4	9	10	12	14	16	18	21	24	28	49	156
Public option	0	0	3	6	8	11	14	15	15	15	16	29	104
Reform rules for Rx development/release	0	1	1	1	1	1	2	2	2	2	2	5	15
Reduce fraud, waste, and abuse in Medicaid	0	0	0	0	0	0	0	0	0	0	0	1	3
Reduce agriculture subsidies	0	1	4	4	2	3	4	5	6	5	5	14	40
Public financing of campaigns	0	-1	-1	-1	-1	-1	-1	-1	-1	-1	-1	-5	-11
Social Security Reform (Off-budget primary impact, billions of dollars)													
Scrap the taxable maximum	0	21	51	85	123	163	180	189	196	203	210	444	1,423
Net additional policy adjustments (Primary impact)	**-148**	**-228**	**-2**	**111**	**230**	**322**	**359**	**434**	**470**	**485**	**496**	**421**	**2,676**
Debt service impact of policy adjustments	0	-4	-7	-12	-19	-22	-23	-21	-18	-14	-10	-64	-149
Net impact of policy adjustments	**-166**	**-422**	**-188**	**-104**	**-11**	**58**	**73**	**125**	**138**	**129**	**123**	**-678**	**-79**
CPC FY2013 deficit	**-1,337**	**-1,034**	**-573**	**-361**	**-270**	**-143**	**-102**	**-99**	**-96**	**-109**	**-180**	**-2,391**	**-2,966**

Table 2. Public Investments and Job Creation Provisions in CPC FY2013 Budget Alternative
(Billions of dollars of outlays, relative to current law)

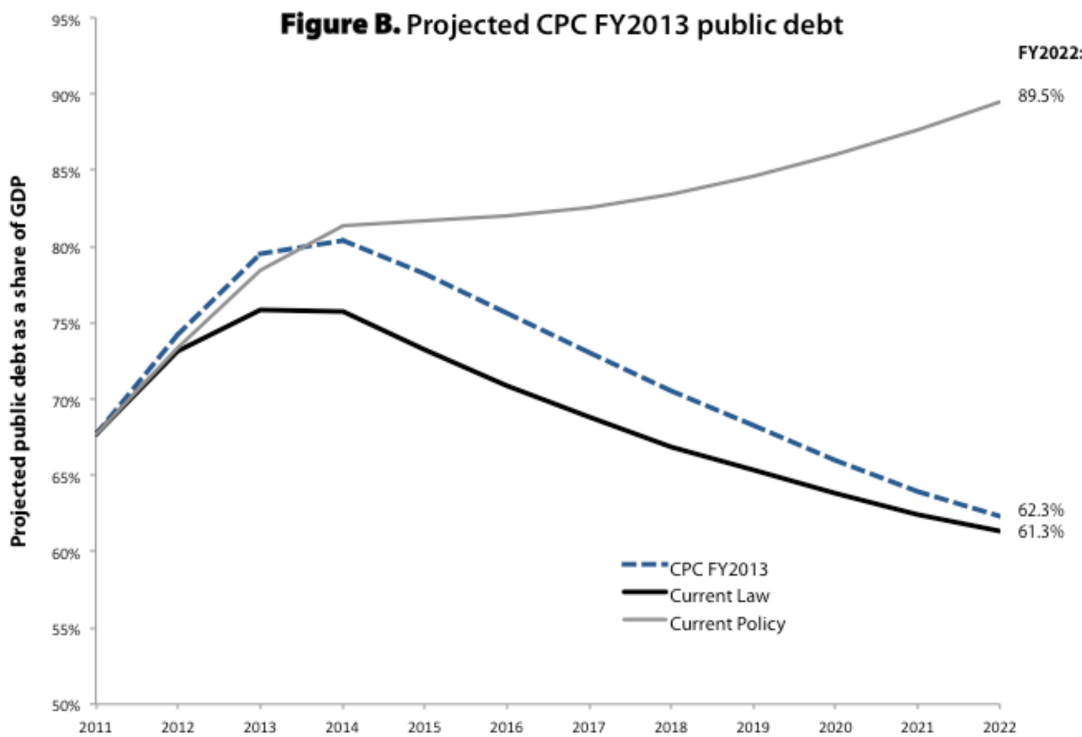
	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	Total 2013-2017	Total 2013-2022	Total 2012-2022
Job Creation Measures														
Policies from the Act for the 99%														
Emergency Jobs to Restore the American Dream	-85.1	-113.5	-28.4	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	**-141.9**	**-141.9**	**-227.0**
Obama's FY12 surface transportation reauthorization	-5.9	-12.9	-15.0	-18.0	-21.6	-25.2	-28.2	-30.0	-30.2	-29.6	-30.2	**-92.8**	**-240.8**	**-246.7**
Reinstate Making Work Pay (CY2013-2015)	0.0	-45.2	-61.0	-61.8	-15.7	0.0	0.0	0.0	0.0	0.0	0.0	**-183.7**	**-183.7**	**-183.7**
Policies from Obama's FY13 Budget														
Provide a temporary 10% tax credit for new jobs and wage increases	-7.2	-10.7	-1.7	-0.7	-0.4	-0.2	0.0	0.0	0.0	0.0	0.0	-20.8	-13.7	**-20.8**
Enhance/make permanent the R&E tax credit	-3.1	-5.3	-6.3	-7.2	-8.2	-9.2	-10.1	-11.0	-12.0	-12.9	-13.9	-39.4	-96.2	**-99.3**
Provide new manufacturing communities tax credit	0.0	0.0	0.0	-0.2	-0.3	-0.5	-0.6	-0.7	-0.7	-0.7	-0.6	-1.0	-4.3	**-4.3**
Provide additional tax credits for investment in qualified property used in a qualified advanced energy manufacturing project	-0.8	-1.4	-0.8	-0.3	-0.2	0.0	0.1	0.1	0.1	0.0	0.0	-3.6	-2.4	**-3.2**
Provide a tax credit for the production of advanced technology vehicles	0.0	0.0	-0.1	-0.2	-0.3	-0.5	-0.4	-0.1	0.0	0.0	0.0	-1.2	-1.7	**-1.7**
Provide a tax credit for medium- and heavy-duty alternative-fuel commercial vehicles	0.0	0.0	-0.2	-0.2	-0.3	-0.3	-0.3	-0.3	0.0	0.0	0.0	-1.0	-1.7	**-1.7**
Double the amount of expensed start-up expenditures	-0.2	-0.3	-0.3	-0.3	-0.3	-0.3	-0.3	-0.3	-0.3	-0.3	-0.3	-1.7	-2.9	**-3.1**
Develop a national network of manufacturing innovation institutes	0.0	-0.2	-0.1	-0.2	-0.2	-0.1	-0.1	0.0	0.0	0.0	0.0	-0.8	-1.0	**-1.0**
Help entrepreneurs and small businesses access capital and grow	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	**0.0**
Subtotal, job creation	-102	-190	-114	-89	-48	-36	-40	-42	-43	-44	-45	-488	-690	**-793**
Public investments in the NDD budget														
Undo the Budget Control Act (both phases)	0	-30	-45	-51	-55	-58	-61	-63	-66	-69	-73	-240	-572	**-572**
Increased investments (NDD plus-ups over removing BCA)	-41	-103	-160	-171	-159	-153	-151	-149	-152	-158	-165	-746	-1,521	**-1,562**
Subtotal, NDD plus-ups	-41	-134	-205	-222	-214	-211	-211	-212	-218	-228	-238	-986	-2,093	**-2,134**
Total, job creation and public investments relative to CBO March 12 current law	-143	-323	-319	-311	-262	-247	-251	-254	-261	-271	-283	-1,474	-2,784	**-2,927**
Addendum: Job creation and investments relative to CPC adjusted baseline	-143	-293	-274	-260	-207	-189	-190	-191	-195	-202	-210	-1,234	-2,212	**-2,355**

Figure A. Projected CPC FY2013 budget deficit and surplus



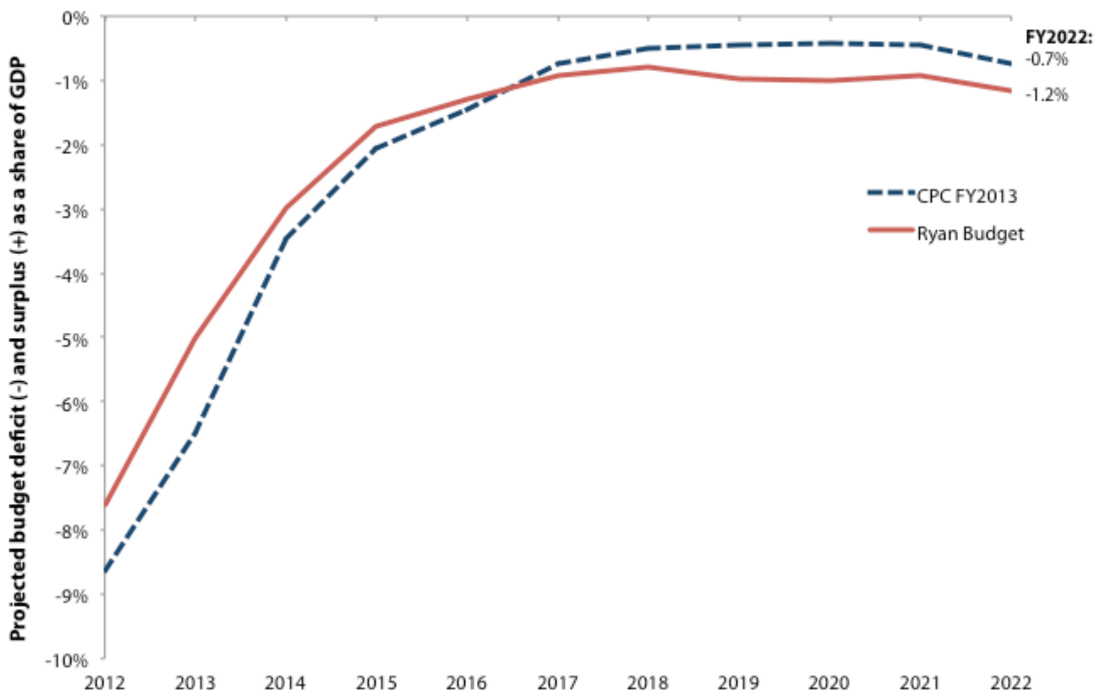
Sources: EPI analysis of CBO, JCT, OMB, TPC, and CTJ data and other sources

Figure B. Projected CPC FY2013 public debt



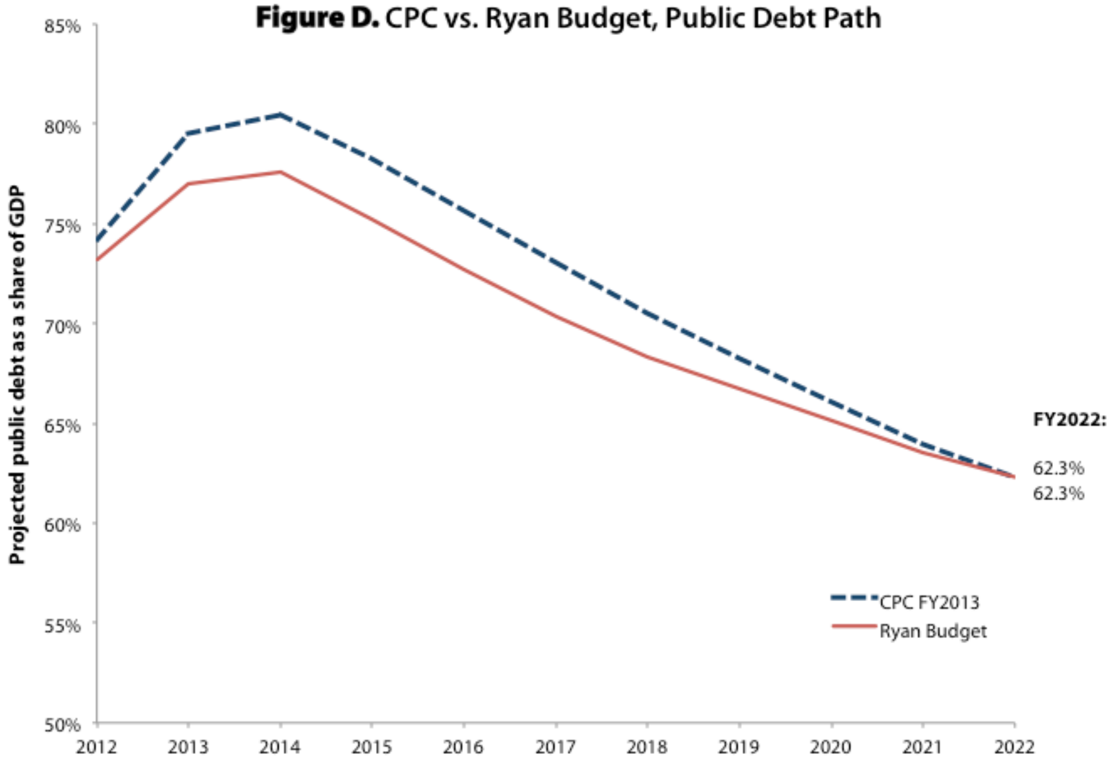
Sources: EPI analysis of CBO, JCT, OMB, TPC, and CTJ data and other sources

Figure C. CPC vs. Ryan Budget, Deficit Path

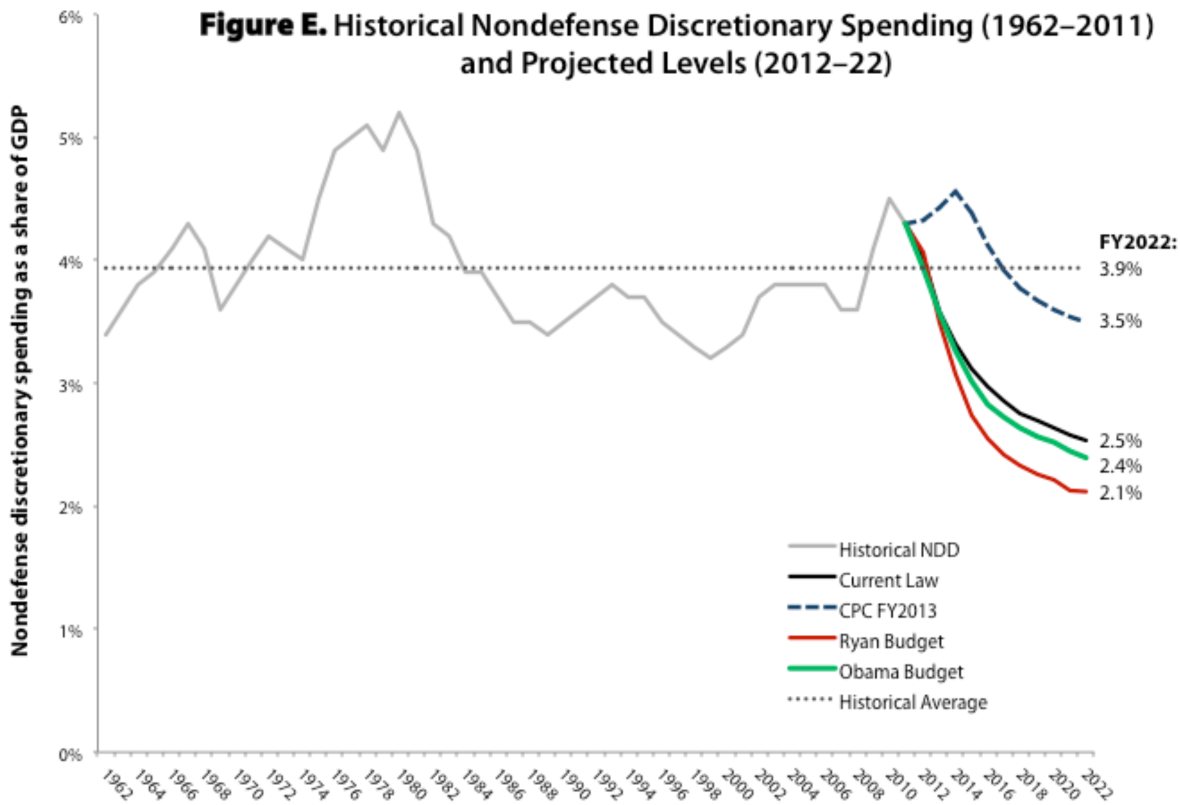


Sources: EPI analysis of CBO, JCT, OMB, TPC, and CTJ data, Ryan budget and other sources

Figure D. CPC vs. Ryan Budget, Public Debt Path



Sources: EPI analysis of CBO, JCT, OMB, TPC, and CTJ data, Ryan budget and other sources



Source: EPI analysis of OMB and CBO data and other sources
Note: For CPC FY13, Highway Trust Fund outlays remain classified as discretionary for the sake of historical comparison.

Summary Tables

Table S-1. Budget Totals ($ Billions)

	Actual, 2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	Total 2013-2017	Total 2013-2022
							In Billions of Dollars							
Revenues														
Individual income taxes	1,091	1,151	1,249	1,450	1,612	1,783	1,946	2,070	2,247	2,399	2,538	2,681	8,040	19,975
Social insurance taxes	819	820	968	1,096	1,192	1,286	1,387	1,465	1,535	1,603	1,674	1,747	5,929	13,952
Corporate income taxes	181	240	316	399	463	489	482	476	464	463	464	470	2,139	4,486
Other	212	221	361	452	478	501	530	552	580	611	640	666	2,322	5,372
Total	**2,303**	**2,431**	**2,894**	**3,398**	**3,745**	**4,059**	**4,346**	**4,563**	**4,826**	**5,075**	**5,316**	**5,563**	**18,430**	**43,785**
On-budget	1,738	1,875	2,197	2,612	2,881	3,107	3,301	3,453	3,661	3,855	4,044	4,237	14,088	33,349
Off-budget	566	556	696	785	864	952	1,045	1,110	1,165	1,220	1,272	1,326	4,342	10,436
Outlays														
Mandatory spending	2,026	2,201	2,326	2,405	2,531	2,704	2,807	2,922	3,110	3,290	3,483	3,731	12,773	29,310
Discretionary spending	1,347	1,343	1,364	1,310	1,277	1,263	1,259	1,266	1,291	1,320	1,355	1,398	6,474	13,103
Net interest	230	224	237	255	298	361	422	477	524	562	587	614	1,574	4,338
Total	**3,603**	**3,769**	**3,927**	**3,971**	**4,106**	**4,328**	**4,489**	**4,665**	**4,925**	**5,171**	**5,425**	**5,743**	**20,821**	**46,751**
On-budget	3,104	3,265	3,288	3,262	3,351	3,527	3,637	3,762	3,967	4,153	4,342	4,592	17,065	37,881
Off-budget	499	503	639	709	755	801	852	903	958	1,018	1,083	1,151	3,757	8,870
Deficit (-) or Surplus	**-1,300**	**-1,337**	**-1,034**	**-573**	**-361**	**-270**	**-143**	**-102**	**-99**	**-96**	**-109**	**-180**	**-2,391**	**-2,966**
On-budget	-1,367	-1,390	-1,091	-649	-470	-420	-336	-310	-306	-297	-298	-355	-2,977	-4,532
Off-budget	67	53	57	77	109	151	193	207	207	201	190	175	586	1,567
Primary Budget Deficit	-1,070	-1,113	-797	-317	-63	92	279	375	425	465	478	434	-817	1,372
Debt Held by the Public	10,128	11,513	12,656	13,332	13,789	14,154	14,392	14,580	14,757	14,929	15,109	15,360	n.a.	n.a.

Table S-2. Budget Totals (% GDP)

	Actual, 2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	Total 2013-2017	Total 2013-2022
	As a Percentage of Gross Domestic Product													
Revenues														
Individual income taxes	7.3%	7.4%	7.8%	8.8%	9.2%	9.5%	9.9%	10.0%	10.4%	10.6%	10.7%	10.9%	9.1%	9.9%
Social insurance taxes	5.5%	5.3%	6.1%	6.6%	6.8%	6.9%	7.0%	7.1%	7.1%	7.1%	7.1%	7.1%	6.7%	6.9%
Corporate income taxes	1.2%	1.5%	2.0%	2.4%	2.6%	2.6%	2.4%	2.3%	2.1%	2.0%	2.0%	1.9%	2.4%	2.2%
Other	1.4%	1.4%	2.3%	2.7%	2.7%	2.7%	2.7%	2.7%	2.7%	2.7%	2.7%	2.7%	2.6%	2.7%
Total	**15.4%**	**15.7%**	**18.2%**	**20.5%**	**21.3%**	**21.7%**	**22.0%**	**22.1%**	**22.3%**	**22.5%**	**22.5%**	**22.6%**	**20.8%**	**21.7%**
On-budget	11.6%	12.1%	13.8%	15.8%	16.4%	16.6%	16.7%	16.7%	16.9%	17.1%	17.1%	17.2%	15.9%	16.5%
Off-budget	3.8%	3.6%	4.4%	4.7%	4.9%	5.1%	5.3%	5.4%	5.4%	5.4%	5.4%	5.4%	4.9%	5.2%
Outlays														
Mandatory	13.6%	14.2%	14.6%	14.5%	14.4%	14.5%	14.2%	14.1%	14.4%	14.6%	14.8%	15.1%	14.4%	14.5%
Discretionary	9.0%	8.7%	8.6%	7.9%	7.2%	6.8%	6.4%	6.1%	6.0%	5.8%	5.7%	5.7%	7.3%	6.5%
Net interest	1.5%	1.4%	1.5%	1.5%	1.7%	1.9%	2.1%	2.3%	2.4%	2.5%	2.5%	2.5%	1.8%	2.2%
Total	**24.1%**	**24.3%**	**24.7%**	**24.0%**	**23.3%**	**23.1%**	**22.8%**	**22.6%**	**22.8%**	**22.9%**	**23.0%**	**23.3%**	**23.5%**	**23.2%**
On-budget	20.8%	21.1%	20.7%	19.7%	19.0%	18.9%	18.5%	18.2%	18.4%	18.4%	18.4%	18.6%	19.3%	18.8%
Off-budget	3.3%	3.2%	4.0%	4.3%	4.3%	4.3%	4.3%	4.4%	4.4%	4.5%	4.6%	4.7%	4.2%	4.4%
Deficit (-) or Surplus	**-8.7%**	**-8.6%**	**-6.5%**	**-3.5%**	**-2.0%**	**-1.4%**	**-0.7%**	**-0.5%**	**-0.5%**	**-0.4%**	**-0.5%**	**-0.7%**	**-2.7%**	**-1.5%**
On-budget	-9.1%	-9.0%	-6.9%	-3.9%	-2.7%	-2.2%	-1.7%	-1.5%	-1.4%	-1.3%	-1.3%	-1.4%	-3.4%	-2.2%
Off-budget	0.4%	0.3%	0.4%	0.5%	0.6%	0.8%	1.0%	1.0%	1.0%	0.9%	0.8%	0.7%	0.7%	0.8%
Primary Budget Deficit	-7.2%	-7.2%	-5.0%	-1.9%	-0.4%	0.5%	1.4%	1.8%	2.0%	2.1%	2.0%	1.8%	-0.9%	0.7%
Debt Held by the Public	67.7%	74.2%	79.5%	80.4%	78.3%	75.7%	73.0%	70.6%	68.3%	66.0%	64.0%	62.3%		

Table S-3. The Budget for All vs. Current Law ($ Billions)

	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	Total 2013-2017	Total 2013-2022
						In Billions of Dollars							
Impact on Revenues													
Individual income taxes	-9	-216	-154	-164	-144	-136	-149	-118	-121	-143	-167	-814	-1,511
Social insurance taxes	-5	16	76	112	141	174	188	199	206	214	222	519	1,547
Corporate income taxes	-11	-5	13	16	16	15	15	14	14	12	11	43	121
Other	0	130	179	193	209	226	237	247	258	270	281	937	2,230
Total	**-25**	**-75**	**115**	**156**	**221**	**279**	**291**	**343**	**356**	**354**	**346**	**686**	**2,387**
On-budget	-25	-96	61	65	90	107	100	142	147	137	121	216	876
Off-budget	0	21	54	91	130	173	191	200	209	217	224	469	1,511
Impact on Outlays													
Mandatory spending	-100	-198	-180	-170	-170	-174	-180	-187	-194	-200	-196	-891	-1,848
Discretionary spending	-41	-146	-115	-79	-43	-26	-15	-9	-7	-12	-17	-409	-470
Net interest	0	-4	-7	-12	-19	-22	-23	-21	-18	-14	-10	-64	-149
Total	**-142**	**-347**	**-303**	**-261**	**-232**	**-221**	**-218**	**-217**	**-219**	**-225**	**-223**	**-1,364**	**-2,466**
On-budget	-142	-347	-303	-260	-231	-220	-216	-214	-214	-219	-215	-1,361	-2,438
Off-budget	0	0	0	0	-1	-2	-2	-4	-5	-6	-8	-3	-28
Deficit (-) or Surplus	**-166**	**-422**	**-188**	**-104**	**-11**	**58**	**73**	**125**	**138**	**129**	**123**	**-678**	**-79**
On-budget	-166	-443	-241	-195	-141	-113	-115	-71	-67	-82	-93	-1,144	-1,561
Off-budget	0	21	54	91	130	171	188	197	205	211	216	466	1,482
Primary Budget Deficit	-166	-418	-180	-92	8	80	96	147	155	142	132	-614	70
Debt Held by the Public	166	588	775	880	891	833	760	634	497	368	245	n.a.	n.a.

Table S-4. The Budget for All vs. Current Law (% GDP)

	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	Total 2013-2017	Total 2013-2022
	As a Percentage of Gross Domestic Product												
Revenues													
Individual income taxes	-0.1%	-1.4%	-0.9%	-0.9%	-0.8%	-0.7%	-0.7%	-0.5%	-0.5%	-0.6%	-0.7%	-0.9%	-0.7%
Social insurance taxes	0.0%	0.1%	0.5%	0.6%	0.8%	0.9%	0.9%	0.9%	0.9%	0.9%	0.9%	0.6%	0.8%
Corporate income taxes	-0.1%	0.0%	0.1%	0.1%	0.1%	0.1%	0.1%	0.1%	0.1%	0.1%	0.0%	0.0%	0.1%
Other	0.0%	0.8%	1.1%	1.1%	1.1%	1.1%	1.1%	1.1%	1.1%	1.1%	1.1%	1.1%	1.1%
Total	**-0.2%**	**-0.5%**	**0.7%**	**0.9%**	**1.2%**	**1.4%**	**1.4%**	**1.6%**	**1.6%**	**1.5%**	**1.4%**	**0.8%**	**1.2%**
On-budget	-0.2%	-0.6%	0.4%	0.4%	0.5%	0.5%	0.5%	0.7%	0.7%	0.6%	0.5%	0.2%	0.4%
Off-budget	0.0%	0.1%	0.3%	0.5%	0.7%	0.9%	0.9%	0.9%	0.9%	0.9%	0.9%	0.5%	0.7%
Outlays													
Mandatory	-0.6%	-1.2%	-1.1%	-1.0%	-0.9%	-0.9%	-0.9%	-0.9%	-0.9%	-0.8%	-0.8%	-1.0%	-0.9%
Discretionary	-0.3%	-0.9%	-0.7%	-0.4%	-0.2%	-0.1%	-0.1%	0.0%	0.0%	0.0%	-0.1%	-0.5%	-0.2%
Net interest	0.0%	0.0%	0.0%	-0.1%	-0.1%	-0.1%	-0.1%	-0.1%	-0.1%	-0.1%	0.0%	-0.1%	-0.1%
Total	**-0.9%**	**-2.2%**	**-1.8%**	**-1.5%**	**-1.2%**	**-1.1%**	**-1.1%**	**-1.0%**	**-1.0%**	**-1.0%**	**-0.9%**	**-1.5%**	**-1.2%**
On-budget	-0.9%	-2.2%	-1.8%	-1.5%	-1.2%	-1.1%	-1.0%	-1.0%	-0.9%	-0.9%	-0.9%	-1.5%	-1.2%
Off-budget	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Deficit (-) or Surplus	**-1.1%**	**-2.6%**	**-1.1%**	**-0.6%**	**-0.1%**	**0.3%**	**0.4%**	**0.6%**	**0.6%**	**0.5%**	**0.5%**	**-0.8%**	**0.0%**
On-budget	-1.1%	-2.8%	-1.5%	-1.1%	-0.8%	-0.6%	-0.6%	-0.3%	-0.3%	-0.3%	-0.4%	-1.3%	-0.8%
Off-budget	0.0%	0.1%	0.3%	0.5%	0.7%	0.9%	0.9%	0.9%	0.9%	0.9%	0.9%	0.5%	0.7%
Primary Budget Deficit	-1.1%	-2.6%	-1.1%	-0.5%	0.0%	0.4%	0.5%	0.7%	0.7%	0.6%	0.5%	-0.7%	0.0%
Debt Held by the Public	1.1%	3.7%	4.7%	5.0%	4.8%	4.2%	3.7%	2.9%	2.2%	1.6%	1.0%	n.a.	n.a.

Table S-5. The Budget for All vs. the Ryan Budget ($ Billions)

	In Billions of Dollars											Total 2013-2022
	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	
The Budget for All												
Revenues	2,431	2,894	3,398	3,745	4,059	4,346	4,563	4,826	5,075	5,316	5,563	43,785
Outlays	3,769	3,927	3,971	4,106	4,328	4,489	4,665	4,925	5,171	5,425	5,743	46,751
Deficit (-) or Surplus	-1,337	-1,034	-573	-361	-270	-143	-102	-99	-96	-109	-180	-2,966
Debt Held by the Public	11,513	12,656	13,332	13,789	14,154	14,392	14,580	14,757	14,929	15,109	15,360	n.a.
The Ryan Budget												
Revenues	2444	2,734	2,980	3,232	3,449	3,642	3,811	3,986	4,184	4,388	4,601	37,008
Outlays	3624	3,530	3,476	3,536	3,690	3,824	3,977	4,199	4,409	4,605	4,888	40,135
Deficit (-) or Surplus	-1180	-797	-496	-304	-241	-182	-166	-213	-225	-217	-287	-3127
Debt Held by the Public	11355	12,261	12,861	13,260	13,597	13,874	14,126	14,417	14,717	15,005	15,364	n.a.
The Budget for All less the Ryan Budget												
Revenues	-13	160	418	513	610	704	752	840	891	928	962	6,777
Outlays	145	397	495	570	638	665	688	726	762	820	855	6,616
Deficit (-) or Surplus	-157	-237	-77	-57	-29	39	64	114	129	108	107	161
Debt Held by the Public	158	395	471	529	557	518	454	340	212	104	-4	n.a.

Table S-6. The Budget for All vs. the Ryan Budget (% GDP)

	As a Percentage of Gross Domestic Product											Total
	2012	**2013**	**2014**	**2015**	**2016**	**2017**	**2018**	**2019**	**2020**	**2021**	**2022**	**2013-2022**
The Budget for All												
Revenues	15.7%	18.2%	20.5%	21.3%	21.7%	22.0%	22.1%	22.3%	22.5%	22.5%	22.6%	21.7%
Outlays	24.3%	24.7%	24.0%	23.3%	23.1%	22.8%	22.6%	22.8%	22.9%	23.0%	23.3%	23.2%
Deficit (-) or Surplus	-8.6%	-6.5%	-3.5%	-2.0%	-1.4%	-0.7%	-0.5%	-0.5%	-0.4%	-0.5%	-0.7%	-1.5%
Debt Held by the Public	74.2%	79.5%	80.4%	78.3%	75.7%	73.0%	70.6%	68.3%	66.0%	64.0%	62.3%	n.a.
The Ryan Budget												
Revenues	15.8%	17.2%	18.0%	18.3%	18.4%	18.5%	18.4%	18.4%	18.5%	18.6%	18.7%	18.4%
Outlays	23.4%	22.2%	21.0%	20.1%	19.7%	19.4%	19.2%	19.4%	19.5%	19.5%	19.8%	19.9%
Deficit (-) or Surplus	-7.6%	-5.0%	-3.0%	-1.7%	-1.3%	-0.9%	-0.8%	-1.0%	-1.0%	-0.9%	-1.2%	-1.6%
Debt Held by the Public	73.2%	77.0%	77.6%	75.3%	72.7%	70.4%	68.4%	66.7%	65.1%	63.5%	62.3%	n.a.
The Budget for All less the Ryan Budget												
Revenues	-0.1%	1.0%	2.5%	2.9%	3.3%	3.6%	3.6%	3.9%	3.9%	3.9%	3.9%	3.4%
Outlays	0.9%	2.5%	3.0%	3.2%	3.4%	3.4%	3.3%	3.4%	3.4%	3.5%	3.5%	3.3%
Deficit (-) or Surplus	-1.0%	-1.5%	-0.5%	-0.3%	-0.2%	0.2%	0.3%	0.5%	0.6%	0.5%	0.4%	0.1%
Debt Held by the Public	1.0%	2.5%	2.8%	3.0%	3.0%	2.6%	2.2%	1.6%	0.9%	0.4%	0.0%	n.a.