Republican Conference Rapid Response to the President's Budget Speech

Tax Increases

The President proposes to enact the largest tax increase in American history and repeal tax relief for "the wealthiest Americans." We have debts and deficits because Washington spends too much, not because the American people are taxed too little. Deficits are the symptom, spending is the disease.

This is a 100 percent spending-driven debt crisis. Under CBO's current baseline, tax revenues are expected to average 19.7 percent of the economy, near its historic average. Spending, meanwhile, is expected to average 23.4 percent of the economy, far above the post-World War II average. In order to balance the budget by only raising taxes, it would require a 60 percent across-the-board tax increase over the next ten years or over the long run, "tax rates would have to more than double" according to CBO. This historic and unnecessary tax increase will cripple the economy and destroy jobs.

After Republicans provided every taxpayer in the U.S. with tax relief during the last decade, the amount of revenue collected by the government went up by $700 billion over five years and the deficit went down.[1] If the President wanted to increase government revenue, he should join Republicans in our call for the fundamental tax reform that Americans have demanded. That reform would make the tax code simpler, flatter, fairer, globally competitive and less burdensome for small businesses. Republicans believe that we should reform the tax code without imposing job-destroying tax hikes.

More than 75 percent of America's small businesses file their taxes as individuals.[2] Half of them would suffer a tax increase under the President's proposed tax increases, hurting their ability to hire more workers and pay their current workers more. An increase the top two rates would impact small businesses that employ approximately 22.5 million workers.[3] As the National Federal of Independent Businesses said just months ago, "Raising the top marginal tax rate would have hit small businesses the hardest just when the country needs them to invest, expand and hire new workers."

See the table below provided by the Tax Foundation for more information regarding how the income tax burden is distributed.

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1 http://www.whitehouse.gov/sites/default/files/omb/budget/fy2011/assets/hist01z1.xls
2 http://www.nfib.com/issues-elections/issues-elections-item?cmsid=55931
3 According to House Budget Committee analysis, 50 percent of all pass-throughs would be impacted by an increase in the top two tax tiers. SBA says that there are 60 million small businesses. If 75 percent are pass-throughs and 50 percent of those are subject to top-tier tax rates, than an increase the top-two rates would impact small businesses that employ approximately 22.5 million workers.

Taxpayers by Earnings	Percentage of Income Taxes paid
Top 1%	38.02%
Top 5%	58.72%
Top 10%	69.94%
Top 25%	86.34%
Top 50%	97.30%
Bottom 50%	2.70%

Deficit Reduction

The President's deficit reduction relies upon the largest tax increase in American history and a "debt failsafe" that will exempt almost 60 percent of government spending. The President's proposed deficit trigger would exempt spending on Medicare, Social Security, Medicaid and other low-income benefits. These categories accounted for 60 percent of all spending in 2010, according to CBO and OMB.[4]

By exempting the main drivers of our spending crisis, the President's trigger proposal would force an automatic tax increase on our nation's job creators and require significant cuts to national security spending.

In addition to ignoring the main drivers of spending with his deficit trigger, the President proposed a meager reduction in non-security spending compared to the Path to Prosperity. Under the President's proposal, non-security spending would be reduced by $770 billion by 2023. The Path to Prosperity, on the other hand, would reduce non-security spending by $1.6 trillion relative to CBO's baseline and by $923 billion compared to the President's original budget proposal.[5]

Social Security

The President's framework denies the findings of his own Social Security Trustees that the program is going bankrupt and, by embracing the status quo, the President is endorsing a 22 percent benefit cut in the coming years. According to the Social Security Trustees, "scheduled benefits would be reduced 22 percent at the point of trust fund exhaustion in 2037"[6]

[4] http://www.cbo.gov/ftpdocs/120xx/doc12039/01-26_FY2011Outlook.pdf
[5] http://www.gop.gov/resources/library/documents/budget/path-to-prosperity.pdf
[6] http://www.ssa.gov/oact/tr/2010/II_conclu.html

The Path to Prosperity heads off a crisis by forcing action from the President and both chambers of Congress to ensure the solvency of this critical program – creating the space for bipartisan solutions. The President's proposal punts on the issue of Social Security, implicitly endorsing scheduled benefit cuts over reform to save the system.

Medicare

The President's framework appears to embrace Medicare savings that will impose more health care rationing and price controls. The President would double-down on ObamaCare's promise to ration and control Medicare benefits by increasing the power of the Independent Payment Advisory Board (IPAB), a board of bureaucrats empowered to make global budgetary decisions for the Medicare program. Under the plan, the 15-member IPAB would be mandated to somehow lower the cost of Medicare, most likely by lowering the quality of care or limiting access to it.

In addition, according to the President's own proposal, the true savings from the plan would do nothing to save the Medicare trust fund from insolvency in nine years. The White House fact sheet claims $340 billion in savings over ten years, "an amount sufficient to fully pay to reform the Medicare Sustainable Growth Rate (SGR) physician payment formula while still reducing the deficit." However, the President's budget estimated the cost of a ten-year "doc fix" at $370 billion, and CBO estimates the net cost at $297.6 billion over ten years. Assuming Congress utilizes the President's proposed savings to fund a "doc fix," the net deficit reduction from the White House's health proposals will be $42.4 billion over ten years. Meanwhile, the Medicare Hospital Insurance Trust Fund is scheduled to be insolvent in nine years according to CBO. And the President's proposal would do nothing to reduce spending on the $2.6 trillion new entitlement created under the health care law.

Rather than increasing rationing and price controls, the Path to Prosperity would control Medicare costs through personalized choice and competition, ensuring that patients and doctors are at the center of health care in the United States. The Path to Prosperity repeals and defunds the President's government takeover of health care law, ensuring that not a penny is spent on the law that was enacted last year. Instead, it moves toward patient-centered reform. The Path to Prosperity also stops the raid on the Medicare trust fund that was going to be used to pay for the President's takeover of health care. Any current-law Medicare savings must go to saving Medicare, not financing the creation of new government takeover of health-care.

Tax Reform

The President's framework reforms the tax code by confirming his first budget's proposal to enact the largest tax increase in history. While the President echoes Republicans' call to eliminate tax loopholes, he fails to assure our nation's job creators that our complicated and costly system will be replaced by a fairer, flatter tax code that will lower taxes. The President is instead calling for a net tax increase as a way to fund our spending driven debt crisis. The

President's proposal includes no safeguard to ensure that savings from closing tax loopholes will go to paying off our debt.

The Path to Prosperity would bring about true pro-growth tax reform that would end loopholes, preferences and corporate welfare without increasing taxes on families and job creators.

Timing

It appears that all – or the bulk of – the framework will begin after the President's re-election campaign has concluded. Every deficit reduction benchmark in the proposal is implemented over a time span that ends in 2023. Assuming the President's proposal is implemented over a standard 10-year budget window, these proposals are not meant to begin until 2013. As the President's own Fiscal Commission said, "The American people are a long way ahead of the political system in recognizing that now is the time to act." Our nation is facing a crisis now and we cannot wait until after presidential elections have taken place to start putting our fiscal house in order.