Just How Big is the Tax Bill?

C. Eugene Steuerle

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There is virtually zero possibility now that a tax bill costing approximately $800 billion over 10 years is going to be enacted. President Clinton has promised to veto any legislation of that size, and there is even some doubt as to whether a compromise can be reached on a smaller bill. Still, regardless of what eventually happens, it is worth asking just how large the nearly $800 billion Taxpayer Refund and Relief Act of 1999 recently passed by Congress really is, and how it would compare to past tax legislation.

For the Taxpayer Refund and Relief Act, the cost total itself is confusing for a variety of reasons. Summing it up for 10 years makes it look a lot larger than it is. And because the implementation of many of the bill's provisions are delayed for many years, the annual costs in the first few years are misleadingly small.

Fortunately, the Joint Committee on Taxation has published estimates of the cost of the bill for the next 10 years, so we can gain some perspective by looking at both annual and total figures. Frank Sammartino of the Urban Institute, moreover, has compiled from Congressional Budget Office figures the revenue effects for the first few years of other major tax bills going back to 1981; so some comparisons can be made, although 10-year estimates are available only for the 1997 tax law and the 1999 bill. See table below.

Here are some of the conclusions that can be drawn from those comparisons:

- From 1981 to the end of the century, there have been only two significant tax cuts, in 1981 and 1997. A tax cut this year would be only the third. Outside of the Tax Reform Act of 1986, which was roughly revenue-neutral, all other major tax acts during the period were part of deficit reduction efforts, usually enacted side-by-side with other budget legislation that cut back on expenditures and met budget reconciliation targets.
- No bill—tax cut or tax increase—during the period is anywhere near to the size of the 1981 tax legislation. By the fifth year, the Economic Recovery Tax Act of 1981 was scheduled to reduce taxes by some 5.5 percent of gross domestic product (GDP), although about one-quarter to one-third of those cuts were never allowed to be implemented; they were offset by legislation in the next three years.
- Unlike the 1997 tax cut, the proposed 1999 legislation delays most of its cost until 5 or 10 years from enactment. Indeed, the 1997 act granted as much relief up front as would the much larger Taxpayer Refund and Relief Act of 1999. One reason for the larger "out-years" cost of the proposed legislation is the delayed phase-in of provisions such as estate tax relief. Another is that the 1999 bill attacks some problems with very large out-years growth, such as the alternative minimum tax for individuals. A third reason is that some of the major provisions of the Taxpayer Relief Act of 1997 were items like child credits that once fully implemented, were scheduled to grow at a slower rate than the economy. Even the 1981 tax cut, despite its much larger size, for the most part was implemented long before the 9th or 10th year.
- When it comes to sheer size, it is hard to believe that any of the tax bills enacted in the 1980s and the 1990s are going to make the history books. Perhaps the 1981 tax cut is an exception. But except for its indexing of tax brackets for inflation (an item barely reflected in the table above since it was not effective until years after 1984), the revenue losses to the Treasury from that law were offset by later enactments. Federal taxes today are a larger percentage of GDP than in 1981. Even the 1993 tax law, touted for its deficit reducing effects, is relatively small in size and had only a modest role in the total deficit reduction during the 1990s. Its importance lies more in what it prevented: Congress and the new president could have gone on a binge of expenditure increases and tax cuts.
- This two-decade fiscal history shows that Congress and the White House often move in different and sometimes contradictory directions every few years. For example, President Reagan goes from tax cuts to tax increases, President Clinton from tax increases to tax cuts. In that type of world, does it make sense to enact provisions that will not even go into full effect until the nation will be under its second, if not third, successor to Bill Clinton?

Revenue Loss Following Enactment of Tax Legislation (Percentage of GDP)											
	Year of Enactment	**Fiscal Year**									
		+1	+2	+3	+4	+5	+6	+7	+8	+9	+10
Economic Recovery Tax Act of 1981	-0.1%	-1.2%	-2.6%	-3.7%	-4.5%	-5.5%					
Tax Equity and Fiscal Responsibility Act of 1982	0.0%	0.5%	1.0%	1.0%	1.1%	1.3%					
Deficit Reduction Act of 1984	0.0%	0.3%	0.4%	0.5%	0.5%	0.5%					
Tax Reform Act of 1986	0.0%	0.3%	-0.3%	-0.3%	0.1%	0.2%					
Omnibus Budget Reconciliation Act of 1987	0.0%	0.2%	0.3%	0.3%	0.2%	0.2%					
Omnibus Budget Reconciliation Act of 1989	0.0%	0.1%	0.1%	0.1%	0.1%	0.1%					
Omnibus Budget Reconciliation Act of 1990	0.0%	0.3%	0.5%	0.4%	0.4%	0.4%					
Omnibus Budget Reconciliation Act of 1993	0.0%	4%	0.6%	0.7%	0.7%	0.7%					
Taxpayer Relief Act of 1997	0.0%	-0.1%	-0.1%	-0.3%	-0.3%	-0.2%	-0.3%	-0.3%	-0.3%	-0.3%	-0.3%
Taxpayer Refund and Relief Act of 1999	0.0%	-0.1%	0.0%	-0.3%	-0.5%	-0.6%	-0.8%	-1.0%	-1.1%	-1.3%	-0.9%

Other Publications by the Authors

- C. Eugene Steuerle