



Center for Public Policy Priorities

Background on Federal Tax Cuts, Federal Spending, the Cost of Katrina Relief, and Federal Budget Deficits

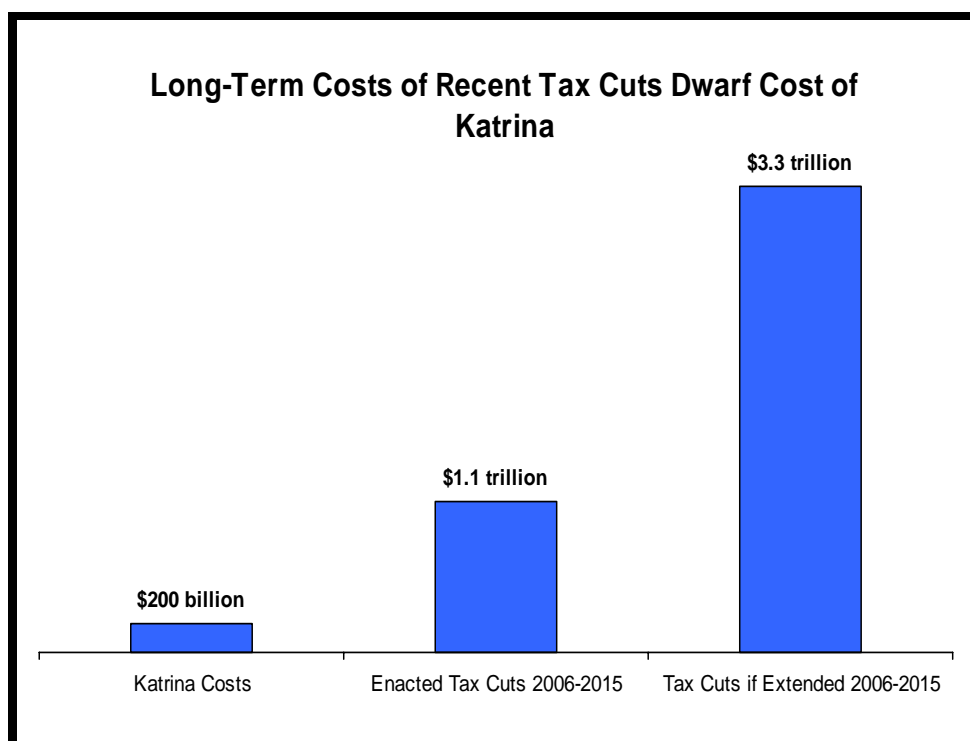
Provided below are some key facts and graphics illustrating how federal tax cuts enacted since 2001—and the current push to extend and expand those tax cuts—are the main reason why we now have a federal deficit, face questions about whether and how we can pay for Katrina and Rita rebuilding, and face new cuts to Medicaid, Food Stamps, student loans, and other critical programs.

The graphics and information are drawn from the carefully documented work of the **Center on Budget and Policy Priorities in Washington, D.C.** Also provided are links to the CBPP's detailed reports, from which the information is drawn.

Federal Tax Cuts of 2001, 2003 Cost More Each Year than Total Amount Likely to be Spent on Katrina

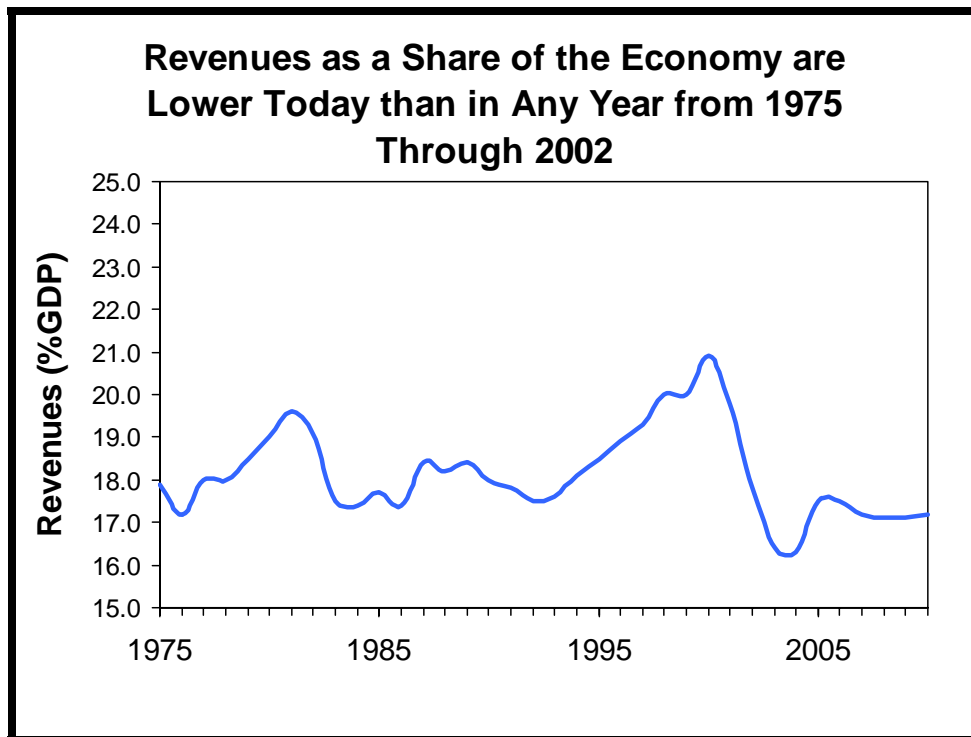
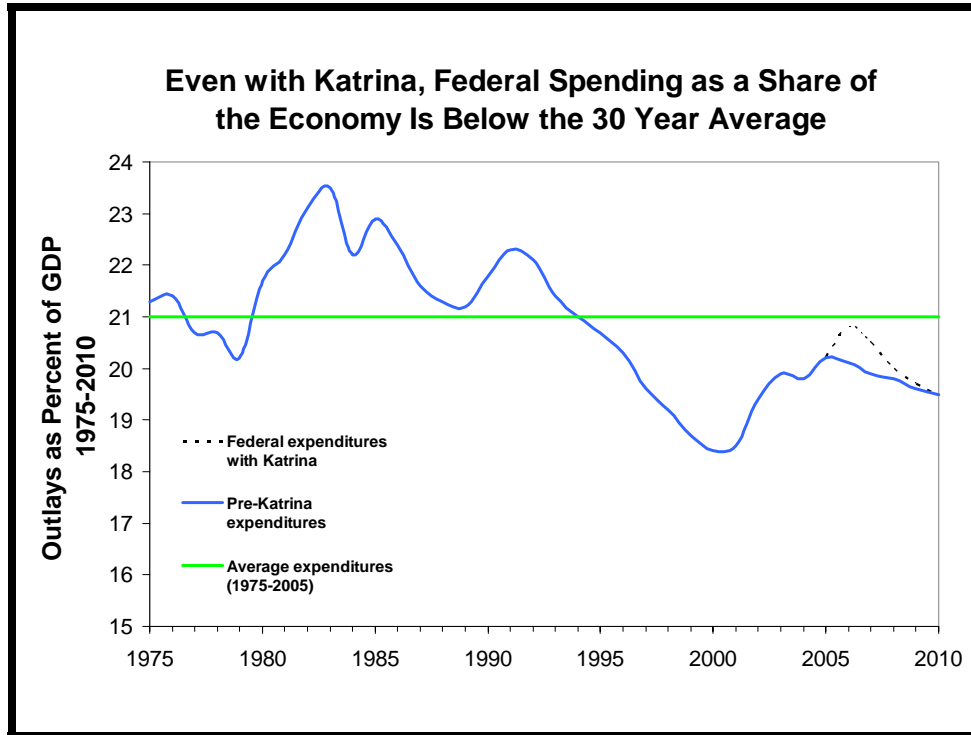
- The cost of the tax cuts Congress enacted in 2001 and 2003 is **\$225 billion this year alone** and will climb to higher levels each year in the future, as more of the tax cuts enacted in 2001 take full effect.
- If Congress votes soon to extend and expand tax cuts, the cost of the tax cuts will increase to an average \$250 billion a year over the next five years.
- The cost of the tax cuts in a single year exceeds the total anticipated costs of all expenses related to the hurricane over the years to come.

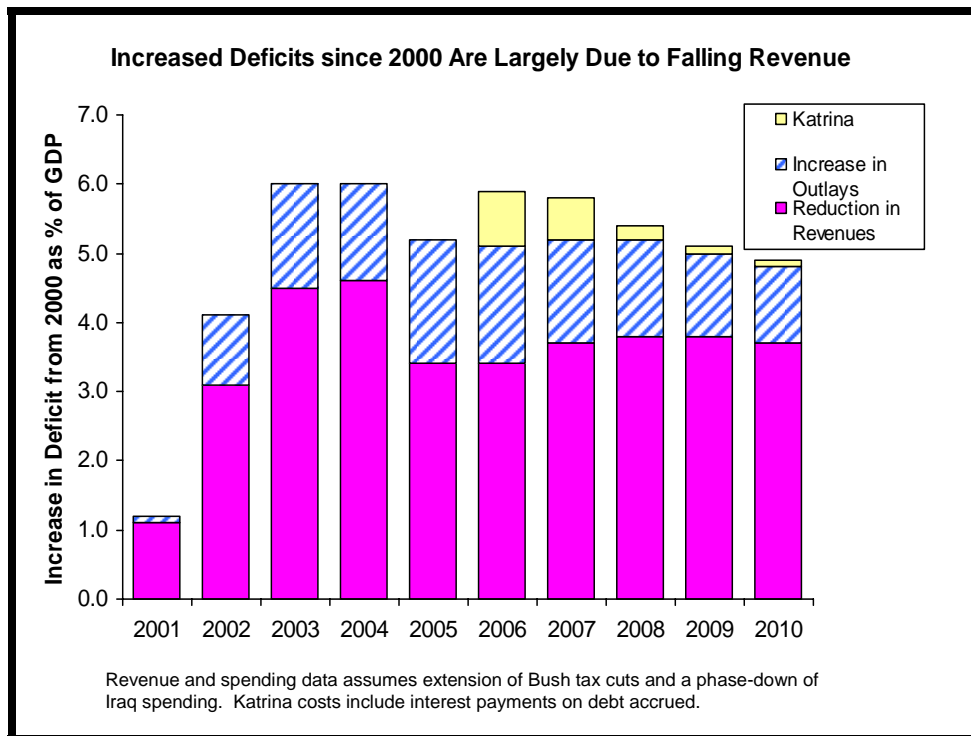
Source: *Katrina Relief and Federal Spending and Deficits*; <http://www.cbpp.org/9-17-05bud.htm>



Tax Cuts, Not Domestic Spending or Katrina Relief, Are What's Driving the Federal Deficit

- If Katrina costs total \$200 billion, total federal **spending** will still be a lower share of the economy than the average over the last 30 years.
- In contrast federal **revenues** from 2006-2010 will be lower as a share of the economy in 2005 than in any year from 1975 through 2002.
- Katrina Relief will have only a modest impact on federal deficits.

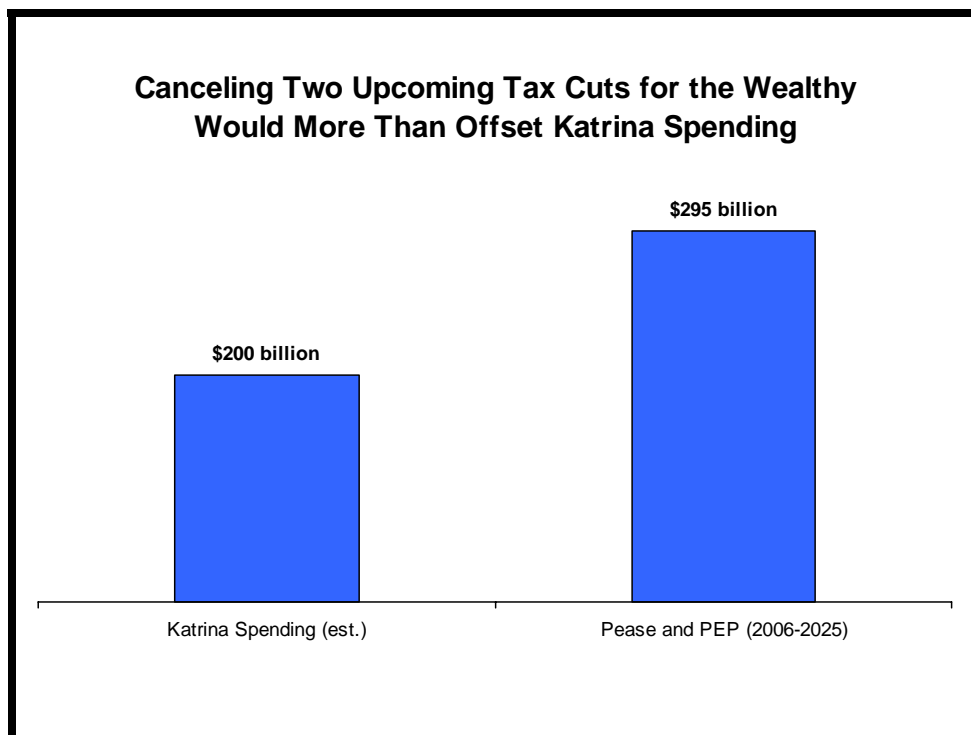




Canceling Two Scheduled Tax Cuts Would Pay for Katrina

Some of tax cuts passed in 2001 will first take effect in January of 2006. These laws would eliminate the current upper limits on personal exemptions and on itemized deductions for people at high incomes.

- 97% of these tax cuts would go to Americans with incomes of \$200,000 a year or higher.
- These upper limits for the wealthy were first put in place as part of 1990 deficit reduction. In the first 20 years when these tax cuts are in full effect, they will cost \$295 billion in lost revenue and interest payments on the debt.



See Also:

New Tax Cuts Primarily Benefiting Millionaires Slated to Take Effect in January: Should They be Implemented While Katrina Costs Mount?; <http://www.cbpp.org/9-19-05tax.htm>

Reconciliation Bills Would Increase the Deficit and Favor the Well-Off; <http://www.cbpp.org/9-8-05bud.htm>

Recent Tax and Income Trends among High-Income Taxpayers; <http://www.cbpp.org/4-13-05tax.htm>

CBO Data Show Tax Cuts Have Played Much Larger Role Than Domestic Spending Increases In Fueling The Deficit; <http://www.cbpp.org/1-25-05bud.htm>

Extending the Tax Cuts Would Cost \$2.1 Trillion Through 2015; <http://www.cbpp.org/2-2-05tax.htm>

Compiled from sources listed above by Center for Public Policy Priorities, 900 Lydia Street, Austin, TX 78702
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