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Follow the House's Lead: Pay for the Extenders December 10, 2009

Yesterday, the House passed a **\$31 billion** "tax extenders" bill to renew a number of tax rates for another year. The last minute passage of this legislation is part of an all too regular end of year crunch, since a number of expiring tax and spending provisions have not yet been renewed.

Often in the past, in the rush to leave town for the holidays, the House and Senate have simply extended the programs for a year without regard for cost. We commend the House for fully offsetting the costs of their tax extenders bill, but worry that other changes may be deficit-financed. This year, given the fiscal crisis facing the nation, we urge Congress to avoid the easy solution and find ways to offset the full cost of their actions.

"Ideally, policymakers would sit down and make rational decisions about what provisions are worth keeping in the first place," said Maya MacGuineas, President of the Committee for a Responsible Federal Budget. "But if they are going to insist on a band-aid solution, the least they could do is pay for it."

Among the other major items likely to be extended are:

- ***An Alternative Minimum Tax (AMT) Patch.*** Because the AMT is not indexed to inflation, it threatens to hit an increasing number of middle-income and upper-income earners each year. To avert this scenario, Congress regularly "patches" the AMT. Last year's patch, enacted as part of the stimulus bill, cost almost **\$70 billion**.
- ***A Medicare Physician Payment Update.*** Under current law, payments to physicians are scheduled to fall by 21 percent next year. In past years though, policy makers have replaced these cuts with a payment freeze or a small increase. A one-year fix would probably cost more than **\$10 billion**.

- *Unemployment Benefits.* The American Recovery and Reinvestment Act (ARRA) both extended and expanded unemployment benefits significantly. This program is set to expire at the end of the year. Unemployment rates remain persistently high and Congressman Jim McDermott has introduced legislation which would extend these benefits through March of 2011. According to press accounts, this would cost about **\$85 billion**.
- *COBRA Subsidies.* The ARRA also included a 65 percent subsidy for unemployed workers who held on to their health care benefits through COBRA rules. Since these subsidies could only be taken for nine months, they have recently lapsed for some individuals; and by the end of the year, no new individuals will be eligible for the subsidy. According to press accounts, renewing these subsidies would cost about **\$15 billion**.
- *The Estate Tax.* Under current law, the estate tax is expected to disappear at the end of the year, and then come back the next year, with a higher rate and much lower exemption than currently exists. Few policymakers or experts support this disappearing-reappearing act. Keeping it at 2009 levels next year would actually raise money. But if such a freeze were made permanent, as the House has proposed, it would cost almost \$235 billion over the next decade.
- *Payments to Seniors.* Because prices have fallen, Social Security beneficiaries will receive no cost of living adjustment (COLA) this year. This has led the administration and others to call for a second round of the \$250 payments to seniors originally enacted in the ARRA. These payments would likely cost a little less than **\$15 billion**.

Including the tax extenders bill, renewing these measures could cost more than **\$225 billion**, mostly spent over one year. Fortunately, the tax extenders legislation was passed with offsetting revenue raisers.

“Kudos to the House for paying for this policy” said MacGuineas.

But Congress may use gimmicks to pay for some of these other measures (for example, using TARP money), and might not offset other changes at all. Congress should avoid such tactics and simply pay for whatever legislation they pass.

“Two hundred and twenty-five billion dollars? It seems like every year is worse than the last,” MacGuineas said. “When the Bush tax cuts expire next year, we’ll be talking about trillions. We’re in fiscal trouble here, and I don’t see things getting any better without a major change of course. Let’s at least make sure we aren’t making things worse.”