Don't Count on That Tax Cut

Commentary

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WASHINGTON—President Bush will sign his long-promised tax cut today. But conservatives shouldn't break out the champagne just yet, nor should liberals start taking their antidepressants.

Passing the cuts was easy. Mesmerized by projections of mountainous surpluses, few legislators could say no. But Congress and the president have turned their attention to crafting solutions to the nation's other problems, and now the real battle over taxes will begin. When the dust from this struggle settles, much of the relief the tax bill promises for later this decade is likely to be delayed, scaled back or repealed altogether.

Already, we know that there is bipartisan support in Congress for spending significantly more money on elementary and secondary education, defense and a Medicare prescription drug benefit. Other costly new proposals include a reform of the flawed farm support program, the president's energy plan and assistance to those without health insurance.

The costs of the tax cuts, the new initiatives and the government's ongoing activities are likely to strain available revenues. Barring an unexpected explosion of economic growth, the Treasury will have to dip into the Medicare and Social Security surpluses to pay for the income tax cuts scheduled for 2004 and 2006, the marriage-penalty relief that will start in 2005 and the elimination of the estate tax in 2010.

How can the Medicare and Social Security surpluses be protected? Paradoxically, the much-derided timing gimmicks in the tax bill, which keep its sticker price below the $1.35 trillion limit allowed by the budget resolution, will give Congress an opportunity to reconsider its generosity.

One gimmick involves the termination after 2005 of the deduction for college tuition and of relief for those facing the alternative minimum tax, both of which start this year. If Congress doesn't extend them, many Americans — particularly those in high-tax states like New York — will be hit with tax increases in 2006.

So lawmakers will be under pressure to renew the breaks well before they expire. If they want to continue the provisions, while also allowing the 2004 and 2006 income tax cuts and the full repeal of the estate tax to take place, they will have to tap into the trust fund surpluses even more.

As they consider this possibility, lawmakers will inevitably look ahead to the consequences of a second gimmick they tucked into the tax bill — the Cinderella provision that magically terminates the entire act at midnight on Dec. 31, 2010, just to keep the 10-year costs of the bill within the budget.

Extending the fully implemented tax bill through the following decade — at a cost of over $4 trillion — would require digging deep into the Medicare and Social Security surpluses or drastically reducing basic government services. Not extending the bill would trigger a big tax increase in 2011.

Every politician knows that it is easier to take away promised tax relief that has not yet been enjoyed than to raise actual taxes or cut existing programs. And so they will undoubtedly take the more fiscally sustainable and politically prudent route of scaling back or rescinding the 2004 and 2006 income tax cuts and reducing, rather than eliminating, the estate tax — before any of these cuts takes effect. These actions would protect the nation's ability to support retiring baby boomers while maintaining necessary government programs.

As the rhetoric about tax cuts rings forth today, rest assured that the final outcome is almost surely not yet decided. Some of the excessive cuts will probably never come to pass — which is what happened in the 1980's, when Congress passed legislation in 1982, 1983 and 1984 that rolled back about one-third of Ronald Reagan's huge 1981 tax cut.

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