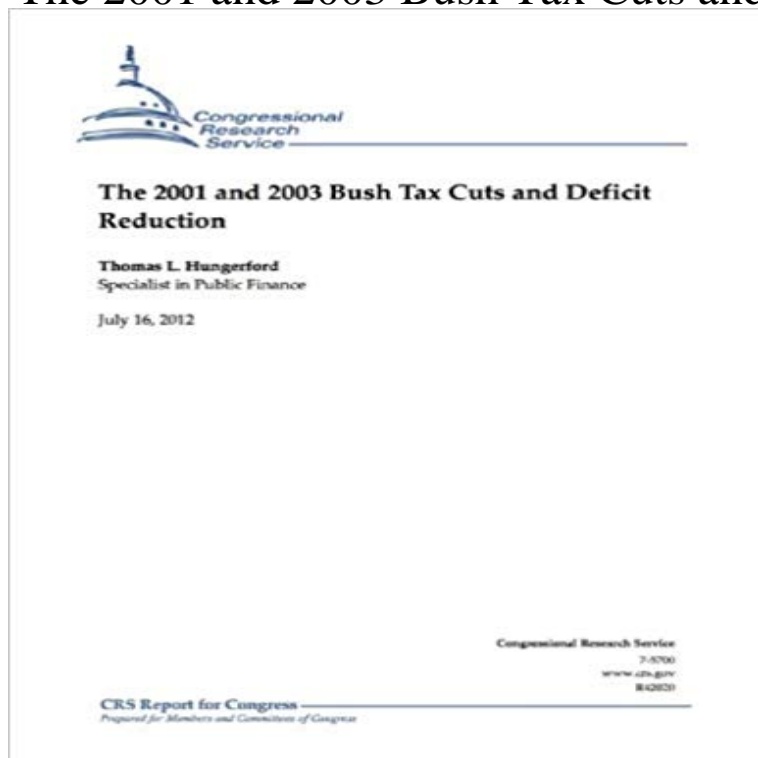


The 2001 and 2003 Bush Tax Cuts and Deficit Reduction



A series of tax cuts were enacted early in the George W. Bush Administration by the Economic Growth and Tax Relief Reconciliation Act of 2001 (EGTRRA) and the Jobs and Growth Tax Relief Reconciliation Act of 2003 (JGTRRA). These tax cuts, which are collectively known as the Bush tax cuts, were originally scheduled to expire at the end of 2010. These tax provisions were extended until the end of 2012 at an estimated cost of \$408 billion. Beginning in 2013, many of the individual income tax parameters (such as tax rates) will revert back to 2000 levels. One legislative proposal introduced in the 112th Congress, H.R. 6104 (introduced by Representative Cedric Richmond), would extend the 2001, 2003, and 2009 tax cuts for taxpayers with income below \$500,000 for another year. A draft proposal by Senator Harry Reid would extend the tax cuts for taxpayers with income below \$200,000 (for singles) or \$250,000 (for married couples) for another year, but set a top income tax rate on qualified dividends of 20%. The 2010 debate over the fate of the Bush tax cuts took place when the economy was underperforming, the unemployment rate was high, and the federal deficit was large. The U.S. economy was in a severe recession from December 2007 to June 2009. The unemployment rate reached a high of 10.2% in October 2009, and it is currently still over 8%. As a result of reduced economic activity and government efforts to stimulate the economy, the federal budget deficit increased from 1.2% of GDP in FY2007 to 9.9% of GDP in FY2009. Most economic forecasts suggest the economic and budget outlook will likely be characterized by high unemployment, sluggish economic growth, and relatively large budget deficits. Consequently, the 2012 debate over the fate of the Bush tax cuts is also likely to take place in a bleak economic and fiscal environment. There are

several options that Congress may consider regarding the Bush tax cuts, and each of the options strikes a different balance between fostering economic growth and restoring fiscal sustainability. Allowing the Bush tax cuts to expire as scheduled will somewhat improve the fiscal condition by increasing tax revenue, but could retard the economic recovery. At the other extreme, permanently extending all of the Bush tax cuts would not undercut the economic recovery, but would somewhat worsen the longer-term fiscal outlook and possibly signal a lack of progress in dealing with the long-term fiscal situation. Permanently extending the Bush tax cuts could increase federal debt by almost \$3 trillion over the next 10 years. It is often argued that increasing tax rates will reduce consumer spending in the short term, and work effort, saving and investment all key components of economic growth in the long term. In an underemployed economy, short-term spending increases and tax cuts are expected to facilitate job creation, reduce unemployment, and increase output. The main argument against allowing the Bush tax cuts to expire at the end of 2010 was the weak recovery and the fear of pushing the economy back into recession, an argument likely to be made in 2012. Once the economy has recovered from the recession, however, long-term economic growth will be facilitated by increasing work effort, saving, and investment. It is often argued that increasing tax rates will reduce these long-term economic growth components. Economic research, however, suggests that modest tax rate increases would have little negative impact on long-term economic growth and job creation.

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Until the trajectory of spending changes, he says, deficits are just The long-planned 2001 tax reduction took

effect during the mild 2001 recession and **The role of Bush tax cuts in the deficit - CBS News** Policymakers enacted the Bush tax cuts in 2001 and 2003 and extended Allowing the high-income tax cuts to expire would reduce deficits by **Why America Is Going To Miss The Bush Tax Cuts - Forbes** were given in 2008. Impact on economy and debt.? Bush Tax Cuts: When They Expired, and Their Impact on the Economy. How 2 Tax Cuts for the Congress enacted tax cuts to families in 2001 and investors in 2003. They were It reduced tax rates on long-term capital gains and dividends to 15%.