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ARKANSAS ADVOCATES FOR CHILDREN AND FAMILIES

PAYCHECK$ and POLITICS

FEDERAL TAX POLICY AND ARKANSAS:

Recommendations for Moving Forward in 2010

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Executive Summary

Congress is poised to make fiscal decisions that could help thousands of working Arkansas families, reduce our federal deficit and strengthen our economy. By reviewing nearly a decade's worth of data on tax cuts and fiscal policies, members of Congress have clear evidence on what helps working families—and what utterly fails them.

Arkansas Advocates for Children and Families offers these recommendations for helping our families not only weather this recession, but giving them the boost they need to help pull our state and national economies out of the downturn.

1. Extend the 2001-2003 middle class tax cuts.
2. Make the Estate Tax permanent at 2009 levels.
3. Freeze the Capital Gains and Dividends Rate at the pre-2003 level.
4. Allow the upper income marginal rate cuts to expire on schedule.

A year after the implementation of the *American Recovery and Reinvestment Act of 2009*, we also have data to support recommendations for permanently extending several tax provisions that help low-income working families.

In addition to our policy recommendations for treatment of the 2001-2003 tax cuts, we propose another strategy to improve our nation's fiscal solvency by requiring the richest Americans to pay their fair share.

1. Extend the ARRA improvements to refundable tax credits, including the Earned Income Tax Credit, Child Tax Credit and American Opportunity Tax Credit to help working families.

2. Freeze the value of itemized deductions for the two highest income brackets.

Introduction

Congress could make pivotal tax policy decisions this year that will affect our fiscal outlook, government policies, and shape our economy for decades. Virtually all of the tax cuts enacted in 2001 and 2003 expire at the end of this year. Members of Congress and the President have already signaled that some of the tax cuts should be extended, which would require legislative action. While it isn't yet clear how Congress will proceed, both revenue and spending policies must be evaluated now to determine what is working and what should expire. Our Congressional delegation should make a priority of putting the country back on a sustainable fiscal path and ensuring that resources are available for sound investments that are in the best interests of Arkansas families.

One of the main arguments for enacting the tax cuts was they would spur robust economic expansion. Instead the country experienced lackluster economic growth even before the current economic downturn. The median income of American households was stagnant and the income gap between rich and poor was exacerbated. At the same time, the country's fiscal outlook weakened significantly; the surpluses projected at the end of the 1990s were replaced with ongoing and unsustainable deficits.

As members of Congress consider budget-related policies, such as extending the expiring tax cuts this year they should distinguish between the short- and long-term implications of their decisions on the federal budget. The current economic downturn and responses to it have resulted in historically high federal deficits. Most mainstream economists agree that stimulating the economy by replacing demand with an infusion of federal dollars during a recession, particularly one as widespread as the recent downturn, is warranted on a short-term basis. The greater concern is that the federal deficit, though projected to decline as the economy improves, is not expected to fall to a sustainable level even after the economy is in recovery. If allowed to continue to increase, the debt is projected to grow at such a rate that interest payments will exceed all funding available for non-security discretionary spending within a decade.

Maintaining responsible and adequate revenue is an important part of this discussion. This paper focuses on tax policy choices in the context of our difficult long-term fiscal situation. After reviewing current projections of deficits and the debt, and how federal tax dollars are spent, we focus on the 2001-2003 tax cuts. We conclude by reviewing the implications of key policy choices facing Congress and make recommendations for fiscally responsible choices that will lead to shared prosperity in Arkansas and across the country.

There are a number of policy and political factors that will influence Congressional budget and tax decisions. It's imperative that Congress make fiscally responsible decisions that don't saddle our children and future generations with even more debt. Congress should also consider well-targeted policies for both our families and small businesses. These decisions will be difficult, but rarely are policy decisions so critical to the economic well-being of our country.

Fiscal Overview

The federal fiscal situation is challenging. In its most recent projections, the Congressional Budget Office (CBO) indicates that the federal deficit will be about $1.3 trillion for fiscal year 2010, or 9.2 percent of gross domestic product (GDP) if no budget-related legislation were enacted. That would be slightly less than the $1.4 trillion shortfall—9.9 percent of GDP—for fiscal year 2009, which was the largest as a share of GDP since the end of World War II. This is a marked change from the forecast only a decade ago. In January 2001, the CBO projected a federal surplus of $5.6 trillion from 2002 to 2011 if policies did not change.[1]

Much of the short-term increase in the deficit is due to lower revenues and higher spending resulting from the economic downturn and the costs of policies adopted to respond to these economic conditions. This large increase in the deficit was warranted by the severe economic conditions and prevented the downturn from plummeting further. The CBO projects that the deficit will decline substantially as the economy recovers, and as temporary spending measures expire. But the CBO also points out that some of the deficit results from an imbalance between spending and revenues that predates the recession.[2] That underlying imbalance has not been addressed and will remain a problem even after the economy recovers.

If the policies put in place prior to the recession[3] are continued, federal debt will increase from 53 percent of GDP at the end of fiscal year 2009 to more than 300 percent of GDP in 2050, according to the Center on Budget and Policy Priorities. That would be almost three times the record level of debt at the end of World War II.[4] The huge cost of interest payments from this level of debt would at some point damage the economy. This is why many observers conclude that the underlying federal fiscal situation is not sustainable.

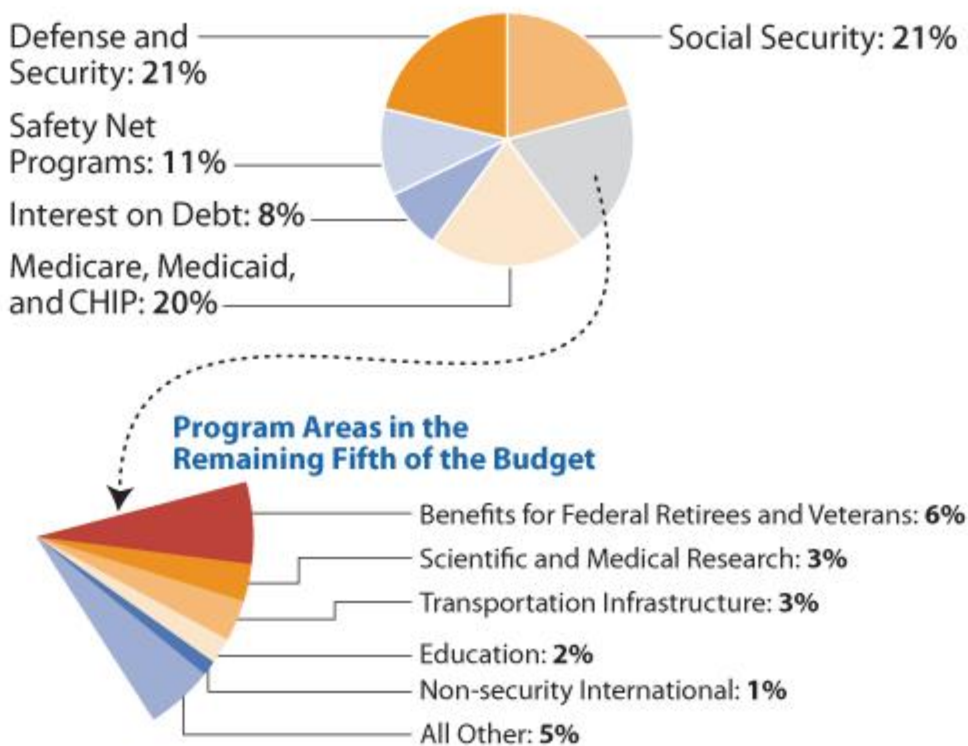
Both Congress and the President have already indicated they intend to extend a number of costly policies including the 2001-2003 tax cuts for lower- and middle-income households, as well as the Alternative Minimum Tax (AMT) patch and suspension of payment cuts to physician without paying for them.[5]

On the spending side of the ledger, the main contributors to the long-term fiscal problem are rising health care costs that drive up spending for federal health programs, and to a lesser extent, growing costs for federal retirement programs driven by an aging population. Inadequate revenue is also a factor. Federal revenues were cut significantly by the large 2001-2003 tax cuts, which came without offsetting cuts in spending or increases in other revenues to balance out the loss of income.

Reforming our nation's health delivery system is critical to containing costs and returning our budget to a sustainable path. Congress must also consider whether extending any additional 2001-2003 tax cuts—or any new tax cuts—are well-targeted and the additional expense is justified. Preserving adequate revenues to meet the legitimate fiscal needs of the country while restoring a sound and responsible fiscal position is of paramount importance.

How Federal Tax Dollars are Spent

The following graph from the Center on Budget and Policy Priorities using CBO data[6] shows how the federal resources were allocated in 2008. Three spending areas consumed about 62 percent of the entire budget:—defense and security; social security; and Medicare, Medicaid, and the Children's Health Insurance Program (CHIP). Eleven percent of the budget was composed of safety net programs such as the Earned Income Tax Credit (EITC), the National School Lunch Program, and the Supplemental Nutrition Program for Women, Infants, and Children (WIC). The remaining fifth of the budget includes programs such as federal retirees and veteran's benefits (6 percent), transportation and infrastructure (3 percent), and education (2 percent).



Federal Funds Help Vulnerable Arkansas Families and Economy

Federal tax dollars provide vital services that affect the lives of many people every day. Federal programs support our nation's highways, airports and ports. They make sure our air and water are clean and the food we eat is safe. The federal government is a major source of grants to universities for research into things like health care and other areas scientific advancement. This basic research often leads to development projects that improve the health and well-being of people and communities across the country. Social Security and Medicare ensure that the elderly and disabled don't live in poverty and get the health care they need. Unemployment insurance provides temporary support for those who lose their jobs. Federal child care and other programs help low-income working families focus on improving their economic position by either pursuing a new career or higher education. Food and housing assistance helps the most vulnerable with their day-to-day needs.

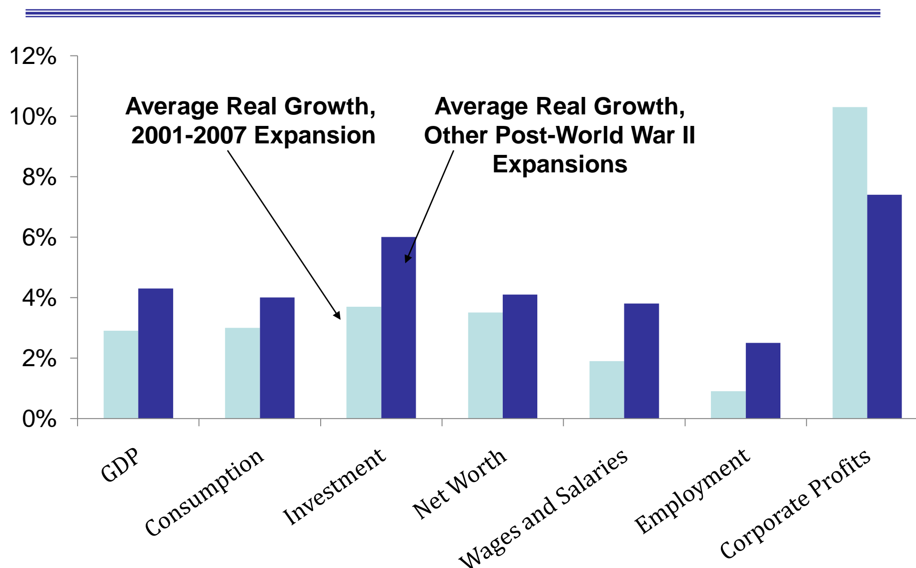
Federal funds are critical to many segments of the Arkansas economy. In 2008, almost 28 percent of Arkansas's operating revenue was from the federal budget.[7] That's roughly $5 billion. Federal funds support federally- mandated programs and federal grants to the state. Most federal funds used in Arkansas are matched by state funds in order to maximize resources. The following chart shows federal dollars used to support several key programs that assist low-income families in Arkansas for fiscal year 2007, and 2008.

Federal Aid to Arkansas for Critical Low-income Programs in Fiscal Year 2008 [8] **[In thousands.]**	
ARKids First Part B	$49 million (2007)[9]
Child nutrition	$178,112
Food Stamps	$33,653
Women, Infant, and Children	$64,585
Title I (K-12 education)	$128,328
Child care and development	$55,472
Low-income home energy assistance	$17,752
Temporary Assistance for Needy Families	$76,730
Total federal aid to Arkansas	*$49,554,682*

2001-2003 Tax Cuts and Their Contribution to the Federal Deficit

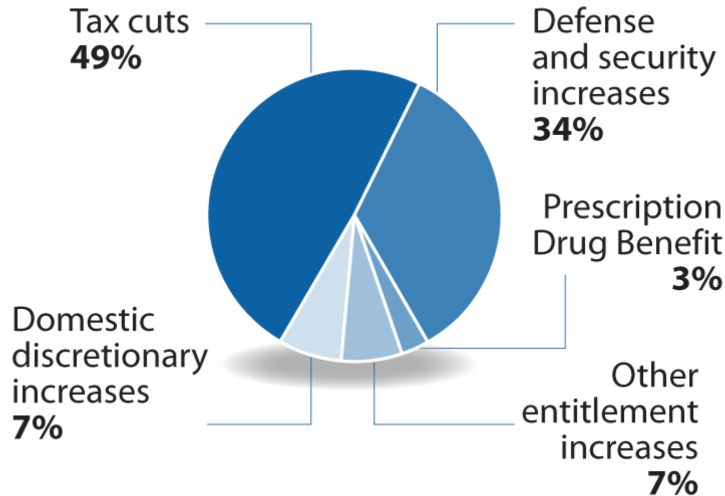
Congress enacted two major pieces of tax legislation in 2001 and 2003: they are formally known as the *Economic Growth and Tax Relief Reconciliation Act of 2001*(EGTRRA) and *the Jobs and Growth Tax Relief Reconciliation Act of 2003* (JGTRRA). They are often referred to as the 2001-2003 tax cuts or "Bush Tax Cuts." They instituted wide-ranging reductions in the following sources of federal revenue: capital gains and dividends, the estate tax, marginal income tax rates, and a number of other areas. Although the rate cuts brought small benefits to moderate- and middle-income taxpayers, the majority of the benefits from these tax cuts went to higher income earners.

The prevailing argument for adopting the 2001-2003 tax cuts was they would be the best way to spur economic expansion. Experience has shown otherwise. The period of economic expansion from 2001-2007 was sub-optimal in almost every economic measure other than corporate profits when compared with other post-World War II expansions, as the following graph from the Center on Budget and Policy Priorities shows. Wages and salaries, job creation, investment, consumption, and net worth all grew at substantially slower rates during this time period than in previous growth periods.



The 2001-2003 tax cuts also were a major factor in the return of federal deficits. According to data from the CBO, the tax cuts and AMT relief cost $1.7 trillion between January 2001 and September 2008, accounting for 49 percent of deficits caused by legislation during that same period. And the cost has been growing. These same tax provisions cost $2.5 trillion by the end of September 2009.[10] By comparison, increased spending for defense, including the wars in Iraq and Afghanistan, homeland security and international spending contributed 34 percent to the growth of the deficit.

How Legislation Enacted Since 2001 Contributed To Deficits From 2001-2008

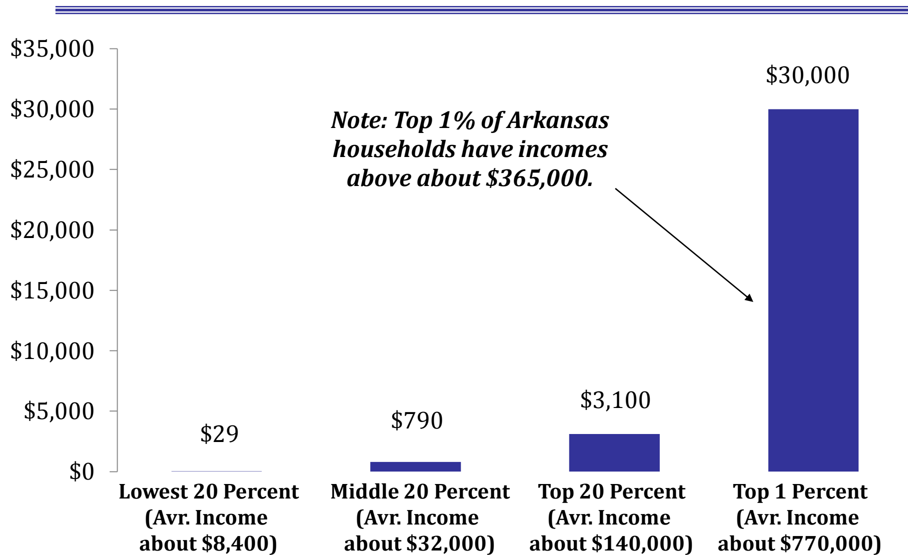


Source: CBPP calculations based on Congressional Budget Office data

Making the tax cuts permanent, along with AMT relief, over the next decade (2011-2020) would cost $3.9 trillion. Extending these cuts without offsetting the lost revenue will worsen the deficit, increase the federal debt and intensify pressures for deep budget cuts.[11]

The 2001-2003 Tax Cuts did Little to Benefit Most Arkansans

The 2001-2003 tax cuts gave the biggest boost to the wealthiest one percent of income earners. All other earners received modest gains at most. Lower and middle-income Arkansans benefitted little from the 2001-2003 tax cuts. In 2007, the lowest 20 percent of income earners with an average income of $8,400 received an economic benefit of $29; those in the top 20 percent with an average income of $140,000 received $3,100; and those in the top one percent with an average income of about $770,000 received $30,000 dollars in economic benefit from the 2001-2003 tax cuts. However, lower and middle-income Arkansans could end up paying the price for the tax cuts in the long run if revenue shortfalls force significant budget cuts in programs that help them.



Source: Citizens for Tax Justice

2001-2003 Tax Cuts

Below is an explanation of each of the 2001-2003 tax cuts, their purpose, their impact on the deficit, and how they impact Arkansans (if the data is available), what happens if they aren't extended, and how much they cost the federal budget.

Middle Class Provisions

The 2001-2003 tax cuts include three components often referred to collectively as "middle-class" provisions, though many higher-income families benefit from them as well. One provision created a new bottom income tax rate of 10 percent for some of the income previously taxed at a 15 percent rate. Another provision increased the Child Tax Credit from $500 to $1,000 per child and made many low-income working families eligible for the credit. The third provision was "marriage penalty relief"—a set of changes that reduced taxes for some married couples.

The "middle-class" provisions help everyone who would otherwise owe federal income tax. In 2007, Arkansas's median household income was $39,650; and, 87 percent of households made under $75,000 per year based on data collected from the IRS. A majority of Arkansas working families benefit from these provisions.

Nearly all of the tax cuts are scheduled to expire at the end of 2010. The combined cost of these middle class tax provisions is $731 billion including interest costs over ten years, according to the Joint Committee on Taxation and CBO.

Estate Tax

The estate tax is a tax on the transfer of the estate of a deceased person to their heirs. One of the most progressive tax measures, it affects only the most wealthy estates but contributes billions in revenue to the federal budget. The estate tax also makes it harder for the wealthy to avoid taxes by never realizing capital gains. The 2001 tax bill phased out the federal estate tax. The tax is fully repealed for 2010 but will revert to pre-2001 levels in 2011 unless Congress acts.

Last year, President Obama proposed a compromise: continue the estate tax at its 2009 levels. Estates valued at less than $3.5 million for an individual and $7 million for a couple would be exempt from the tax. The value of estates above the exemption amount would be taxed at a top rate of 45 percent. (On average, in 2010, these estates paid an effective rate of about 18.5 percent after accounting for deductions and other valuations.)

According to data from the Internal Revenue Service and Citizens for Tax Justice illustrated in the graph, because the exemption rate increased, fewer than 142 Arkansas estates owed any estate tax in 2009. And, only 29 Arkansas estates would likely pay any estate tax in 2011 under the 2009 parameters.[12]

Without further action, in 2011 the number of estates affected by the tax will increase due to the reversion to pre-2001 exemption levels and top rates. How Congress permanently treats this tax cut could preserve significant resources and ensure that very wealthy estates pay a responsible share of taxes.

Maintaining the 2009 estate tax level would cost more than $400 billion dollars over ten years, including interest costs according to the Center on Budget and Policy Priorities.

Tiny Fraction of Arkansas Estates Owe Any Estate Tax, Number Is Falling

Almost certainly, fewer than 142 Arkansas estates will owe *any* estate tax in 2009 when the exemption rate is $7 million per couple.

Year*	Estate Tax Exemption	Number of AR Estates Owing Tax	Percent of AR Estates Owing Tax
2001	$1.3 million per couple	196	0.7%
2003	$2 million per couple	168	0.6%
2005	$3 million per couple	142	0.5%

Source: IRS and Citizens for Tax Justice. *Note: Estates generally file returns in the year after the decedents' death. Thus, figures shown here for a given year are for returns filed the following year.*

Capital Gains and Dividends Tax Cuts

A capital gains tax is a tax on the profit earned from the sale of a non-inventory asset purchased at a lower price. Common assets that yield capital gains include: stocks, bonds, precious metals and property. Dividends, the portions paid to shareholders by corporations from the profitable sale of those non-inventory assets, are taxed as well. JGTRRA reduced the top tax rate on long-term capital gains from 20 percent to 15 percent, the lowest level since World War II. JGTRRA also cut the rate on dividends to 15 percent; previously, dividends had been taxed as ordinary income.

Most Arkansans do not benefit from cuts to these taxes. The lowest 20 percent of income earners received no benefit while the top one percent of Arkansas households with income above about $365,000 earned $27,000 in 2009.[13] Many Arkansans, like most Americans, accrue capital gains on corporate shares they hold within tax-deferred employer-sponsored retirement saving plans or individual retirement accounts, and accruals within those accounts are tax-free until distributed and then are taxed as ordinary income.

Unless a further extension or new laws are enacted, prior law's capital gains rates (10 percent for lower bracket taxpayers and 20 percent for everyone else) will apply beginning in 2011. Likewise, dividends will be taxed at regular income rates after Dec. 31, 2010.

According to the CBO, extending the reductions to the top tax rates on long-term capital gains and the rate on dividends would cost almost $425 billion, including interest, from 2011-2020.[14]

Upper Income Marginal Rate Cuts

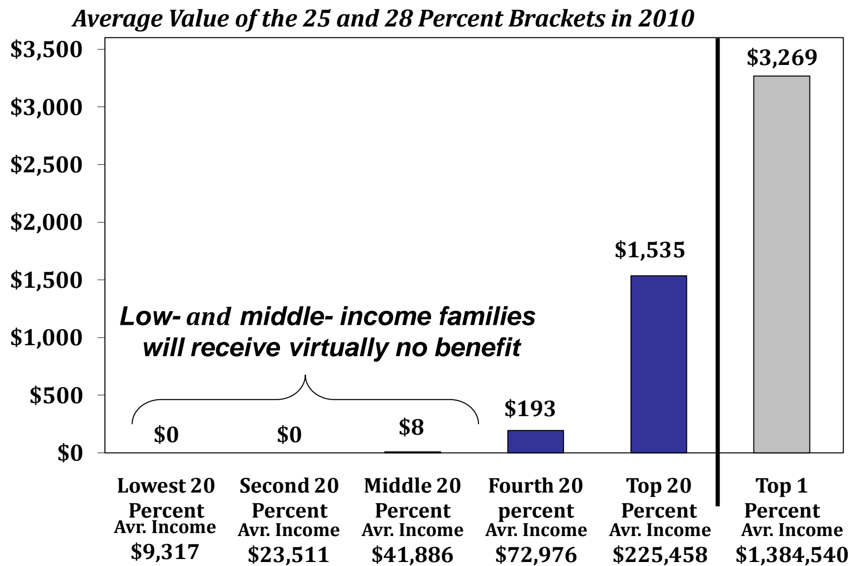
EGTRA of 2001 reduced the marginal tax rates for upper income earners (tax brackets above 28 percent). The rates were reduced from 28 percent to 25 percent for individuals filing as head of household with an adjusted gross income (AGI) between $67,900 and $137,050; from 31 percent to 28 percent for individuals filing as head of household with an AGI between $137,050 and $208,850; and from 36 percent to 33 percent for individuals filing as head of household with an AGI between $208,850 to $327,950; and, 39.6 to 35 percent for individuals filing as head of household earning above $372,950. [15]

The tax cuts (Economic Growth and Tax Reconciliation Act of 2001)

Pre-2001-2003 Tax Cuts Marginal Income Tax Rates	Current Marginal Income Tax Rates	Taxable Income (income after exemptions and deductions)
N/A	10%	Up to $16,700
15%	15%	$16,700 to $67,900
28%	25%	$67,900 to $137,050
31%	28%	$137,050 to $208,850
36%	33%	$208,850 to $372,950
39.6%	35%	Above $372,950

Only a small share of Arkansas tax filers has incomes high enough to be subject to the highest marginal income tax rates and would benefit from extending the 25 percent and 28 percent brackets. According to data from the Tax Policy Center, households earning an average of $72,976 in 2010 will receive a minimum benefit of about $193 dollars from the upper income rate cuts. Those earning less than $72,976 receive no benefit. This is significant given the fact that Arkansas's median household income was $39,650 in 2007 and $38,815 in 2008. Households earning in the top one percent will see about $3,269 of additional income as a result of the cuts. In addition, all but the highest income groups receive no relief from the 28 percent bracket.

Although most Americans receive no benefit from these tax cuts, retaining these cuts will cost $670 billion over 10 years (including interest).



Source: Tax Policy Center

Alternative Minimum Tax Relief

The Alternative Minimum Tax (AMT) was created in 1969 to ensure that the richest Americans paid their fair share of taxes. However, because the AMT was not indexed for inflation, middle-income households became increasingly subject to the AMT. For example, households with incomes as low as $45,000 for joint filers and $33,750 for single filers would have been subject to tax increases on their 2008 returns. Congress has enacted nearly annual "patches" to the AMT since 200l. The 2001 and 2003 tax cuts exacerbated the problem because regular income taxes were lowered so much for people towards the top of the income scale that suddenly the AMT was scheduled to affect many more households. By not addressing the AMT for the duration of the 2001 and 2003 tax cuts, the true cost of the 2001 and 2003 tax cuts appeared far smaller than it really was because Congress continued to patch the AMT over the past decade.

The cost of fixing the AMT for another ten years would cost more than $1 trillion if the other 2001-2003 tax cuts are continued.

Recommendations for which Tax Cuts to Extend and which to Let Expire

The President and Congress have signaled they intend to make the 2001-2003 tax cuts for middle-income people permanent. The middle-income tax cuts include: the Child Tax Credit, the creation of the 10 percent bracket, and marriage penalty relief. In his 2011 budget, President Obama proposes allowing the tax cut for individuals with incomes over $200,000 and couples with incomes over $250,000 expire as scheduled. He also proposes to extend the estate tax at the 2009 parameters, adjusted for inflation in the future. However, there may be considerable pressure to extend the tax cuts for the wealthiest, at least for a year, and some policymakers are suggesting estate tax reform

proposals that would provide an even greater tax cut to only very wealthy families. Congress should consider the costs and trade-offs involved, including the likely economic costs and benefits, before deciding how to proceed. We believe the following policy choices would have the most benefit for Arkansas and the country as a whole while helping to put our country back on a more responsible fiscal course.

Extend the 2001-2003 Middle Class Tax Cuts

The expansion of the Child Tax Credit, the creation of the 10 percent bracket, and marriage penalty relief should be extended because they specifically target low- and middle-income families and they allow for a more progressive tax code. With 87 percent of Arkansans making less than $75,000 per year in 2007, the "middle-class" provisions clearly benefit the majority of Arkansas' working families.

The 2009 budget resolution extends the middle class tax cuts without paying for them, as does President Obama's budget for the next fiscal year.

According to the Joint Committee on Taxation and CBO, just extending the tax cuts most targeted to the middle class costs above $700 billion including interest costs over 10 years. As such, if these are extended in keeping with the 2009 budget resolution, it is important that any additional tax cuts are offset.

Make the 2009 Estate Tax Parameters Permanent

At the 2009 levels, estates valued over $7 million dollars for a couple are taxed at a 45 percent rate. Only the richest quarter of one percent of all Americans would be affected. Congress should make the 2009 estate tax parameters permanent (adjusted for inflation) and oppose any other reform proposals that lose more revenue. The 2009 law is already generous because it applies only to the wealthiest estates, the average effective tax rate is 18.5 percent, which is very low and only slightly above the capital gains rate, and very few small businesses or farms are affected. This generosity comes with a significant price: just maintaining 2009 rules would increase the deficit by almost $400 billion dollars over ten years. Reducing the estate tax below the 2009 parameters or allowing the current repeal to become permanent would be fiscally irresponsible.

Freezing the estate tax at 2009 levels would preclude most Arkansans, including small businesses and farms, from ever having to pay the estate tax. Fewer than 142 Arkansas estates owed any estate tax in 2009. Any policy that moves beyond the 2009 parameters only helps couples with estates valued at more than $7 million—a tiny fraction of Arkansans. One proposal reduces the 2009 tax rate to 35 percent and exempting couples with estates valued at $10 million dollars. This proposal would add another $140 billion dollars to the deficit relative to freezing 2009 levels and make it harder to preserve vital public services the middle class depends on, such as Medicare, public education, and road repair. Proposals that reduce the estate tax beyond the 2009 level should be avoided in order to preserve as much revenue as possible. If Congress changes the estate tax, any additional costs should be financed by closing loopholes within the tax.

Freeze the Capital Gains and Dividends Rate at the Pre-2003 Level

JGTRRA reduced the top tax rate on long-term capital gains from 20 percent to 15 percent and cut the rate on dividends to 15 percent. These cuts should be reversed to no less than 20 percent. Returning the top tax rate to the level previous to the 2001-2003 cuts would yield $369 billion over ten years including interest (2009 baseline).

Allow the Upper Income Marginal Rate Cuts to Expire on Schedule

The reduced upper income marginal rates (tax brackets above 28 percent) came with profound costs to the federal budget while providing minimal-to-no economic benefit for most households. Congress should allow the upper-income tax breaks that benefit wealthy households to expire on schedule. Allowing these cuts to expire will save $670 billion over 10 years.

Other Opportunities to Reduce Poverty and Preserve Revenues

Congress should also permanently extend the improvements made in the *American Recovery and Reinvestment Act of 2009* (ARRA) to refundable credits that increase work incentives for low-wage workers and have prevented millions from falling into poverty during the economic downturn. In addition, Congress should freeze the value of itemized deductions at the current levels to save billions in much needed revenue.

Extend the ARRA Improved Refundable Tax Credits

When Congress takes up legislation to make permanent the middle-class tax cuts, it should also make permanent the well-targeted, effective improvements in ARRA to the EITC, Child Tax Credit, and American Opportunity Tax Credit which makes college more affordable. These tax credits provide critical support to working families who otherwise do not benefit from cuts in income tax rates and help low-income families send their children to college to improve their long-term earning potential.

It is possible that the lingering recession and election-year concerns could cause Congress to defer long-term tax decisions and could instead extend current law for one year. If this happens, these three changes to the refundable credits need to be extended another year as well.

If these important credits are not extended, many Arkansas families will experience tax increases at the same time taxes for middle- and upper-income families remain low. The impact of these credits for Arkansas is significant. The Tax Policy Center projects that more than 18.1 million children in 2011 would have their child tax credit reduced or eliminated in 2011 if Congress, in extending the 2001 and 2003 tax cuts, does not also extend the earnings floor enacted in 2009. The Center on Budget and Policy Priorities estimate that this includes anywhere from 203,000 to 257,000 Arkansas children. An estimated 973,000 Arkansas workers that receive the Making Work Pay tax credit would lose these benefits without extension.[16]

Freeze the Value of Itemized Deduction

According to the Tax Policy Center, preserving the value of the itemized deductions for the two highest brackets (33 and 35 percent tax brackets) would save $68 billion over ten years. This revenue could be used to offset the cost of extending the middle-class tax cuts and begin to reduce long-term deficits.

Conclusion

Congress faces very important decisions about tax policy in 2010. Revenues were cut significantly in 2001 and 2003, and these tax cuts contributed significantly to the projected long-term increases in the nation's deficits and the debt.

Congress should make the responsible choice and extend only those elements of the 2001 and 2003 tax cuts that primarily benefit low- and middle-income households. Extending costly tax breaks for the wealthy while cutting back on services for low-income working families is not a winning economic strategy—for the nation or for the people of Arkansas. Extending them without paying for them would substantially worsen the nation's serious long-term fiscal problems and could lead to damaging cuts in vital public services; extending them while paying for them would divert hundreds of billions of dollars of precious resources that are needed for more important priorities.

When Congress considers the 2001-2003 tax cuts and AMT relief, policy makers must ensure that tax policies are well-targeted to preserve adequate revenues to meet the short-term and long-term fiscal needs of the country in a manner that moves families forward.

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[1] Gillian Brunet and Richard Kogan. "How Projected Surpluses Became Deficits
Main Causes Were Tax Cuts and Higher Security Spending." Center on Budget and Policy Priorities. September 12, 2008. Available online at http://www.cbpp.org/cms/?fa=view&id=640.

[2] Congressional Budget Office. "The Budget and Economic Outlook: Fiscal Years 201-2020." January 2010. Available online at http://www.cbo.gov/ftpdocs/108xx/doc10871/01-26-Outlook.pdf.

[3] Pre-2001 policies affecting the federal debt include: the extension of all 2001 and 2003 tax cuts, Alternative Minimum Tax relief, and physician payments under Medicare (SGR), without offsets in spending or increases in revenues.

[4] Kathy Ruffing, Kris Cox and James R. Horney. "The Right Target: Stabilize the Federal Debt Long-Term Budget Outlook Is Bleak; Requires Major Changes to Programs, Revenues, and Health Care." January 12, 2010. Available online at (http://www.cbpp.org/cms/index.cfm?fa=view&id=3049.

[5] Congress plans to implement statutory pay-as-you-go or "pay-go" requirements. The pay-go legislation revives a law that lapsed in 2002 requiring legislation that cuts revenues or increases mandatory spending to be fully offset by other spending cuts and/or tax increases or risk setting off automatic spending cuts known as sequestration. Under the new law, sequestration would be triggered when a law is enacted that increases the deficit over a five- or 10-year period. The new proposal has no sunset date. The law includes several significant exemptions:

1) Extending the estate tax at 2009 levels and the AMT "fix" would both be exempt for two years.
2) The Medicare "doctor fix" (SGR) that delays scheduled cuts in doctor reimbursements is exempt for 5 years.
3) Permanent exemptions are provided for any legislation that extends the middle-class tax cuts enacted in 2001 and 2003. These include the 10 percent, 25 percent, and 28 percent income tax brackets, and the 33 percent bracket for individuals with $200,000 or less in income or less and couples with $250,000 or less in income, as well as marriage penalty relief.

4) Legislation to extend the tax breaks known as the Personal Exemption Phase-out (PEP) and "Pease," an overall limitation on itemized deductions would be exempt for individuals with incomes below $200,000 and couples below $250,000.
5) Legislation to extend the 2001 improvements to the child tax credit and marriage penalty relief in the EITC (including the modifications in ARRA) would be permanently exempt from pay-go.

[6] Id.

[7] Arkansas Department of Finance and Administration. "State of Arkansas Actual Expenditures: Fiscal Year 2008." June 30, 2008.

[8] US Census Bureau. "Federal Aid to States for Fiscal Year 2008." July 2009. Available online at http://www.census.gov/prod/2009pubs/fas-08.pdf.

[9] Families USA. "SCHIP Reauthorization: What's at State for Arkansas?" May 2007. Available online at http://www.familiesusa.org/assets/pdfs/arkansas-schip.pdf.

[10] Steve Wamhoff. "The Bush Tax Cuts costs Two and a Half Times as Much as the House Health Care Proposal." Center for Tax Justice. September 8, 2009. Available online at http://www.ctj.org/pdf/bushtaxcutsvshealthcare.pdf.

[11] Center on Budget and Policy Priorities. "Policy Basics: The 2001-2003 tax cuts." March 9, 2009. Available online at http://www.cbpp.org/cms/index.cfm?fa=view&id=2705.

[12] Len Burman. "Number of taxable estates by state, 2011." April 10, 2009. Available online at http://taxvox.taxpolicycenter.org/blog/_archives/2009/4/10/4148926.html

[13] Bob McIntyre. "Capital Gains and Dividends Tax Cuts Offer Almost No Benefit to Middle-Income Americans and Add to the Nation's Fiscal Problems." Citizens for Tax Justice. May 13, 2008. Available online at http://www.ctj.org/pdf/capgainsdivtaxcuts.pdf.

[14] Congressional Budget Office. "The Budget and Economic Outlook: Fiscal Years 201-2020." January 2010. Available online at http://www.cbo.gov/ftpdocs/108xx/doc10871/01-26-Outlook.pdf.

[15] Internal Revenue Service. Schedule Y-1, for married couples filing jointly in 2009.

[16] Candice S. Smith. "Obama's Budget Priorities for Arkansas's Children," Arkansas Advocates for Children and Families. May 2009. Available online at http://www.aradvocates.org/assets/PDFs/The-Presidents-Budget-Priorities-for-Arkansas-Children.pdf.