

The Need for a Fiscal Responsibility Act

Both the GAO and CBO have concluded that “The federal government is on an unsustainable fiscal path” with spending constantly exceeding revenue under both Republican and Democratic leadership. CBO currently projects the national debt growing back to 100% of total GDP in just 5 years unless corrective action is taken. Last year’s deficit was over 4% of GDP, meaning most of our annual GDP growth is actually just the result of increased debt pushed onto future generations. Most economists believe that continuing deficits adding to our \$31.4 Trillion national debt will reduce long-term economic growth, and are a very real threat to the future sustainability of our economy. We agree with the CBO and GAO warnings and believe it is time for the Congress to pass a Fiscal Responsibility Act (FRA) as a fail-safe way to stop continuing trillion-dollar deficits.

The Congress should first try fulfill its Constitutional responsibility to balance needed expenditures with adequate tax revenues to pay for them, using regular order and the budget process improvements suggested to prior Congresses. Unfortunately, because of the high level of partisanship that exists in this Congress, it would be very difficult for either party to take the needed leadership to balance the budget either by increasing specific taxes or reducing specific expenditure programs. The only practical way to achieve a balanced the budget in the next few years may be through a bipartisan pre-agreement to an “automatic” deficit control process similar in concept to prior “pay-go” and budget sequestration laws. They weren’t perfect, but they helped control deficits without either party having to take the political “blame” for necessary actions. As a “Fail-Safe” to prevent deficits, except in times of true national economic emergencies, an FRA would provide for an automatic income tax surtax, when necessary, to offset any prior budget year deficit, regardless of the cause.

- An FRA maintains Congress’s full control, and Constitutional responsibility, for passing laws, appropriations, and the revenue measures needed to pay for them. It simply assures that if overly optimistic JCT scoring, or changed economic conditions, do not provide the revenue needed, that the prior year’s deficit will be corrected, and the debt will not continue to spiral each year.
- An FRA could control deficits within two years, unlike a Balanced Budget Constitutional Amendment which even if passed, would require a lengthy ratification process by the states.
- An FRA provides economic cycle flexibility by allowing a bi-partisan majority of Congress to remove or reduce the surtax during recession years to provide a fast, simple, economic stimulus when needed.
- An FRA could allow a highly politicized Congress to act responsibly in controlling deficits by separating a vote for fiscal responsibility from the divisive issues and political “ownership” of specific tax increases or program reductions.
- An FRA surtax is progressive and equitability reflects the congressionally adopted incentives and distribution of the current tax code, since it is only applied to the actual income tax due after all other provisions of the Code.
- An FRA adds no complexity to the tax code. The IRS would only have to add one line to income tax forms; the “Deficit Control Surtax”, (multiplying the regular tax due by that year’s surtax percentage)

FISCAL RESPONSIBILITY ACT

(For introduction as a separate act or inclusion in a Budget resolution)

An Act to provide for automatic surtax adjustments to all income-based taxes, subject to Congressional override, when Congressionally approved appropriations and for a prior Fiscal Year exceed Federal revenue.

Whereas Article 1 Section 8 of the United States Constitution directs that “The Congress shall have the Power to lay and collect Taxes, Duties, Imposts and Excises to pay the Debts and provide Defense and general Welfare of the United States...”

Whereas the Congress has the ability to determine for each fiscal period the appropriate level of federal expenditures and the level of tax revenue necessary to pay for those expenditures, and should have the responsibility to not incur future Congresses and future taxpayers with debt for current programs, other than in times of economic emergency.

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled.

Title I

Section 11000. **SHORT TITLE**

- (a) **AMENDMENT OF 1986 CODE.** – Except as otherwise expressly provided, whenever in this title an amendment or repeal is expressed in terms of an amendment or repeal of, a section or provision, the reference shall be considered to be made to a section of the Internal Revenue Code of 1986.

SEC. 11001 **Surtax Adjustment of Income Tax to Correct Prior Year Budget Deficit**

- (a) **IN GENERAL.** – Section 1 is amended by adding at the end the following new subsection:

(k) Deficit Correction Income Tax Surtax

(1) Budget Deficit Determination –

Within 120 days after the end of each Federal fiscal year, the Congressional Budget Office shall send to the Congress, an Annual Budget Reconciliation Report listing the estimated amount of all federal expenditures and all estimated Federal revenue for the preceding fiscal year. If the expenditures exceeded the revenue, the report shall specify the amount of any prior year’s deficit which would be collected as a surtax under this Act on the following years statutory base tax rates.

(2) Surtax Rate Determination-

If a revenue deficit existed for the prior fiscal year, the Congressional Budget Office shall also send to the Congress a determination of the uniform percentage of surtax, rounded to the nearest one tenth of one percent, on all income tax payers, including Corporations; Individuals; Heads of Households; married individuals filing jointly; married individuals filing separate returns; estates; and trusts, that would be needed to collect the amount of the prior fiscal year's deficit based on the total prior fiscal year's income tax revenue.

(3) Congressional Review and Revision Period-

One hundred and twenty days after the Congress receives notice from the Congressional Budget Office of a revenue deficit in the prior fiscal year, the Deficit Correction Surtax percentage as determined by the Congressional Budget Office shall be added by law, to the total tax due for all income tax payers for the current calendar year, unless the Congress approves by a sixty percent majority vote of both the House and Senate a Declaration of Economic Emergency Requiring Deficit Financing to reduce or rescind the surtax adjustment for the current calendar year.