



U.S. HOUSE OF REPRESENTATIVES

COMMITTEE ON THE BUDGET

134 Cannon House Office Building, Washington, DC 20515 (202) 226-7200 ★ democrats.budget.house.gov

Chris Van Hollen,
Ranking Democrat

February 2, 2015

Highlights of the President's 2016 Budget

President Obama today submitted his fiscal year 2016 budget that will accelerate job growth and boost the take-home pay of all Americans – especially hard-working middle-class Americans and those working to join the middle class. The President's budget accomplishes these goals in a fiscally responsible way that will reduce the ten-year deficit by about \$2 trillion through a combination of targeted spending cuts and the elimination of many special interest tax breaks and loopholes.

As more Americans go back to work during the ongoing economic recovery, the President's budget focuses on growing workers' paychecks, helping working families afford quality child care, and expanding access to education and job training. It builds on the expanded health coverage and budget savings provided by the Affordable Care Act, creates a simpler and fairer tax code that invests in middle-class families, and provides critical investments in innovation, infrastructure, defense, and other services that will grow the economy. To accommodate these investments, the budget replaces arbitrary spending cuts under sequestration with savings from a smarter, more balanced approach to deficit reduction. All told, the President's budget puts the nation on a sustainable fiscal path with debt declining as a share of the economy.

Support Working Families, Grow the Middle Class, and Create Opportunity

The budget builds ladders of opportunity to grow the middle class through tax reform and investments that support working families and strengthen the economy. Key proposals include:

Replacing the sequester — The budget eliminates all future sequestration cuts to mandatory spending and raises appropriations above the low, post-sequester spending caps, with the increase split almost evenly between defense and non-defense programs each year of the sequester. For 2016, the additional appropriations eliminate the non-defense sequester entirely. Replacing the sequester provides funding for strategic investments that strengthen security and sharpen the nation's competitive edge in the 21st century global economy. For example, the budget provides the following notable increases:

- **Education** – \$3.6 billion more for education for 2016, including an increase of \$2.7 billion for K-12 education plus additional funding for early education and college affordability. (New education tax credits and mandatory spending initiatives are described below.)

- **Defense and international affairs** – \$38 billion above the 2016 post-sequester cap for national defense. The budget also provides \$58 billion for Overseas Contingency Operations (OCO) for 2016 – \$51 billion for defense and \$7 billion for the State Department and other international programs – which is down 21 percent from the current level. Beyond 2016, the budget includes placeholder estimates for OCO of \$27 billion per year through 2021, and maintains its \$450 billion cap on OCO over the 2013 – 2021 period. The budget also includes \$1 billion for a new initiative to address Central America’s underlying economic, security, and governance problems that are at the root of the causes of illegal immigration.
- **Veterans** – A 7.8 percent increase for discretionary veterans’ programs, in part to address the problem of long wait times in the Veterans Affairs health care system.

Providing tax relief for middle-class families — The President’s budget provides new middle-class tax relief that will grow worker paychecks. It creates a new second-earner tax credit of up to \$500 that will help 24 million couples defray costs faced by families in which both spouses work. It also provides for automatic enrollment in IRAs and provides tax incentives for small employers that offer retirement plans. Finally, in addition to education and child care tax changes described below, the budget makes permanent the improvements to the Earned Income Tax Credit (EITC) and to the Child Tax Credit, and it expands the EITC for workers without dependent children.

Reforming the tax code — The middle-class tax relief (together with the new investments in child care and community colleges described below) is paid for by reforming tax provisions for upper-income households and financial institutions. The budget increases the tax rate on capital gains and dividends for high-income households to 24.2 percent. When the Medicare tax on net investment income is included, the top rate would be 28 percent – the same as under President Reagan. The budget closes the “trust fund loophole” by providing for realization of capital gains upon gifts and bequests, with various exemptions to protect middle-class households. The budget also includes a fee on large, highly leveraged financial institutions to discourage excessive borrowing. The budget also includes proposals to address high-income tax avoidance.

Making child care more affordable — Child care is one of the most significant expenses for working families and federal assistance misses many families. The budget includes an additional \$82 billion in funding (that results in \$78 billion in outlays) over ten years to ensure that low-income families with young children can get subsidies to help afford child care while parents work or are in school. It also streamlines and enhances existing child care tax benefits, helping millions of middle-class families, particularly those with young children whose care is most expensive.

Increasing access to education — The President’s budget makes a major commitment to increasing access to high quality education from preschool through college. In addition to

increasing appropriations for education, the budget provides \$75 billion over ten years to help provide universal preschool for all 4-year-olds from low- and moderate-income families so that all children enter school ready to learn. It makes two years of high-quality community college free to responsible students, saving 9 million students an average of \$3,800 in tuition per year. It also makes college more affordable by making permanent the American Opportunity Tax Credit and expanding it to a total of \$12,500 over five years, extending it to part-time students, and increasing the amount that is refundable, as well as by ensuring that the maximum Pell grant will continue to rise with inflation.

Infrastructure — The budget includes a \$478 billion 6-year highway bill to make critical new investments in our roads, bridges, transit systems, and freight networks. It finances this investment by using transition revenues from corporate tax reform. To attract more private capital to help finance needed infrastructure investments, the budget calls for creation of an Infrastructure Bank and for a new class of municipal bonds that allow for private-public partnerships to make use of municipal bonds to raise capital.

Health care — The budget reduces health care spending by \$402 billion over ten years through numerous provisions primarily affecting Medicare and Medicaid. Within this total, the budget provides \$13 billion to expand access to home- and community-based services and improve other Medicaid benefits and \$5.9 billion to improve health coverage stability by reducing enrollment “churn” in Medicaid and the Children’s Health Insurance Program (CHIP). The budget reforms the Medicare physician payment Sustainable Growth Rate formula to both prevent steep rate cuts for physicians and improve the formula. The budget also provides \$12 billion to extend CHIP through 2019.

Immigration reform — The budget assumes savings from enactment of the bipartisan Senate-passed immigration bill, which will shrink the deficit by about \$160 billion over ten years and by nearly \$1 trillion over the next two decades.

(See budget table on the next page)

Proposals in the 2016 Budget
(in billions of dollars)

	<u>2015</u>	<u>2016</u>	<u>2016-25</u> Total
Projected deficits in the adjusted baseline 1/.....	578	535	7,880
Proposals in the 2016 Budget:			
Support working families, grow the middle class and create opportunity:			
Middle-class and pro-work tax reforms.....	3	10	277
Child care for all low- and moderate-income families with young children.....	---	3	78
Partner with States to provide tuition-free quality community college.....	---	*	60
Surface transportation reauthorization	---	3	116
Investments in early education and children's health	---	*	88
Additional investments in education, innovation, infrastructure, and security.....	-1	37	96
Making the tax code fairer, paying for investments, and reducing the deficit:			
Capital gains tax reform.....	-4	-9	-208
Financial fee.....	---	-6	-112
Proposals to address high-income tax avoidance.....	---	-6	-101
Transition revenue from business tax reform.....	---	-35	-268
Tobacco tax financing	---	-8	-95
Additional mandatory and tax proposals	1	-30	-322
Additional deficit reduction:			
Health savings	5	6	-402
Reforms to high-income tax expenditures	---	-35	-638
Immigration reform	---	6	-158
Debt service.....	*	-*	-220
Subtotal.....	4	-63	-1,809
Other changes to the deficit:			
Reductions in Overseas Contingency Operations.....	-0	-11	-557
Replacement of mandatory sequestration.....	---	11	185
Proposed Budget Control Act cap adjustment for disaster relief and wildfires.....	*	2	18
Debt service and indirect interest effects.....	-	-	<u>-43</u>
Total proposals in the 2016 Budget	4	-61	-2,206
Resulting deficits in 2016 Budget	583	474	5,674

*\$500 million or less.

1/ The adjusted baseline assumes extension of tax benefits for individuals and families due to expire in 2017, a freeze for the Medicare physician update, a Postal default on payments for retiree health benefits, a placeholder for disaster funding, and regular discretionary spending at the post-sequester level.