REV-14 IMPOSE A 5 PERCENT TAX ON THE INVESTMENT INCOME OF QUALIFIED RETIREMENT PLANS AND IRAS

	Annual Added Revenues (billions of dollars)					Cumulative Five-Year Addition
	1988	1989	1990	1991	1992	
Addition to CBO Baseline	2.1	3.6	3.8	4.0	4.2	17.6

Under normal income tax rules, deposits to savings accounts are made from income that has been previously taxed. In addition, the investment income earned by those deposits is normally taxable in the year in which it is earned (except for capital gains, which are usually taxed in the year when the capital asset is sold.) In contrast, most deposits in a qualified pension or profit-sharing plan are not taxable until they are distributed from the plan (see REV-13). Equally important, the investment income earned on these contributions or deferrals in qualified plans accumulates tax free.

The tax-free buildup of investment income in qualified plans increases the retirement income workers receive by saving through such plans. Because about half of the labor force does not have access to qualified plans at any given moment, many question whether this subsidy is equitably distributed. The subsidy could be reduced in several ways. If the investment income of qualified plans were allocated to plan participants and taxed as other income, the subsidy would be eliminated, but deciding on proper allocation rules would be very difficult, especially for defined benefit plans. Alternatively, the investment income of qualified plans could be taxed according to the income tax rules that apply to taxable trusts. Generally, beginning in 1988, this would mean taxing the investment income at 28 percent. As a result, however, most workers would be taxed on their share of plan investment income at a rate higher than their usual tax rate. This change would also seriously disrupt the long-term funding arrangements of defined benefit plans. In contrast, a special low-rate tax on the investment income of qualified plans would pose fewer problems but would raise significant amounts of revenue. A 5 percent tax, for example, would raise $17.6 billion between 1988 and 1992.

There are several disadvantages to a special tax, even one with a low rate. First, the tax would complicate the administration of qualified plans. Second, plans would have a greater incentive to switch from bonds and high-yield stocks to growth stocks in order to delay tax on the investment income, which might increase the investment risks faced by sponsoring employers and participants. Third, the tax would reduce retirement income for all participants, including middle-income participants. In contrast, lowering the permissible amounts of before-tax contributions, as in REV-13, would affect only those at the very upper end of the income distribution.

REV-15 FURTHER RESTRICT DEDUCTIONS FOR BUSINESS ENTERTAINMENT AND MEALS

Addition to CBO Baseline	Annual Added Revenues (billions of dollars) 1988	1989	1990	1991	1992	Cumulative Five-Year Addition
Disallow Deductions for Half of Business Entertainment and Meal Expenses	1.3	2.4	2.8	3.2	3.6	13.4

The tax code generally allows deductions for expenses necessary to earn income (except for most employee expenses). It is very difficult, however, to distinguish between the portion of meal and entertainment expenses required for business purposes and those that give rise to personal consumption, such as theater and football tickets, country club dues, and parties or meals at expensive restaurants. The Tax Reform Act of 1986 limits deductions for business meals and entertainment to 80 percent of expenses. It also disallows the portion of expenses that is "lavish and extravagant under the circumstances," a standard that previously applied only to expenses for business travel. Special rules further restrict deductions for the rental of skyboxes in sports facilities.

Further limiting the deduction for business meal and entertainment expenses has been proposed on grounds of both equity and efficiency. Some people argue that even 80 percent of these expenses is greater than necessary to conduct business. They also argue that it is not equitable to permit a few taxpayers to deduct 80 percent of expenses for items such as football tickets, while most people must pay the full cost. Another argument is that the deduction encourages more spending on entertainment than would occur if these activities were not subsidized by the tax system. About $13.4 billion would be raised in the 1988-1992 period if the limit on deductions for business meal and entertainment expenses was reduced to 50 percent of expenses.

This proposal could have some negative effects on the restaurants, sports, and entertainment industries because a large fraction of their income is derived from business customers. For example, fully one-third of all baseball tickets and one-half of all hockey tickets are purchased by business firms.

REV-16 LIMIT MORTGAGE INTEREST DEDUCTIONS

Addition to CBO Baseline	Annual Added Revenues (billions of dollars) 1988	1989	1990	1991	1992	Cumulative Five-Year Addition
Limit Deductions to $12,000 per Return (Single) or $20,000 (Joint)	0.4	1.0	1.1	1.2	1.4	5.1
Limit the Value of Deductions to 15 Percent	1.4	9.5	10.6	11.7	12.7	46.0
Phase Out Deductions for Second Homes	0.1	0.2	0.3	0.3	0.4	1.3

A home is both the largest consumer purchase and the main investment for most Americans. The tax code has historically treated homes more favorably than other investments (see REV-12), by allowing homeowners to deduct mortgage interest expenses but not taxing the current income or most capital gains from the home. (The current income from a home is the value of the housing services that the home provides.) The Tax Reform Act of 1986 increases the tax advantages of homeownership relative to other consumer purchases or assets. The act preserves the deductibility of mortgage interest on first and second homes, but phases out the deductibility of other consumer interest by 1990, and limits the extent to which deductions for carrying assets other than first and second homes can exceed income from assets. Under the act, the size of the mortgage on which interest can be deducted is limited to the purchase price of the home plus the value of home improvements, plus educational or medical expenses. This limit will prevent many taxpayers from deducting interest on home equity loans to finance consumer purchases or assets.

The mortgage interest deduction is defended because it encourages homeownership and home improvement, which can improve neighborhoods for all residents. This deduction has always been allowed under the federal income tax; the subsidy it provides is incorporated into prices and invest-

ment decisions and could not be eliminated without causing significant capital losses for millions of current homeowners.

Much of the subsidy, however, goes to upper-income taxpayers who would probably purchase homes anyway, while some lower-income homeowners may receive little or no benefit from the deduction because they never itemize deductions. The subsidy to the highest-income taxpayers could be limited by capping the mortgage interest deduction at $12,000 per tax return ($20,000 for a joint return and $10,000 for married couples who file separately). This change would raise $5.1 billion from 1988 through 1992, and would affect less than one-half of one percent of taxpayers.

The proposal would retain the basic incentive for homeownership but would not subsidize the luxury component of the most expensive homes and vacation homes. It would also improve economic efficiency because it would reduce the incentive to invest in housing, which might lead to more investment in other productive assets that are not subsidized. The dollar limits would also be easier for taxpayers to comply with and for the IRS to enforce than the limits imposed in the Tax Reform Act. Finally, limits of $12,000 and $20,000 are higher than the deductions for virtually all taxpayers, and so would cause a minimum of disruption to home prices and home building.

If the limit were not indexed, inflation would gradually extend the limit to more and more homeowners. At the current 3 percent inflation rate, the limit would be effectively halved in 23 years. Phasing down the limit through inflation would make the adjustments for most homeowners and home builders gradual. Owner-occupied housing now accounts for about one-third of national investment, so phasing down the tax incentive for housing investment could free substantial savings for other investments.

This proposal might unfairly penalize those who live in areas where real estate prices are high. Enforcement might also be difficult, because some taxpayers could use other assets as collateral for a loan used to purchase a home. In this way, the interest would be deductible even if it exceeded the cap.

Another way to direct the subsidy to lower-income taxpayers would be to limit the tax savings from the current deduction to 15 percent of interest paid, the value of the deduction to those in the lowest tax bracket. This would increase revenues by $46 billion over the 1988-1992 period, and would provide the same benefit per dollar of mortgage interest paid for taxpayers at all income levels. The limit probably would cause capital losses for owners or builders who have already invested in expensive homes.

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A final alternative would treat deductions of mortgage interest for second homes like deductions of other consumer interest, which will be phased out by 1990. Most second homes are vacation homes, and some people argue that a tax subsidy for such a luxury is inappropriate, especially when deductions for interest on most loans for other purposes (such as automobile loans) will be phased out. The argument is also made that it is unfair to treat loans for vacation homes differently from loans to finance vacations in resorts or motels. The deduction for interest on second homes is defended because its repeal would reduce the values of vacation homes to owners and builders who have already invested in them. If deductions for interest to finance second homes were treated like deductions for other consumer interest, $1.3 billion would be raised in 1988 through 1992.

REV-17 ELIMINATE DEDUCTIBILITY OF STATE AND LOCAL TAXES

Addition to CBO Baseline	Annual Added Revenues (billions of dollars) 1988	1989	1990	1991	1992	Cumulative Five-Year Addition
Eliminate Deductibility of State and Local Taxes	3.4	22.9	24.6	26.5	28.5	105.9
Maintain Deductibility of Taxes Above Floor of 1 Percent of AGI	0.6	3.9	4.3	4.7	5.1	18.7
Prohibit Deductibility of Taxes Above Ceiling of 7 Percent of AGI	0.7	4.5	4.9	5.2	5.5	20.8

Under current law, taxpayers may deduct state and local income, real estate, and personal property taxes from their adjusted gross income (AGI). These deductions will cost the federal government about $125 billion between 1988 and 1992.

The deductions mean, in effect, that itemizers pay state and local taxes at lower, or subsidized, rates and thus may be willing to support higher levels of state and local services than they would otherwise. In this way, the deductions may indirectly increase state and local revenues at federal expense. The Tax Reform Act of 1986 reduced the subsidy to state and local governments by repealing the deduction for state and local sales taxes, increasing the standard deduction, and lowering marginal rates, thus reducing both the number of itemizers and the value of the subsidy to them.

Deductibility of state and local taxes has drawn criticism on several grounds. For itemizers, the deductions lower the cost of supporting public services. The higher the income level in a community, the more itemizers it will have, and the greater the likelihood that residents will support a higher

level of spending, particularly for such services as public education. This higher spending--which all federal taxpayers subsidize, whether or not they benefit from itemizing or from better public services--may increase disparities among communities. Deductibility may also discourage states and localities from financing services with nondeductible user fees, which would permit more efficient pricing of some services. Moreover, the deductions reduce federal tax liability only for itemizers and, because the value of an additional dollar of deductions increases with the marginal tax rate, the deductions are worth more to higher-bracket taxpayers.

Because their value increases with a taxpayer's bracket, the deductions may encourage states to impose more progressive taxes than they otherwise would. Moreover, supporters of deductibility note that any higher public expenditures resulting from it benefit all members of a community, including lower-income nonitemizers who do not receive a direct tax saving. Increased spending on such public goods as education, transportation, and pollution control may also have spillover benefits for residents outside the taxing jurisdiction. Further, now that direct federal subsidies such as revenue sharing have been virtually eliminated, the alternative to deductibility may be lower spending for state and local services. Finally, deductibility may be a legitimate adjustment in measuring net income and, therefore, the ability to pay taxes.

Limiting the value of the state and local deduction could raise significant revenues. Eliminating deductibility would raise $106 billion in the 1988-1992 period. In its consideration of tax reform, however, the Congress chose to continue deductibility. Most of the effect of the present deductions on public spending could be preserved if the deductions were permitted only for state and local tax payments above a fixed percentage of AGI. The average itemizer's state and local tax deductions exceed 1 percent of AGI in every state. If the floor were set at 1 percent, revenues over the 1988-1992 period would increase by $18.7 billion. Another alternative would be to prohibit deductions above a fixed ceiling, which also might be a percentage of AGI. A ceiling set at 7 percent of AGI would increase revenues by $20.8 billion over the 1988-1992 period. While both a floor and a ceiling would raise revenues, their effects in other respects would differ. With a floor, the incentive for increased state and local spending would remain; with a ceiling, the incentive would be gone. Moreover, a ceiling would result in greater variation in after-tax income from state to state. While it would raise the federal tax liability for residents of high-tax states, it might have little effect on the federal tax liability of residents of low-tax states.

REV-18 INCREASE TAXATION OF NON-MEANS-TESTED ENTITLEMENT BENEFITS

Addition to CBO Baseline	Annual Added Revenues (billions of dollars) 1988	1989	1990	1991	1992	Cumulative Five-Year Addition
Increase Taxation of Social Security and Railroad Retirement Tier I						
Tax 50 percent of benefits	2.1	7.1	7.5	7.8	8.2	32.7
Tax 85 percent of benefits	4.6	15.6	16.8	17.9	19.1	74.0
Tax Workers' Compensation and Black Lung Benefits	1.0	3.2	3.5	3.8	4.1	15.6

Certain entitlement benefits are included in adjusted gross income (AGI), while others are completely or partially excluded. Until recently, most entitlements were exempted from income taxation, but the revenue loss from the tax exemptions was negligible as long as transfer payments were small and the beneficiaries were mostly lower-income households. In recent years, however, transfers have reached more well-to-do households and gradually come to account for a large fraction of family income. Under current law, only a portion of Social Security benefits and Railroad Retirement Tier I benefits is taxed, and the income-maintenance portion of workers' compensation benefits is not taxed at all. Proposals to increase taxation of these benefits are described below.

Increase the Taxation of Social Security and Tier I Railroad Retirement Benefits. Under current law, AGI includes the lesser of one-half of Social Security and Tier I Railroad Retirement benefits or one-half the excess of the taxpayer's combined income (AGI plus nontaxable interest income plus one-half of Social Security and Tier I benefits) over a threshold amount. The threshold amount is $25,000 for single returns and $32,000 for joint returns. Taxation of these benefits can be increased by reducing or eliminating the threshold and by raising the fraction of benefits included in AGI.

Eliminating the threshold would have several advantages. First, it would make the taxation of these benefits more consistent with the taxation of other pension benefits. If half of these benefits were taxed, the tax treatment would be roughly comparable over a worker's lifetime to the tax treatment of noncontributory pensions. Taxation of 85 percent of benefits would be roughly comparable to the tax treatment of contributory pensions for those with the lowest rate of return in Social Security and more favorable than the tax treatment of contributory pensions for other beneficiaries. Second, eliminating the threshold would reduce work or saving disincentives now facing beneficiaries with incomes near the threshold. For these taxpayers, an additional dollar of earnings results in an additional $1.50 of taxable income, as more benefits become taxable. In effect, these taxpayers face marginal tax rates 50 percent higher than statutory rates. Third, the complicated calculations under current law involving thresholds would be eliminated, thus simplifying tax compliance and administration.

Eliminating the thresholds would, however, reduce the current after-tax level of Social Security benefits, lowering the standard of living of many of today's elderly people. This reduction would be regarded by many as a violation of a social contract. Moreover, because Social Security is a larger fraction of the retirement income of middle-income elderly and disabled people than of upper-income retirees, taxing their benefits at even a relatively low marginal tax rate would have a greater effect on their after-tax disposable income than it would on those higher in the income distribution. To offset this tax policy change, benefit levels could be increased, but this would reduce net revenues gained from the proposal. (Because the Tax Reform Act of 1986 increases the personal exemptions and the standard deduction, and allows an additional standard deduction for people 65 and older, very-low-income people would remain tax-exempt even if all Social Security benefits were included in AGI.)

Instead of eliminating the thresholds, they could be lowered. If they were reduced to $12,000 for single returns and $18,000 for joint returns, the taxation of benefits would not affect current beneficiaries in the lower portion of the income distribution. Compared with eliminating the thresholds, lowering them would decrease the five-year revenue gain from about $32.7 billion to $14.2 billion if 50 percent of benefits were included in AGI, and from $74.0 billion to $39.5 billion if 85 percent of benefits were included in AGI. As has happened with the thresholds under current law, inflation would slowly erode the value of these new thresholds and gradually move the result toward full taxation of 50 percent or 85 percent of benefits.

Tax Workers' Compensation and Black Lung Benefits. Workers' compensation benefits reimburse employees for medical costs and lost income result-

ing from work-related injuries. Black Lung benefits reimburse disabled coal miners who have pneumoneucleosis for medical costs and lost income. Two-thirds of workers' compensation benefits is intended to replace lost income and pay benefits to survivors, and the remaining one-third covers medical costs. These benefits are not taxable under current law, and in some cases the after-tax value of wages for those able to return to work is less than their tax-free benefits. Including the income-maintenance portion of these benefits in AGI would make its tax treatment consistent with that of other forms of income and would reduce work disincentives for disabled workers. Taxing the income-maintenance portion of workers' compensation benefits and Black Lung benefits would add $15.6 billion to revenues in 1988 through 1992. A proposal to include the income-maintenance portion of Black Lung benefits is included in the President's budget for 1988.

Opponents of these proposals argue that damages for nonwork-related injuries are not subject to tax, even though a portion reimburses for income loss, and that taxation of workers' compensation benefits would treat these two types of compensation inconsistently. Of course, consistency could also be achieved by taxing the income-replacement portion of all damages for injuries, whether work-related or not. Opponents also argue that taxation of benefits would not significantly increase the incentive to work.

Tax Other Entitlement Benefits. Other entitlement benefits currently not subject to tax include: the value of Medicare Hospital Insurance (HI) coverage in excess of an individual's HI payroll contribution; the subsidy for Supplementary Medical Insurance premiums (SMI) under Medicare; and all means-tested entitlement benefits. A proposal to include the value of HI coverage in excess of an individual's contributions and to tax the insurance value of SMI benefits in AGI is discussed elsewhere (see ENT-09). Revenue gains from including benefits from means-tested programs, such as Aid to Families with Dependent Children, in AGI would be small because few people who qualify for means-tested programs would have enough income to incur any federal income tax liability.

REV-19 TAX NONRETIREMENT FRINGE BENEFITS

Addition to CBO Baseline	Annual Added Revenues (billions of dollars) 1988	1989	1990	1991	1992	Cumulative Five-Year Addition
Tax Some Health Insurance Premiums	(See ENT-13)					
Tax Life Insurance Premiums						
Income tax	1.2	1.8	1.9	2.0	2.1	9.0
Payroll tax	0.6	0.9	1.1	1.0	1.1	4.7

Some employer-paid, nonretirement fringe benefits are excluded from the income and payroll tax bases even though they constitute current compensation to employees. This exclusion reduces revenues substantially. For employer-paid health and life insurance premiums alone, the revenue loss will be about $20 billion in income tax revenues and about $18 billion in payroll tax revenues in 1989 alone. The Tax Reform Act of 1986 preserved the exclusions of fringe benefits in most cases, but it reduced marginal tax rates, which decreases the revenue loss and may slow the pressure from employees to increase the percentage of total compensation that is received tax free.

In addition to employer-provided health and life insurance, statutory tax-free benefits are employer-paid dependent care and miscellaneous benefits, such as employee discounts, meals provided on premises for the convenience of the employer, benefits provided at no additional cost to the employer, on-premises athletic facilities, and *de minimus* fringe benefits. The exclusions of legal service plans and educational assistance benefits were extended to December 31, 1987, by the Tax Reform Act.

Arguments against the exclusions can be made on the basis of efficiency. Employees may bargain for tax-free benefits that they would not be willing to pay for out of after-tax income, increasing demand for the tax-free services. For example, employer-paid health insurance plans may have contributed to the strong growth in demand for health care, which may have contributed to recent sharp rises in health care costs. The higher prices are paid by all who need health care, not just recipients of tax-free insurance.

Strong equity arguments exist also for taxing fringe benefits. At present, a taxpayer receiving no fringe benefits pays more tax than another with the same total income but a larger share in the form of fringe benefits. Further, the benefits of the exclusion are greater for those with higher incomes, both because they face higher marginal tax rates and because they often receive more fringe benefits.

An equity argument can, however, be made for retaining a partial exclusion. A taxpayer with an all-cash income may have a greater ability to pay taxes than one with the same total income who receives a large percentage of income as employer-paid benefits, because these benefits may not be worth as much to the taxpayer as an equal dollar amount of cash wages.

Assessing the value of some fringe benefits for purposes of taxation would be very difficult, in part because the cost to the employer does not necessarily equal the value of the fringe benefit to the employee. Further, the costs of collecting taxes on small fringe benefits (such as employee discounts) could exceed the revenue collected. The inclusion of employer-paid health insurance and life insurance premiums in the tax base would pose only minor administrative problems. The premiums paid to each employee could be reported on the employee's W-2 form, and withholding computed as it is for other taxable income, as is already done for some life insurance premiums (as noted below). The measurement of insurance values is more difficult when benefits are provided directly, as when employers provide medical care or reimburse employees for medical costs incurred (under self-insurance plans).

Tax Some Employer-Paid Health Insurance Premiums. Health insurance premiums were made subject to nondiscrimination rules for the first time in the Tax Reform Act. These rules limit the extent to which employer-paid health plans may favor higher-paid workers. Still, the present exclusion for employer-paid health insurance premiums has been criticized as inequitable to those who must pay for their health insurance with after-tax dollars. The self-employed can exclude only 25 percent of their health insurance costs now, and none of them after 1989; and taxpayers who pay for their own health insurance can deduct the cost of their insurance only if their total medical expenses exceed 7.5 percent of their AGI. Two proposals to tax some employer-paid health insurance premiums are described in ENT-13.

Tax Employer-Paid Life Insurance Premiums. Employer-paid group term life insurance premiums are currently excluded from taxable income, but the exclusion is limited to the cost of the first $50,000 of insurance, and nondiscrimination rules apply. The exclusion is not available to the self-employed. Repeal of this exclusion in the income tax would add $1.2 billion

to revenues in 1988. Eliminating the payroll tax exclusion would add $0.6 billion (net) in revenues in 1988. Over the 1988-1992 period, repeal would yield about $9.0 billion and $4.7 billion (net), respectively. An alternative to repeal would be to reduce the limit on the exclusion. The budget effects shown here for the payroll tax include the minor reductions in income tax revenues that result from the payroll tax increases.

Many employers provide death benefits under pension plans as substitutes for life insurance. Employer contributions to pension plans are income tax-deferred (and the first $5,000 of death benefits paid are tax-exempt) and are exempt from the payroll tax. If only employer-paid life insurance plans were made taxable, employers might choose to offer less life insurance and larger pension plan death benefits instead.

REV-20 BROADEN THE SOCIAL SECURITY TAX BASE

Addition to CBO Baseline	Annual Added Revenues (billions of dollars) 1988	1989	1990	1991	1992	Cumulative Five-Year Addition
Extend HI Coverage to State and Local Government Workers Not Now Covered	1.3	1.9	1.9	2.0	2.1	9.3
Extend OASDI Coverage to New State and Local Government Workers	0.2	0.9	1.5	2.1	2.8	7.5

Until 1982, government workers were not required to pay Social Security payroll taxes. Since then, legislation has made Social Security coverage virtually universal. All federal workers were required to contribute to Medicare Hospital Insurance (HI) beginning in 1982. After 1983, new federal employees were required to contribute to the Old Age and Survivors Disability Insurance (OASDI) trust fund. New employees of state and local governments (those hired after March 31, 1986) were covered by HI in 1985. Proposals to extend coverage further were considered during the budget reconciliation process in the last two years. One proposal would extend HI to state and local employees not yet covered, which would raise $9.3 billion (net) over five years. A second proposal would extend OASDI to new state and local employees, which would raise $7.5 billion (net) over five years. The budget effects shown here include the minor reductions in income tax revenues that result from the payroll tax increases.

Extending coverage to these employees would make their treatment more like that of employees in the private sector, who must contribute throughout their working years. Under current law, state and local employees who do not contribute may still be eligible for benefits, either through their spouses or because they work part of their lives in the private sector. Those who spend relatively few years in covered employment will have low Social Security earnings and contributions. Because benefits are based on earnings, and the current benefit formula redistributes benefits from high-earning workers to low-earning workers, state and local employees often receive a much higher ratio of benefits to lifetime contributions than other employees.

Many public employee benefit programs have more stringent vesting requirements for retirement, disability, and death benefits than does Social Security, especially for young workers. As a result, Social Security coverage for new state and local government workers would, after only a few years, improve the protection many of these workers and their families would have in the event of a worker's disability or death. Moreover, workers who change jobs and would lose eligibility for benefits under state and local plans would continue to be covered under Social Security, which does not depend on the worker's place of employment.

State and local governments would have to pay the employer share of these taxes if their employees were to become covered under OASDI, HI, or both. Representatives of some localities argue that this would be a difficult financial burden. State and local governments would also have to create a separate pension plan for workers newly covered by OASDI, so that their pension benefits would not duplicate Social Security retirement benefits. Maintaining separate pension plans would be administratively complex, and the funding for current state and local pension plans might be inadequate if new employees were no longer required to contribute to them. This problem would be most severe for governments that operate their pension plans on a pay-as-you-go basis.

APPENDIX

SUMMARY TABLE OF SPENDING AND TAXATION OPTIONS BY BUDGET FUNCTION

The table that follows lists deficit reduction options by budget function. When an option affects several functions, it is assigned to the function on which it has the largest impact. Some spending options affect all functions, and some taxation options cannot be classifed by function at all. Options of this kind are carried at the end of the table.

The title of each option is followed by a designation of its category in parentheses--for example, Slow Growth in the Strategic Defense Initiative (DEF-14) or Limit Mortgage Interest Deductions (REV-16). The designation permits locating the option in the table of contents at the beginning of this volume.

For each option, the table displays the estimated 1988-1992 savings of revenue gains that would result from enactment. Both budget authority and outlay savings are generally shown for the spending reduction options. Revenue increases are listed as additions to CBO baseline. The estimates do not include any secondary effects--that is, effects on spending or revenues that would occur if the performance of the economy as a whole were altered by enacting the options shown here.

Unless specified otherwise, the estimates assume that the spending reduction options in the table will take effect on October 1, 1987, and the taxation options on January 1, 1988. The separate options cannot be added to a grand total. Some are mutually exclusive; some overlap with others; and in some cases, there are interactions, so that if several options were enacted together, the combined savings would differ from the total of those estimated for each option separately.

SUMMARY TABLE PROJECTED SAVINGS AND REVENUE GAINS, BY BUDGET FUNCTION, FISCAL YEARS 1988-1992 (In millions of dollars)

Budget Function Options	1988	1989	1990	1991	1992	Cumulative Five-Year Savings
050 National Defense [a]						
Cancel Procurement of the F-15 (DEF-01)						
Budget Authority	1,790	1,800	1,930	1,810	1,670	9,000
Outlays	170	810	1,350	1,590	1,700	5,620
Cancel the C-17 Program (DEF-02)						
Budget Authority	1,940	2,080	2,710	3,020	3,870	13,620
Outlays	690	1,270	1,500	1,850	2,330	7,640
Cancel Antisatellite Missile (DEF-03)						
Budget Authority	420	750	500	500	400	2,570
Outlays	220	430	440	440	390	1,920
Cancel Trident Refit Program (DEF-04)						
Budget Authority	60	200	130	310	280	980
Outlays	10	50	110	190	250	610

NOTE: Dashes in this table indicate less than $2.5 million.

a. Unless otherwise specified, all figures are savings from the Administration's 1988 budget request.

SUMMARY TABLE (Continued)

Budget Function Options	1988	1989	1990	1991	1992	Cumulative Five-Year Savings
050 National Defense (Continued)						
Slow Trident SSBN Construction (DEF-05)						
Budget Authority	1,330	150	10	1,310	150	2,950
Outlays	70	200	300	320	450	1,340
Restructure the Army's Forward Area Air Defense Program (DEF-06)						
Budget Authority	300	490	510	310	220	1,830
Outlays	100	240	290	300	300	1,230
Defer New Program Starts Until 1990 (DEF-07)						
Budget Authority	8,350	12,220	5,980	7,750	4,320	38,620
Outlays	3,220	6,400	4,060	4,730	6,740	25,150
Reduce Purchases of MX Missiles (DEF-08)						
Budget Authority	940	1,580	970	1,260	1,150	5,900
Outlays	390	1,010	860	800	950	4,010
Cancel V-22 Aircraft Development (DEF-09)						
Budget Authority	470	640	2,140	2,800	2,550	8,600
Outlays	240	360	530	1,190	1,900	4,220

SUMMARY TABLE (Continued)

Budget Function Options	1988	1989	1990	1991	1992	Cumulative Five-Year Savings
050 National Defense (Continued)						
Restructure the Army Helicopter Programs (DEF-10)						
Budget Authority	800	310	320	260	-300	1,390
Outlays	270	580	550	500	120	2,020
Delay the Army's Deep-Attack Weapons (DEF-11)						
Budget Authority	230	320	360	160	-40	1,030
Outlays	90	160	210	180	160	800
Limit Funding for Supporting Procurement (DEF-12)						
Savings from Administration's Request						
Budget Authority	0	1,590	2,660	3,380	3,460	11,090
Outlays	0	430	1,180	2,070	2,730	6,410
Savings from CBO Baseline						
Budget Authority	1,880	1,350	750	80	-660	3,400
Outlays	500	910	1,050	770	170	3,400
Alter Research and Development Funding (DEF-13)						
Savings from Administration's Request						
Budget Authority	6,350	5,370	-790	-2,340	-1,370	7,220
Outlays	3,250	5,010	1,920	-990	-1,460	7,730
Savings from CBO Baseline						
Budget Authority	0	0	0	0	0	0
Outlays	0	0	0	0	0	0