

April Revenue Shower

Wall Street Journal Opinion
May 9, 2007

Here's the "surge" you aren't reading about: the continuing flood of tax revenue into the federal Treasury. Tax receipts for April were \$70 billion above the same month in 2006, and April 24 marked the single biggest day of tax collections in U.S. history, at \$48.7 billion, according to the latest Treasury report.

The April comparison is slightly askew because the IRS processed more returns than usual this year. But there's no denying that Americans are sending more money than ever to Washington; revenues for the first seven months of fiscal 2007 are up 11.3%, or \$153 billion. This Beltway bonanza has helped to slash the projected federal budget deficit by more than half from the same point last year. Across the past three Aprils, federal red ink has sunk by nearly \$300 billion. The deficit this year could tumble to \$150 billion, or an economically trivial 1% of GDP.

This revenue boom certainly casts doubt on the political wails about tax loopholes for the rich. So far this year, the taxes paid on so-called nonwithheld income, which are dollars that don't come from normal wages and salaries, have climbed by nearly 30%. This is income largely derived from capital gains, dividends and other investment sources -- i.e., the tax rates that President Bush cut in 2003. Individual income taxes are also up by 17.5% -- a handsome fiscal dividend from rising wages and low unemployment.

In other good news, the pace of federal spending, which was pedal-to-the-metal in Mr. Bush's first term, has finally decelerated. So far this year federal outlays have climbed by 3%, and, save for Medicare and Medicaid, federal expenditures are nearly flat from 2006. Spending will climb again once the Iraq supplemental passes, and revenues can't keep rising at a double digit pace forever.

Still, you'd think this dramatic fiscal turnaround would cheer up Capitol Hill. Instead, Congressional Democrats seem to live in a parallel universe -- one that they claim is starved for revenues, with a runaway deficit, and is dominated by the rich who pay no taxes at all. The reality is that the wealthy are financing Democratic spending ambitions, and the deficit could easily vanish within a year or two if Congress has the good sense to leave current tax policy in place.