



## Does Joe the Plumber Need a Tax Cut?

During a campaign stop earlier this week, presidential candidate Barack Obama [answered a question](#) about taxes put to him by Joe Wurzelbacher, an Ohio plumber who hopes to buy the business that he currently works for. Senator Obama has proposed to allow the Bush income tax cuts to expire for those married couples with adjusted gross income (AGI) above \$250,000 and singles with AGI above \$200,000. Mr. Wurzelbacher told Obama that, if he succeeds in obtaining the business, his income might exceed \$250,000 and that Obama's tax proposal could stand in his way of achieving the American Dream.

Senator Obama told Mr. Wurzelbacher, as well as those watching the final presidential debate when this question was brought up, that people like him need a tax break during those years when they are working towards the American Dream rather than during the years after they have already achieved it.

In other words, Obama proposes tax cuts for people like Mr. Wurzelbacher during the years when their income has not yet reached \$250,000 rather than in the years after their income exceeds that level. Senator Obama's tax plan would likely give the plumber who is earning perhaps \$60,000 or less a year (and saving as much as he can) lower taxes compared to current law and compared to what he would have to pay under Senator McCain's tax plan.

We estimate that only 2.3 percent of taxpayers will be above the \$250,000/\$200,000 AGI threshold this year, meaning Obama would extend the Bush income tax cuts, and enact several new tax cuts, for all but the richest 2.3 percent. We are not convinced that new tax cuts for over 97 percent of taxpayers would help working America as much as other policy options, but at least Senator Obama makes a logical argument as to why any new tax cuts should be targeted to those who are not among the very rich.

In any event, even if Mr. Wurzelbacher earns \$280,000, as he says he hopes to do, he'll still get a substantial income tax cut under Obama's tax program. That's because Obama proposes to extend the Bush reductions in the bottom four tax brackets, which are the rates that apply to almost all of Mr. Wurzelbacher's taxable income. To be sure, McCain wants to give Mr. Wurzelbacher an even bigger tax cut, but that would save him at most only \$900 a year.

### **McCain Implies that He Opposes a Progressive Income Tax**

During his conversation with Mr. Wurzelbacher, Senator Obama essentially argued that a progressive tax policy, which asks low-income people to contribute a smaller share of their income than the rich, might be better for the economy than a regressive tax policy. Obama said:

"And I do believe for folks like me who have worked hard, but frankly also been lucky, I don't mind paying just a little bit more than the waitress that I just met over there who's things are

slow and she can barely make the rent. Because my attitude is that if the economy's good for folks from the bottom up, it's gonna be good for everybody. If you've got a plumbing business, you're gonna be better off if you're gonna be better off if you've got a whole bunch of customers who can afford to hire you, and right now everybody's so pinched that business is bad for everybody, and I think when you spread the wealth around, it's good for everybody.”

Obama is arguing for a progressive tax, which allows low- and middle-income families to keep a larger share of their income than the very rich, and for his plan to make the income tax more progressive than it is now by cutting taxes for the poor and middle-class.

During the presidential debate, McCain pounced on Obama's words “spread the wealth” to imply that Obama is proposing socialist policies. Obama was clearly arguing for having low- and middle-income people keep a larger share of their income than the wealthy — which is the sole purpose of a progressive income tax with graduated rates.

If McCain has recently decided that he opposes a progressive income tax and supports a flat income tax or a national sales tax instead, that's probably something that the campaign should make clear to the public in the three weeks left before the election.

### **The Tax Code Already Discriminates Against Mr. Wurzelbacher's Hard Work — and Senator McCain Would Make the Problem Worse**

As a plumber, Mr. Wurzelbacher undoubtedly works harder than any of us who are writing reports and press releases about the candidates' tax plans, and he works harder than most of the people who read them. If the McCain campaign is worried that the tax code discourages this hard work, then perhaps Senator McCain should join us in advocating for the elimination of the biggest bias against work that was ever inserted into the tax code: the loopholes for capital gains and corporate stock dividends.

Senator McCain supports making permanent these loopholes, which allow people who live off their wealth to pay federal taxes at a rate of 15 percent while someone like Mr. Wurzelbacher pays income taxes at progressive rates as high as 35 percent even under McCain's tax plan, as well as payroll taxes.

A tax cut law signed by President Bush in 2003 expanded the loophole for capital gains by reducing the (already low) top income tax rate for capital gains from 20 percent to 15 percent. The same law created a new loophole for dividends, which had been taxed just like any other income but are now subject to a top rate of 15 percent as well. These changes expire at the end of 2010 (like almost all of the Bush tax cuts) but Senator McCain proposes to make them permanent. In fact, Senator McCain has recently, proposed to reduce the top rate for capital gains further to 7.5 percent for 2009 and 2010. In other words, Senator McCain seems to support the policy that requires Mr. Wurzelbacher to subsidize — through the tax code — those who live off their wealth.

Senator Obama would let the top rate for capital gains to return to 20 percent for families above the \$250,000/\$200,000 threshold, and he would set the top rate for dividends at 20 percent for families above this threshold as well. Obama's policy on these loopholes is certainly more progressive and more pro-work than McCain's, but both candidates would be better off if they considered eliminating these loopholes altogether.

### **The Talented Mr. Wurzelbacher**

Mr. Wurzelbacher is not just industrious. He is also intelligent and informed. He has certainly outfoxed the various reporters who have presented him to the public as an “undecided voter.” He asked Obama about a flat tax. It’s difficult to imagine that many people outside the world of public policy know or care what a flat tax is. Even Senator Obama was somewhat confused in answering the question and seemed to think they were discussing a national sales tax. Mr. Wurzelbacher also seems to have very defined views on Social Security, which he thinks should be [abolished](#), as he articulated to MSNBC. He also [spoke](#) with FamilySecurityMatters.org (which provides information to help families cope after a nuclear holocaust and other similar situations) and more or less said that he opposes progressive income taxes. As he put it:

“You’re going to tax someone else more that’s been working hard to fulfill the American Dream and you’re gonna give it to other people who — I’m not saying they don’t work as hard, but I’m sure some of them don’t — and I don’t think it’s right just to give it to them or reduce taxes on their part and hike it up on my part like a teeter totter to bring it back even.”

In other words, the biggest story about Joe the Plumber is that a man who opposes Social Security and the progressive income tax and who seems fairly well-versed in libertarian ideas managed to have a six-minute conversation with a presidential candidate he clearly opposes, and then allowed the media to label him an “undecided voter.” As Governor Palin would say, “Say it ain’t so, Joe!”