

President Obama's Revenue Proposals and Other Progressive Revenue Options

Citizens for Tax Justice

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Summary

Congress CAN Find the Money

- Congress has several options to raise enough revenue to fund health care reform and other initiatives.
- This revenue can be raised without harming the poor and without harming the economy.
- These options include, but are not limited to
 - the tax changes included in the President's budget proposal;
 - the CTJ / HCAN proposals to finance health care and explained in a report by CTJ.

Why Congress Is About to Debate Taxes

- The President's agenda will cost money, especially health care reform.
- The biggest hurdle to enacting President Obama's agenda is getting Congress to fund it.

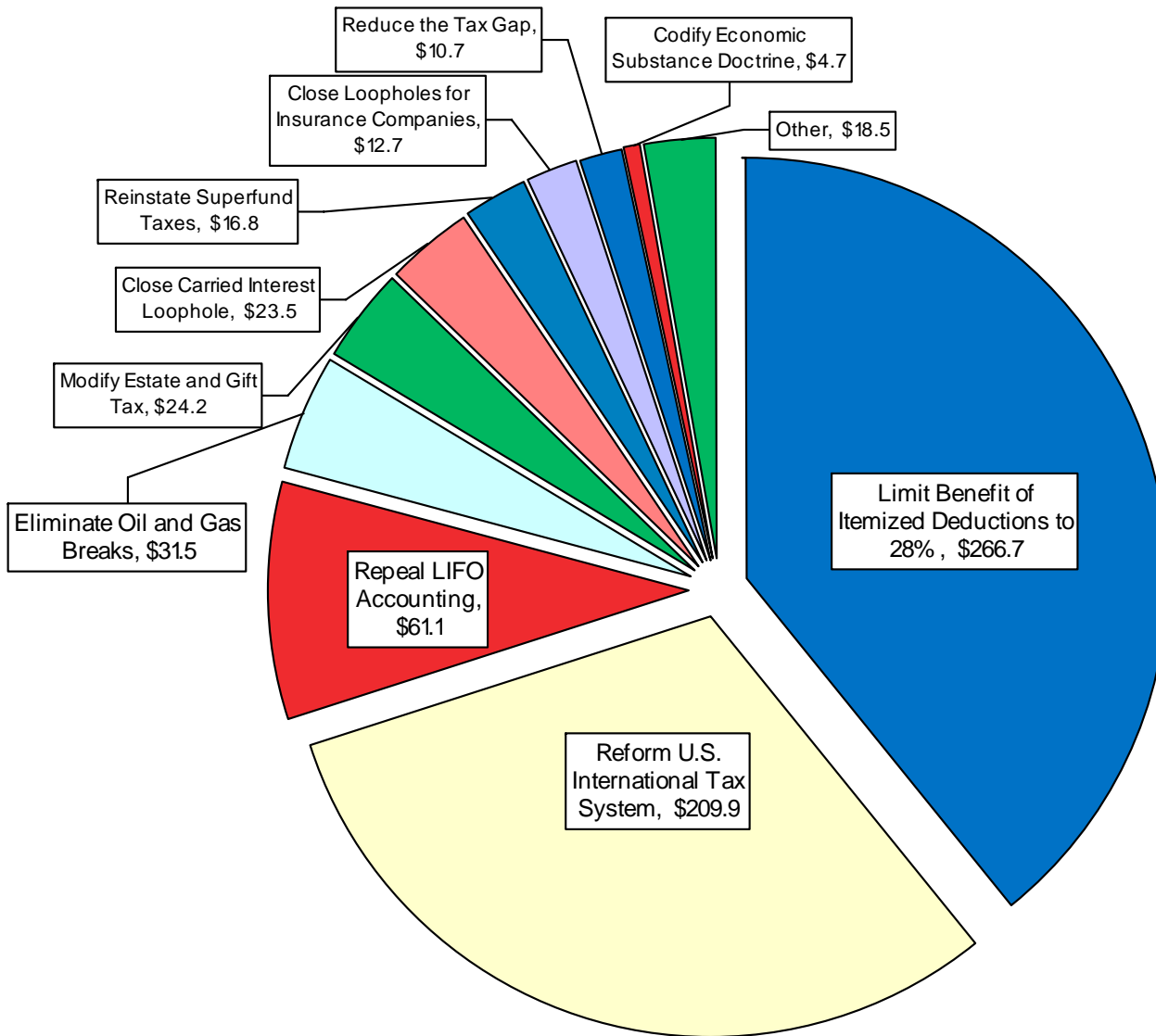
Why Congress Is About to Debate Taxes

- The first big test is the debate over health care.
- Savings alone may not pay for health care reform.

President Obama's Revenue Proposals

- New limit on itemized deductions for the wealthy.
- Reforming the U.S. international tax system.
- Other measures to close loopholes and reform the tax system.
- We set aside another possible revenue source, cap & trade, even though it could be a big one.

Ten-Year Impact of Revenue-Raising Proposals in President's FY 2010 Budget (in billions of dollars)



Limiting the Benefits of Itemized Deductions for the Rich: How Deductions Work Currently

- Tax deductions reduce your “taxable income,” which is the amount of income that the income tax rates apply to.
- So, if you are a very rich person, every dollar of deductions saves you 39.6 cents.
- But if you are a middle-income person, every dollar of deductions saves you, maybe, 15-25 cents.

Limiting the Benefits of Itemized Deductions for the Rich: How Deductions Work Currently

- There are several types of “itemized deductions” you can take, including:
 - the deduction for home mortgage interest
 - the deduction for charitable giving
 - the deduction for state income taxes
 - and many others.
- But they all have one thing in common: The wealthier you are, the more you benefit from them for every dollar you deduct.

Limiting the Benefits of Itemized Deductions for the Rich: How Deductions Work Currently

- Imagine if a member of Congress proposed a program to subsidize home ownership or medical expenses.
- Then imagine they said rich people would get a larger subsidy than poor people for each dollar they spend.
- It sounds crazy -- but that's how the deductions work!

Limiting the Benefits of Itemized Deductions for the Rich: The President's Proposal

- The President's proposal would reduce (but not eliminate) this unfairness.
- It would limit the benefit of itemized deductions for wealthy people to 28 cents for each dollar of deductions.
- The administration projects it can save about \$267 billion over ten years this way.

The President's International Tax Proposals: Three Problems the President Wants to Address

1. Companies moving jobs offshore.

2. Tax avoidance by corporations.

- practices that are not necessarily illegal, but they undermine our ability to tax U.S. income of corporations.

3. Tax evasion by individuals.

- practices that are definitely illegal,
 - involve hiding income from the IRS.
- Addressing these could save about \$210 billion over ten years.

The President's International Tax Proposals: Tax Evasion by Individuals

- Wealthy people have opportunities to hide income from the IRS.
- This is obviously illegal.
- Low- and middle-income people don't really have opportunities to do this.
- Lawmakers say people should pay what they owe, but can't always agree on how to make it happen.

The President's International Tax Proposals: Tax Evasion by Individuals

- Wealthy Americans sometimes hide income in tax havens.
- Tax havens are countries that
 - Generally don't tax income.
 - Have rules preventing their banks from providing any information to the IRS.

The President's International Tax Proposals: Tax Evasion by Individuals

- The President would only raise \$9 billion from addressing tax evasion.
- His proposals are steps in the right direction.
- There are stronger proposals in Congress (like the Levin-Doggett bill).

The President's International Tax Proposals: Tax Avoidance by Corporations

- The U.S. government generally only tries to tax the income of corporations when it's income they earn in the U.S.
- But some U.S. corporations have found ways to shift U.S. profits to offshore tax havens, and thus avoid U.S. taxes.
- This is often done through transactions and investments offshore that only exist on paper.
- This means offshore schemes actually reduce U.S. taxes on their U.S. income.

The President's International Tax Proposals: Tax Avoidance by Corporations

- U.S. corporations get to “defer” U.S. taxes on income they make abroad until they bring that income home.
- Even if they do bring foreign income home, they get a credit for any taxes they paid to a foreign government.
- This ensures that foreign income is not double-taxed.

The President's International Tax Proposals: Tax Avoidance by Corporations

- So corporations already are pretty free to earn income abroad without paying U.S. taxes on it.
- But corporations find several ways to take advantage of these rules to reduce the U.S. taxes on their U.S. profits.

The President's International Tax Proposals: Tax Avoidance by Corporations

- Example of abuse President Obama would address:
 - U.S. corporations can “defer” for years U.S. taxes on income they make abroad.
 - But sometimes they can take deductions right away for the expenses related to earning that income abroad.

The President's International Tax Proposals: Tax Avoidance by Corporations

- Example of abuse President Obama would address:
 - The foreign tax credit is supposed to ensure that no one has to pay the full tax levied by a foreign government and the full tax levied by the U.S. on income.
 - But some companies find ways to use the foreign tax credit for certain types of income that are not even taxed by the U.S.

The President's International Tax Proposals: Tax Avoidance by Corporations

- Example of abuse President Obama would address:
 - By manipulating a rule often called “check-the-box,” U.S. corporations shift profits to tax havens, while pretending that they haven’t done so.
 - The result is that companies get around the rules against such abuses, and the U.S. will not tax the income.

The President's Other Revenue Proposals

- End “last-in, first-out” or LIFO, accounting.
- Eliminate tax subsidies for oil and gas companies.
- Close loopholes in the estate tax.
- Close the “carried interest” loophole.

What if the President's Proposals Don't Raise Enough Revenue, or Congress Rejects Them?

- There are several ways to raise revenue in progressive ways to pay for health care reform or other initiatives.
- Some of these are included in the CTJ / HCAN options (spelled out in the CTJ report) to raise revenue to fund health care.
- These options could raise more than a trillion dollars over 10 years.

CTJ / HCAN Options to Fund Health Care Reform: End Tax Subsidies for Investors and Wall Street

- Currently, we provide several subsidies, through the tax code, to investors and their brokers and advisers on Wall Street.
- Instead of turning to revenue measures that will affect low- and middle-income families, we should first consider eliminating these tax subsidies for Wall Street.

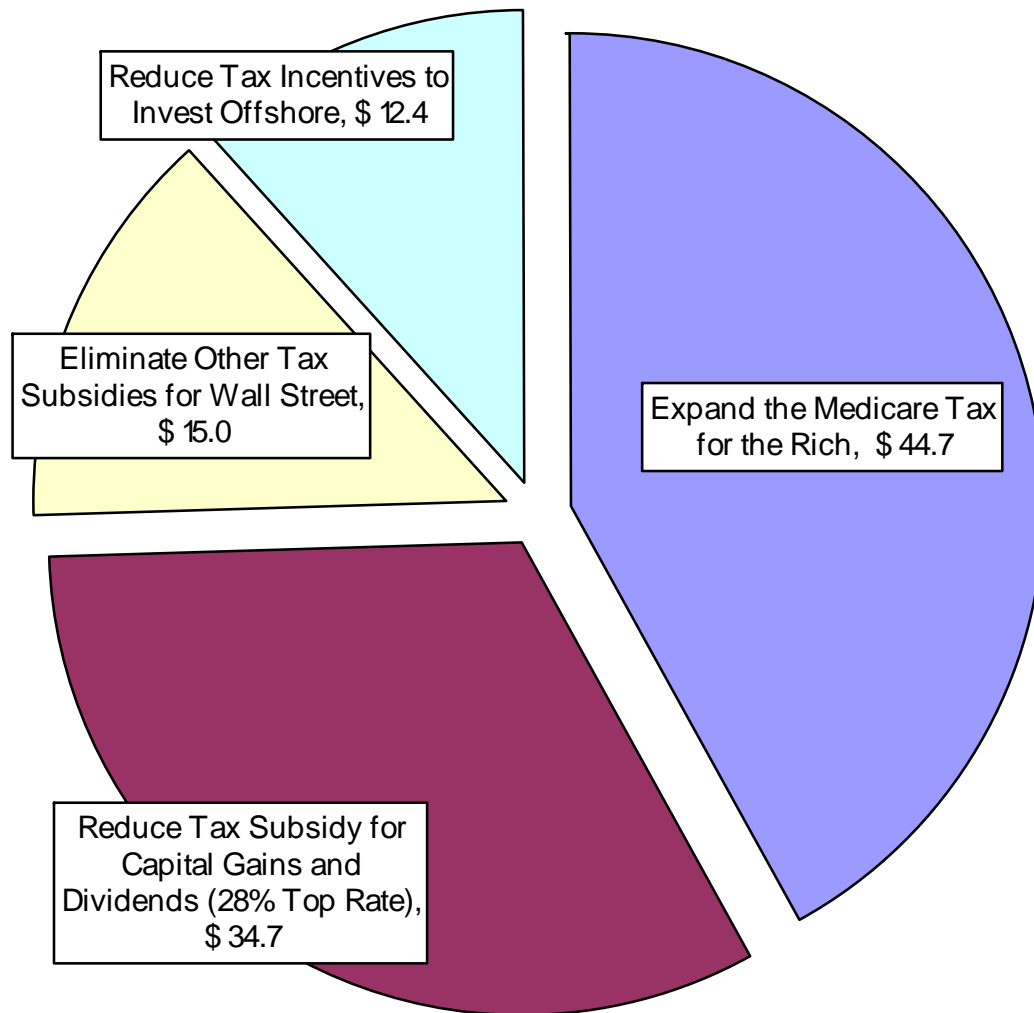
CTJ/HCAN Options to Fund Health Care Reform: End Tax Subsidies for Investors and Wall Street

- Taxpayers are spending hundreds of billions of dollars to make Wall Street healthy.
- When Wall Street is healthy, it should return the favor.

CTJ / HCAN Options to Fund Health Care Reform: End Tax Subsidies for Investors and Wall Street

- Make the one tax we have right now to fund health care (the Medicare tax) fairer and more progressive.
- End or reduce breaks that allow income from wealth to be taxed at lower rates than income from work.
- Close other loopholes that benefit Wall Street investors, their brokers and advisers.

**Selected Options to Raise Over \$100 Billion in 2012 to Fund Health Care Reform
(Revenue Impact in Billions of Dollars)**



- Expand the employee portion of the Medicare tax to apply to all income and increase the rate by about 1% for upper-incomes.
- Reduce tax subsidy for investments by raising top rate for capital gains and dividends in 2012 from 20 percent to 28 percent.
- Eliminate other tax subsidies for Wall Street, including the double-standard for stock options given to executives and the write-off for intangible assets.
- Reduce tax incentives to invest offshore, including repealing worldwide interest allocation and requiring corporations to defer deductions on unrepatriated foreign income.

Distributional Effects of Selected Health Care Financing Options

Two Largest HCAN/CTJ Options						Compare: Obama 28% Itemized ded. limit	
Income Group	Revenue Impacts in Billions of Dollars			Percent Share of Total Change	Average Changes	Percent Share of Total Change	Average Changes
	Expand Medicare Tax for the Rich (Include Investment Income, Add Higher Rate, Exclusion for Seniors)	Reduce Subsidy for Investors (Raise Preferential Rate for Capital Gains and Dividends to 28%)	Combined Changes				
Lowest 20%	\$ +0.3	\$ —	\$ +0.3	0.4%	\$ +10	—	\$ —
Second 20%	+0.6	—	+0.6	0.7%	+20	—	—
Middle 20%	+1.1	—	+1.1	1.4%	+38	—	—
Fourth 20%	+2.2	—	+2.2	2.8%	+75	0.4%	+3
Next 10%	+2.3	—	+2.3	2.9%	+157	0.1%	+1
Next 5%	+2.3	—	+2.3	2.8%	+309	0.6%	+16
Next 4%	+6.8	+1.7	+8.5	10.7%	+1,448	9.4%	+327
Top 1%	+29.3	+33.0	+62.2	78.4%	+42,602	89.4%	+12,406
ALL	\$ +44.7	\$ +34.7	\$ +79.4	100.0%	\$ +536	100.0%	\$ +137