

CTJ Releases Analysis of McCain Tax Plan

The tax plan announced on Jan. 11 by Sen. John McCain would provide little or no benefit to the three-fifths of taxpayers who earn less than \$39,000 a year; it also offers little to the one percent of taxpayers who make more than \$319,000. Instead:

- # More than half of McCain's proposed tax cuts would go to taxpayers making between \$65,000 and \$130,000 a year, a group that includes 15% of all taxpayers.
- # Most of the rest of McCain's tax cuts would be divided between the 20 percent of taxpayers making between \$39,000 and \$65,000 (who get 21% of the cuts) and the 4 percent of taxpayers making from \$130,000 to \$319,000 (who get 19%).
- # Overall, the McCain plan would cut taxes by about \$500 billion over ten years.

These are the results of an analysis of the McCain tax plan using the Institute on Taxation and Economic Policy's Tax Model, and released by Citizens for Tax Justice.

Starting point for 28% tax bracket would be increased

The centerpiece of McCain's tax cut plan would substantially raise the starting points for the 28% income tax bracket. Overall, McCain's plan would move almost 17 million taxpayers out of the 28% bracket, cutting their top marginal income tax rate to 15%.

- # The McCain plan would increase the percentage of taxpayers in the 15% income tax bracket or below from 74.2 percent under current law to 87.4 percent.
- # Put another way, the number of taxpayers in income tax brackets higher than 15% would be cut in half, from 25.8 percent of all taxpayers to 12.6 percent.
- # Of course, by definition, raising the starting point for the 28% tax bracket offers no benefit to the three-quarters of taxpayers who are already in a lower bracket under current law.

Corporate loopholes targeted

The other key element of McCain's tax plan is a proposal to pay for a large portion of the tax cuts with an array of corporate loophole-closing provisions, which McCain estimates would raise \$151.7 billion over five years.

Comparison to George W. Bush's tax plan

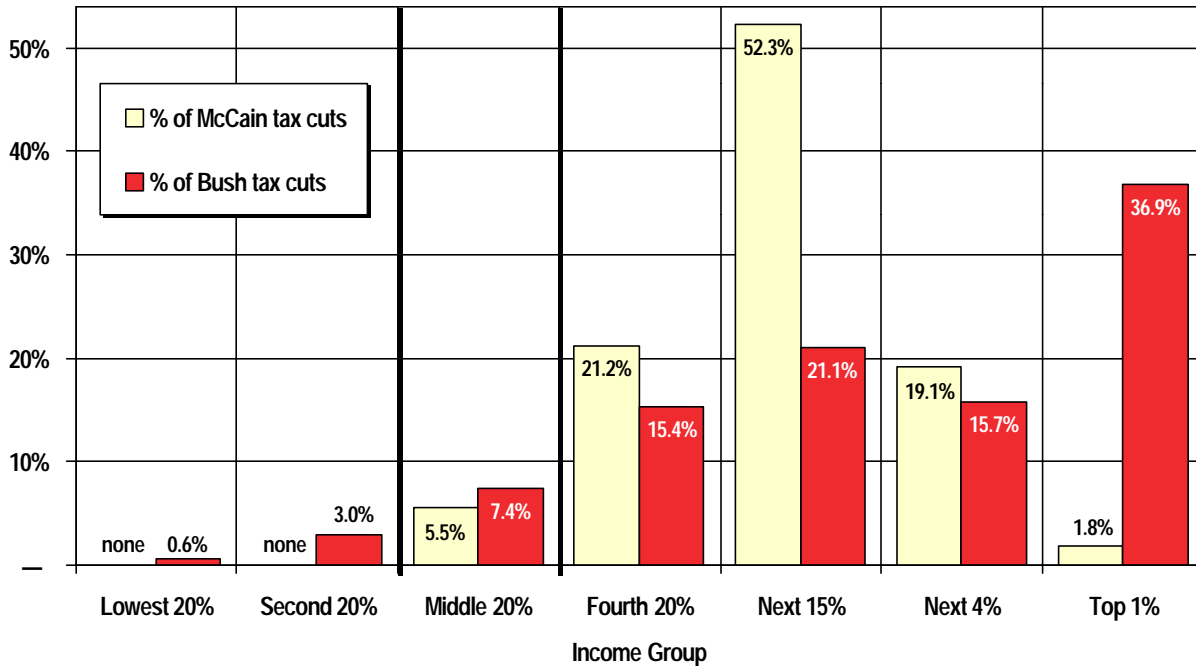
Neither the McCain tax plan nor Gov. George W. Bush's competing, \$1.7 trillion (over ten years) tax cut plan would provide much benefit to the bottom three-fifths of taxpayers. Bush assigns about 11 percent of his tax cuts to this large group of taxpayers; McCain, only about 5 percent.

Besides their huge disparity in overall size, perhaps the sharpest difference between the two plans is what they offer to people at the very top of the income scale.

- # Bush's plan targets 36.9 percent of its tax cuts to the top one percent of all

taxpayers, offering them an average tax reduction of more than \$50,000 each.
 # In contrast, McCain's plan gives only 1.8 percent of its net tax cuts to the best-

The McCain & Bush Tax Cuts



off one percent.

Details of the McCain tax plan:

1. Over five years, the starting points for the 28% tax bracket would be increased, from the current \$43,050 in taxable income to \$70,000 for couples, from \$34,550 to \$52,000 for single parents, and from \$25,750 to \$35,000 for singles without children. Note that the dollar figures refer to taxable income, so that, for example, families of four would get no benefit until their total income exceeds about \$65,000 (in 1999 dollars). The full benefit would not be realized until income approaches \$100,000. Because the new starting point for the 28% bracket for couples would be double the single level (although not twice the level for single parents), the change would reduce "marriage penalties" for many couples.
2. The \$500 per child tax credit would be increased to \$750 per child in 2001 and to \$1,000 per child in 2002 and thereafter.
3. The estate tax exemption would be increased from the current \$1 million to \$5 million (effectively \$10 million for couples), phased in over ten years.

4. Over five years, the standard deduction for couples would be increased by 19% (to twice the single amount) and for single parents by 16%. These changes would provide tax relief to many filers who take the standard deduction, as well as to some itemizers. (About 2 million current itemizers would switch to the increased standard deductions.)
5. Up to \$200 (\$400 for couples) in interest and dividends would be tax-exempt.
6. Limits for 401(k) plan contributions would be increased to \$15,000 a year, and similar changes would be made to certain other kinds of retirement savings plans.
7. “Medical Savings Accounts” would no longer be limited to 750,000 taxpayers; the annual contribution limit on “Education Savings Accounts” would be doubled to \$1,000; and new tax-deferred “Family Savings Accounts” would be provided for bottom-bracket taxpayers (few of who could afford to take advantage of them).
8. Long-term care insurance premiums would be made deductible.
9. Military personnel overseas would be exempt from tax on some or all of their earnings.
10. A 100% tax credit would be provided for gifts to public and private elementary and secondary schools, up to \$200 a year. If all eligible taxpayers took advantage of this free opportunity to help their local schools, this provision could cost more than \$17 billion a year (in 1999 dollars). Sen. McCain’s estimate of the size of his tax cuts does not appear to reflect the large potential cost of this school-aid program, which could be implemented more straightforwardly and with better targeting through direct grants to schools. (The distribution tables that follow do not include this credit, which appears to be intended as a backdoor way to funnel money to schools, rather than as a tax relief program.)
11. To offset much of the cost of his tax cuts, Sen. McCain proposes to curtail numerous corporate tax breaks, totaling \$151.7 billion over five years. Sen. McCain provides an illustrative list, but does not specify the exact loopholes he would close.

Two pages of tables detailing the estimated effects of the McCain plan follow.

Effects of John McCain's Tax Cut Proposals

(Annual effects at 1999 income levels, \$-billions except averages)

Income Group	Income Range	Average Income	Personal Income Tax Cuts	Estate Tax Reduction	Corporate Loophole Closings	Total Net Tax Cuts	Average Net Tax Cuts	% of Total Tax Cuts
Lowest 20%	Less than \$13,600	\$ 8,600	\$ -0.1	\$ -0.0	\$ +0.1	\$ 0.0	\$ —	—
Second 20%	\$13,600–24,400	18,800	-1.3	-0.0	+1.3	0.0	—	—
Middle 20%	\$24,400–39,300	31,100	-6.3	-0.0	+2.3	-4.0	-157	5.5%
Fourth 20%	\$39,300–64,900	50,700	-19.0	-0.0	+3.7	-15.3	-603	21.2%
Next 15%	\$64,900–130,000	86,800	-43.2	-0.0	+5.6	-37.6	-1,981	52.3%
Next 4%	\$130,000–319,000	183,000	-17.5	-2.5	+6.2	-13.7	-2,715	19.1%
Top 1%	\$319,000 or more	915,000	-4.2	-14.5	+17.4	-1.3	-1,034	1.8%
ALL		\$ 50,800	\$ -91.6	\$ -17.0	\$ +36.7	\$ -71.9	\$ -564	100.0%
ADDENDUM								
Bottom 60%	Less than \$39,300	\$ 19,500	\$ -7.7	\$ -0.0	\$ +3.7	\$ -4.0	\$ -52	5.5%
Top 10%	\$92,500 or more	218,000	-42.5	-17.0	+26.4	-33.1	-2,611	46.0%

Income tax changes include the effects of: (1) raising the starting points for the 28% tax bracket, from the current \$43,050 in taxable income to \$70,000 for couples, from \$34,550 to \$52,000 for single parents, and from \$25,750 to \$35,000 for singles without children; (2) increasing the standard deduction for couples by 19% (to double the single amount) and for single parents by 16%; (3) a \$200 exclusion (\$400 joint) for interest and dividends; (4) doubling the \$500 per child tax credit to \$1,000 per child; and (5) and raising the limit for 401(k) plan contributions to \$15,000 a year. Alternative minimum tax exemptions were increased to avoid anomalies, as Sen. McCain promises. Proposed expansions of Medical Savings Accounts and Education Savings Accounts, new Family Savings Accounts, long-term care insurance deductions, tax breaks for overseas military personnel and a \$200, 100% tax credit for donations to schools are not included. Sen. McCain's estate tax reduction would raise the exemption from the current \$1 million to \$5 million (effectively \$10 million for couples). Figures rely on Sen. McCain's promised revenues from his corporate loophole-closing provisions, which were allocated to individuals here based on capital income. Many tax changes would be phased in. The annual effects are shown here fully effective at 1999 levels.

Source: Institute on Taxation and Economic Policy Tax Model, Jan. 13, 2000. Preliminary.

Citizens for Tax Justice, Jan. 13, 2000

Changes in Marginal Tax Rates Under the McCain Tax Plan						
Regular Top Income Tax Bracket	Current Law		McCain Plan		Changes	
	Taxpayers (million)	% of all taxpayers	Taxpayers (million)	% of all taxpayers	Taxpayers (million)	% changes
Zero	30.6	24.0%	32.4	25.4%	+1.8	+6%
15%	64.1	50.2%	79.1	62.0%	+15.1	+23%
28%	27.1	21.3%	10.4	8.1%	-16.8	-62%
31%	3.2	2.5%	3.2	2.5%	—	—
36%	1.3	1.0%	1.3	1.0%	—	—
39.6%	1.2	1.0%	1.2	1.0%	—	—
ALL	127.6	100.0%	127.6	100.0%	—	—
15% or less	94.7	74.2%	111.5	87.4%	+16.8	+18%
28% or more	32.9	25.8%	16.1	12.6%	-16.8	-51%

Estimated Revenue Effects of Sen. John McCain's Tax Plan (\$-billions)

Items	1999 Full Yr.*	Fiscal Year Effects											2001-05	2001-10
		2001	2002	2003	2004	2005	2006	2007	2008	2009	2010			
Personal income tax cuts:		Fiscal year effects are included in "Subtotal, income taxes," below												
Raise 28% bracket starting points (5-year phase in)	\$ -63.9													
Child credit doubled	-18.1						"							
Standard deduction increase for couples (over 5 years)	-6.2						"							
Interest & dividend exclusion (\$200/400)	-2.5						"							
401k limits raised by 50%	-0.8						"							
Other income tax changes (except school credits)**	-2.2						"							
Subtotal, income taxes	\$ -93.8	\$ -4.4	\$ -23.0	\$ -45.3	\$ -63.6	\$ -82.2	\$ -102.1	\$ -116.0	\$ -119.5	\$ -123.2	\$ -127.0	\$ -218.6	\$ -806.4	
Estate & gift tax cuts	-17.0	—	-1.6	-3.6	-5.6	-7.9	-10.3	-13.0	-15.9	-19.1	-22.6	-18.7	-99.7	
Subtotal, tax cuts	\$ -110.8	\$ -4.4	\$ -24.6	\$ -48.9	\$ -69.2	\$ -90.1	\$ -112.5	\$ -129.0	\$ -135.5	\$ -142.3	\$ -149.6	\$ -237.3	\$ -906.1	
Corporate loophole closing	+36.7	+3.8	+23.2	+35.3	+43.8	+45.6	+47.4	+49.3	+51.3	+53.3	+55.5	+151.7	+408.4	
TOTAL	\$ -74.0	\$ -0.6	\$ -1.4	\$ -13.6	\$ -25.4	\$ -44.5	\$ -65.1	\$ -79.7	\$ -84.2	\$ -89.0	\$ -94.1	\$ -85.6	\$ -497.7	
Addendum—														
School tax credits**														
100% utilization	\$ -17.4	\$ -7.1	\$ -17.8	\$ -18.0	\$ -18.1	\$ -18.3	\$ -18.5	\$ -18.7	\$ -18.9	\$ -19.1	\$ -19.2	\$ -79.3	\$ -173.6	
50% utilization	-9.3	-3.8	-9.6	-9.7	-9.8	-9.9	-10.0	-10.1	-10.2	-10.3	-10.4	-42.6	-93.4	

*Reflects the annual effects of the proposals when fully effective, at 1999 levels.

**Not included in distribution table.

Note: Sen. McCain says that his tax cut proposals (before corporate offsets) will total \$237.3 billion over their first five years. To match that total (excluding school credits), the estimates here assume, unless otherwise explicitly stated in Sen. McCain's detailed description of his plan, that many of the various phase-ins (most notably the five-year phase-ins for the increases in the 28% tax bracket starting points and the standard deduction for couples) would not begin until calendar 2002. Sen. McCain makes clear that his proposed increase in the \$500 child credit would take half effect in calendar 2001 and full effect in 2002. Several other provisions are said to take "immediate" effect, but the starting year is not specified. See John McCain, "21st Century Family Security Plan," Jan. 11, 2000. Because of the phase-ins, the estimated net cost of the McCain plan would be \$412 billion in its second five fiscal years (fiscal 2006-10), compared to only \$86 billion over the first five years (fiscal 2001-05).

Source: Citizens for Tax Justice estimates (preliminary), Jan. 13, 2000.