



Does McCain Think Reagan Was a Socialist?

Type of Refundable Credit Supported by President Reagan Decried as “Welfare” by Senator McCain

When the Earned Income Tax Credit was expanded in the Tax Reform Act of 1986, President Reagan, who signed the bill into law, called the EITC “the best anti-poverty, the best pro-family, the best job-creation measure to come out of Congress.”

The EITC provides a tax credit to very low-income working families. The credit can exceed federal income tax liability, meaning that some very low-income families actually receive a check from the IRS. Since pretty much all working people pay federal payroll taxes (and also some federal excise taxes like the gasoline tax) even if they don't owe income taxes, the EITC seemed like a justifiable break for struggling families.

Leaders of both parties agreed, as did President Reagan. That's as close to a consensus as anyone finds in Washington. It seemed this was one sort of tax cut that everyone supported.

Until now. Presidential candidate John McCain, who often claims to emulate Ronald Reagan, has lately argued that tax breaks exceeding income tax liability are “[welfare](#),” and has even suggested that they are [socialism](#). While McCain's views are not entirely clear (since his own health care plan includes a refundable tax credit that would benefit even people without income tax liability) it's difficult to square his hostility towards Obama's proposed refundable tax credits with his tributes to the president who supported similar policies.

Obama's Refundable Tax Credits

Currently, the two notable refundable tax credits in the federal tax code are the EITC and the partially refundable child credit. Senator Obama would expand this list. He proposes to:

- create a refundable Making Work Pay credit, which would refund payroll taxes up to a limit of \$500, or \$1,000 for a married couple;
- expand the refundable EITC for families with three or more children, for childless workers, and particularly for childless workers who are paying child support;
- replace the non-refundable Hope education credit with a refundable credit of up to \$4,000;
- expand and make refundable the dependent care tax credit;
- create a credit of ten percent of mortgage interest, up to \$800, for non-itemizers;
- turn the current non-refundable saver's credit into a refundable 50 percent credit of up to \$250, or \$500 for married couples.

These credits would be phased out for families with higher incomes (except that the dependent care credit would remain available to families of all income levels).

Does Senator McCain Think George W. Bush Is a Socialist?

A very small portion of Obama's proposed credits could exceed both income tax liability and payroll taxes for some families. But this is already true of the EITC and was even more true after the EITC was expanded for married couples under President George W. Bush. Since Senator McCain proposes to make permanent all of the Bush tax cuts, we have assumed up until now that he would make permanent the changes in the EITC enacted under Bush.

How Much of Obama's Tax Cuts Would Exceed Taxpayers' Income Tax Liability AND Payroll Taxes?

The amount of tax credits exceeding both income tax liability and payroll taxes would, in any event, represent a tiny part of Senator Obama's overall tax plan.

In another report we estimated the fiscal and distributional effects of Obama's tax plan in 2012, a year when most of the provisions would be in effect if enacted.¹ We found that Obama's proposal to extend the Bush tax cuts for most Americans would cost \$146 billion in 2012. His proposal to reform the Alternative Minimum Tax would cost in the neighborhood of \$110 billion in 2012. His Making Work Pay credit — which is designed in a such a way that it cannot exceed payroll taxes — would cost \$65 billion.

On the other hand, the new credits proposed by Obama that could actually exceed both income tax liability and payroll taxes would cost far less. We estimate that Obama's proposals to change the EITC, education credit and dependent care credit and his mortgage credit would only cost around \$19 billion in 2012. (Only a portion of this amount would exceed taxpayers' income tax liability and payroll taxes.) We cannot estimate the costs of expanding and making refundable the saver's credit due to data limitations. But the point is pretty clear: Tax cuts that actually exceed income taxes and payroll taxes would be a tiny proportion of Obama's overall tax plan.

Does Senator McCain Really Think 35 Percent of Taxpayers Don't Deserve a Tax Cut?

For someone who believes tax cuts are crucial to America's prosperity, it's surprising that McCain wants to deny them to so many Americans. While virtually all working Americans pay payroll taxes, we estimate that 35 percent of taxpayers — just over a third — will have no federal income tax liability in 2008. McCain now speaks as if he opposes tax cuts for taxpayers without federal income tax liability — the bottom third of the income distribution. (Although this is made confusing by the fact that he proposes tax credits to purchase health insurance even for these families without income tax liability.)

Pinning down where Senator McCain stands on taxes has never been easy. He originally opposed the Bush tax cuts, [saying](#). "I don't believe the wealthiest 10% of Americans should get 60% of the tax breaks. I think the lowest 10% should get the breaks."

Now he supports making permanent the Bush tax cuts and opposes tax cuts for the lowest 35 percent. The nurses, teachers, policemen and plumbers who are among this third of Americans would probably like some clarification on whether Senator McCain supports or opposes tax cuts for their families.

¹Citizens for Tax Justice, "The Tax Proposals of Presidential Candidates John McCain and Barack Obama," October 16, 2008. <http://www.ctj.org/pdf/presidential2008.pdf>