



## Obama and McCain Propose New Stimulus Plans, Including More Tax Breaks

John McCain and Barack Obama both unveiled plans last week to deal with the economic crisis, and both include new tax cuts in addition to those spelled out in their tax plans.

### Increasing Investment and Creating Jobs, or Creating Another Boondoggle?

Both candidates propose tax cuts that they believe will help business. Obama proposes a \$3,000 refundable credit for businesses for each new hire they make. He would also [double](#) the amount of investments in equipment that small businesses can immediately deduct (expense) from \$125,000 to \$250,000 through the end of 2009. (The stimulus bill passed by Congress in February doubles the limit through the end 2008.)

McCain proposes to expand the tax loophole for capital gains by reducing the (already low) top income tax rate for capital gains from 15 percent to a super-low 7.5 percent for 2009 and 2010. He would also allow people with investments to count up to \$15,000 in capital losses against their ordinary income in order to reduce their tax liability in 2008 and 2009. (The current limit is \$3,000.)

In this category of new tax cut proposals, Obama's are less alarming than McCain's. But that doesn't mean they are great ideas. The Tax Policy Center's Howard Gleckman rightly [warns](#) that the \$3,000 credit — which can involve the IRS writing checks to a lot of businesses, since it would be refundable — could become one of the "tax extenders," or temporary tax cuts that Congress inevitably extends every couple years in order to placate business lobbyists.

But at least Obama's proposals have something to do with creating jobs. McCain's proposal to lower the capital gains rate would benefit those who don't have to go to a job each day because they can live off their wealth. Already, a (typically very wealthy) person whose income takes the form of capital gains and dividends pays income taxes at a rate of just 15 percent. Someone who actually works for a wage pays income taxes at progressive rates of up to 35 percent and also has to pay payroll taxes of around 15 percent on top of that.

We calculate that over three fourths of the benefits of McCain's rate reduction for capital gains would go to the richest one percent of taxpayers, as illustrated in the nearby table.

Share of Benefits in 2009 from McCain's Proposal to Slash Tax Rate for Capital Gains to 7.5%	
Income Group	Share of Total Benefits
<b>Lowest 20%</b>	<b>0.0%</b>
<b>Second 20%</b>	<b>0.0%</b>
<b>Middle 20%</b>	<b>0.0%</b>
<b>Fourth 20%</b>	<b>1.0%</b>
<b>Next 15%</b>	<b>7.0%</b>
<b>Next 4%</b>	<b>15.7%</b>
<b>Top 1%</b>	<b>76.2%</b>
<b>ALL</b>	<b>100.0%</b>
Source: ITEP Microsimulation Tax Model, October, 2008	

And while Obama's \$3,000 credit for new hires could become the sort of "temporary" tax break that never goes away, the same can be said of McCain's "temporary" rate reduction for capital gains. Anti-tax lawmakers and activists persuaded unwary members of Congress to support the last tax cut for capital gains by arguing that the cost would be small because the tax cut would be temporary. Soon enough, those anti-tax forces were proposing to make that tax cut permanent and accused anyone who opposed their efforts of supporting a "tax increase." In their logic, there really is no such thing as a temporary tax cut.

(For more information on McCain's capital gains proposal, see our recent [paper on this topic](#).)<sup>1</sup>

### **Let Me Give You a Hammer So You Can Smash that Piggy Bank**

Both candidates want to change the rules for tax-preferred retirement savings vehicles in ways that are likely to benefit the wealthy and which might encourage many people to raid their retirement savings.

Both candidates support suspending the rules that require people who are over the age of 70½ years to start selling some equities in their 401(k)s or Individual Retirement Accounts (IRAs). The benefit of these savings vehicles is that they allow taxpayers to defer paying taxes on income that they save, as well as taxes on the interest that accumulates, until they withdraw this money in retirement. Without a requirement that people start drawing these savings down at some point, 401(k)s and IRAs could become a tax shelter for money that the taxpayer intends to leave behind after death, which is not the intention of these tax preferences.

But McCain and Obama reason that someone who has to sell their assets now, when their value is probably at a low-point, is in an unfortunate position and would rather wait until the market recovers. There is probably something to that, but it's also worth noting that the retirees who are hurting right now are those who *must* draw down their savings just to have some money to live on. It's only the relatively well-off that can benefit from the option of not drawing down these savings.

The other proposals regarding retirement savings go in the other direction — encouraging people to deplete their savings. McCain proposes that in 2008 and 2009 withdrawals of up to \$50,000 from 401(k)s and IRAs, which are currently taxed as ordinary income, be subject to a top income tax rate of 10 percent. This obviously does not help a senior whose income is too low to trigger income tax liability or whose taxable income does not exceed the 10 percent bracket (not to mention seniors without 401(k)s or IRAs). And it's quite a boon for a very rich senior who would otherwise pay income taxes at a rate of 35 percent on such a withdrawal.

Obama's idea also would encourage people to deplete their retirement savings, but at least the benefits wouldn't be so targeted to the wealthy. Currently taxpayers under age 59½ cannot withdraw money from their 401(k)s or IRAs without incurring a 10 percent penalty. Obama proposes to temporarily suspend that penalty for withdrawals of up to \$10,000.

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<sup>1</sup>Citizens for Tax Justice, "McCain's Proposal to Increase the Tax Loophole for Capital Gains Would Be Unfair and Counterproductive," October 15, 2008.

### **But Wait, There's More**

Both candidates have additional ideas as well. Both apparently agree that income taxes should be temporarily eliminated for most unemployment benefits. McCain and Obama each has his own idea about how to prevent mortgage foreclosures. Obama proposes a 90-day moratorium on foreclosures while McCain wants the government to buy mortgages from homeowners and servicers and replace them with mortgages with more manageable terms. McCain says he would order the Treasury to guarantee all savings for six months, while Obama wants to send more aid to the automotive industry.

There is no doubt that the next president — whoever he is — will have to act quickly to help families who are suffering in this dysfunctional economy. Hopefully, the next president will look at a wide range of policy options and not feel constrained to merely tinker with the tax code in ways that will benefit the well-off, create new loopholes for business or make our current tax preferences for savings even less effective than they are now.