CTJ Citizens for Tax Justice

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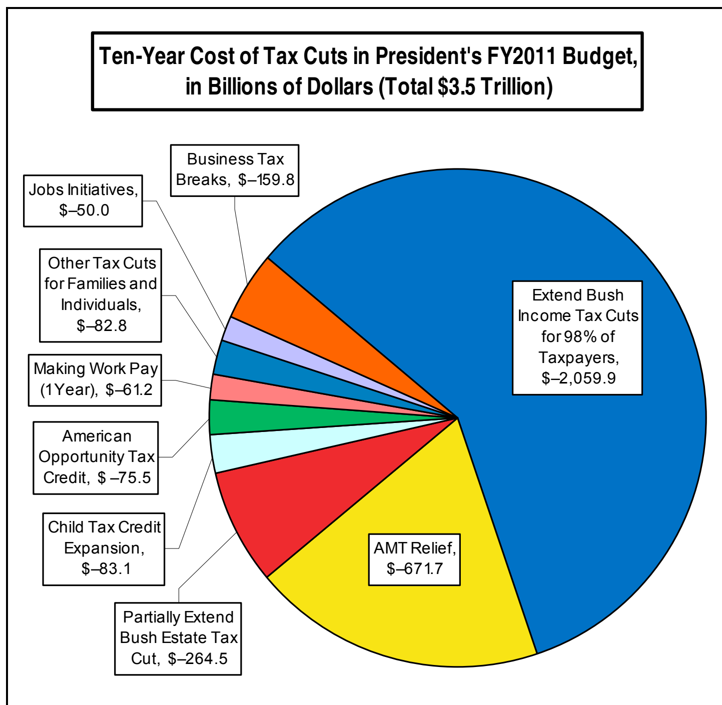
Contact: Steve Wamhoff
(202) 299-1066 x33

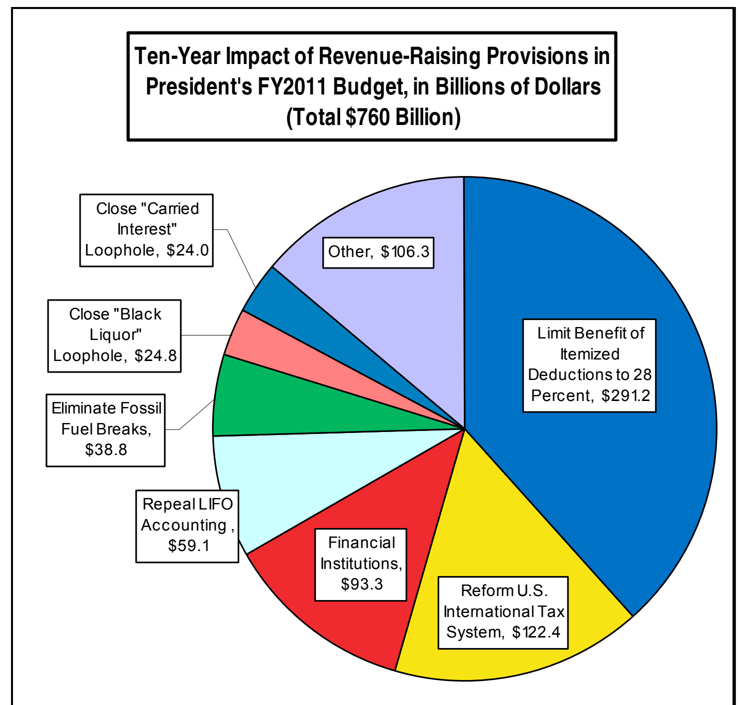
President Obama's Fiscal Year 2011 Budget

Federal Government Should Collect *at Least* as Much Revenue as Obama Proposes

On February 1, President Obama submitted to Congress his proposed federal budget for fiscal year 2011. Like the budget he submitted last year, it represents a vast improvement over the policies of the Bush years and continues to outline a progressive reform agenda.

But, also similar to last year, the President's budget could be greatly improved with more aggressive policies to raise revenue. Over the coming decade, the President proposes to cut taxes by $3.5 trillion. We include in this figure the cost of extending most of the Bush tax cuts and relief from the Alternative Minimum Tax (AMT) as well as additional tax cuts that President Obama proposes.





His budget would offset a portion of this cost with provisions that would raise $760 billion over a decade by limiting the benefits of itemized deductions for the wealthy, reforming the U.S. international tax system and enacting other reforms and loophole-closing measures.

To avoid larger budget deficits, the federal government must collect at least as much revenue as the President proposes. There are two bare minimum requirements for Congress to achieve this. First, Congress must <u>not</u> extend any more of the Bush tax cuts than President Obama proposes to extend. Second, Congress must raise at least as much revenue as President Obama has proposed ($760 billion over ten years) through loophole-closers and new revenue measures.

President Obama proposes to extend 81 percent of the Bush tax cuts. The Bush laws that cut the income tax and gradually repealed the estate tax all expire at the end of 2010. President Obama proposes to extend the Bush income tax cuts for taxpayers with adjusted gross income (AGI) below $250,000 (and below $200,000 for unmarried taxpayers). This means the Bush income tax cuts would be extended for about 98 percent of taxpayers. President Obama also proposes to partially extend the Bush cut in the estate tax by establishing estate tax rules that would lose about half as much revenue as full repeal. Together, these proposals would lose 81 percent as much revenue as a full extension of all the Bush tax cuts.

On the other hand, President Obama's budget proposal continues to boldly call for new revenue by targeting some loopholes and tax avoidance schemes that corporations fight hard to defend.

Impact of Extending ALL the Bush Income Tax Cuts, Estate Tax Repeal & AMT Relief in 2011

Income Group	Average Income	Average Tax Cut	Tax Cut as % of Income	Share of Tax Cut
Lowest 20%	$ 12,730	$ –100	0.8%	1.1%
Second 20%	25,540	–470	1.8%	5.1%
Middle 20%	41,010	–760	1.9%	8.2%
Fourth 20%	67,030	–1,250	1.9%	13.5%
Next 10%	102,040	–2,250	2.2%	12.1%
Next 5%	143,580	–3,320	2.3%	8.9%
Next 4%	250,830	–5,530	2.2%	11.9%
Top 1%	1,369,110	–73,290	5.4%	39.3%
ALL	**$ 69,280**	**$ –1,840**	**2.7%**	**100.0%**
Bottom 60%	$ 26,430	$ –450	1.7%	14.4%

Source: ITEP Microsimulation Model, February 2010

Impact of President's Limited Extension of Bush Income Tax Cuts, Partial Extension of Bush Estate Tax Cut, and AMT Relief, in 2011

Income Group	Average Income	Average Tax Cut	Tax Cut as % of Income	Share of Tax Cut
Lowest 20%	$ 12,730	$ –100	0.8%	1.5%
Second 20%	25,540	–470	1.8%	7.0%
Middle 20%	41,010	–760	1.9%	11.3%
Fourth 20%	67,030	–1,250	1.9%	18.6%
Next 10%	102,040	–2,250	2.2%	16.7%
Next 5%	143,580	–3,320	2.3%	12.3%
Next 4%	250,830	–5,340	2.1%	15.8%
Top 1%	1,369,110	–22,740	1.7%	16.8%
ALL	**$ 69,280**	**$ –1,330**	**1.9%**	**100.0%**
Bottom 60%	$ 26,430	$ –450	1.7%	19.8%

Source: ITEP Microsimulation Model, February 2010

The tables above compare the impact of extending *all* the Bush income and estate tax cuts (as some lawmakers propose) to President Obama's more limited proposal to extend *most* of the Bush income tax cuts and *partially* extend the estate tax cuts. (Both tables include the effects of enacting permanent relief from the Alternative Minimum Tax). These figures do not include the additional tax cuts that the President proposes, which are much more progressive and which are discussed later in this paper.

I. Impact on Deficits and Debt

President Obama inherited a massive fiscal imbalance from the previous administration. Even before the current recession began, deficit-financed tax cuts and deficit-financed wars in Iraq and Afghanistan helped propel budget deficits into the hundreds of billions. The recession made the deficit far worse. When the recession began at the end of 2007, it led to lost profits for businesses and smaller incomes for families, which in turn brought down tax receipts, while increased demands were put on safety-net programs like unemployment insurance.

As one of his last major acts in office, President Bush signed into law the financial rescue program, which allowed the government to spend hundreds of billions of dollars to purchase "troubled assets" from financial institutions. As distasteful as this was, it averted a much deeper recession.

Just before President Obama took office, the Congressional Budget Office (CBO) projected that the federal budget deficit for fiscal year 2009 would be over $1 trillion.[1]

Measures that have significantly increased the deficit since then were necessary and short-term. Early in 2009, President Obama and Congress enacted the American Recovery and Reinvestment Act (ARRA), which is pumping $787 billion into the economy to put Americans to work and spark consumer demand. Most economists agree that the economy would be much worse if ARRA had not been enacted.

Measures like the bank bailout and ARRA that were enacted to address the recession are not major contributors to the long-term deficit problem because they are temporary. In fact, without these measures, the economy would be so much worse that the fiscal imbalance would likely be even larger than it is today.

It is widely acknowledged that the Bush tax cuts have been a significant contributing factor to the deficit crisis, but not all analysts and lawmakers account for them in the same way. When the CBO estimates future budget deficits, it does not assume the existence of any law that has not been enacted. CBO therefore assumes that all of the Bush tax cuts will expire at the end of 2010, and any extension of those tax cuts will increase the deficit. We use the same "baseline" for our analysis.

Share of Projected Deficits Due to Extension of 81 Percent of the Bush Tax Cuts

Fiscal years, $-billions	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2011-20
Deficit projected	$ 1,267	$ 828	$ 727	$ 706	$ 752	$ 778	$ 778	$ 785	$ 908	$ 1,003	**$ 8,532**
Portion of deficit due to—											
Bush tax cuts extensions	$ +165	$ +217	$ +243	$ +269	$ +293	$ +313	$ +334	$ +357	$ +381	$ +406	**$ +2,979**
Debt service thereon	+1	+8	+22	+36	+49	+66	+83	+102	+123	+146	**+635**
Total deficit increase from Bush tax cut extensions	**$ +167**	**$ +224**	**$ +265**	**$ +305**	**$ +342**	**$ +378**	**$ +417**	**$ +460**	**$ +504**	**$ +552**	**$ +3,614**
As % of total projected deficits	**13%**	**27%**	**36%**	**43%**	**45%**	**49%**	**54%**	**59%**	**56%**	**55%**	**42%**

Source: Data from the Office of Management & Budget, Feb. 2010, and calculations by Citizens for Tax Justice.

The Obama administration, however, takes the view that one should assume that the Bush tax cuts will all be extended (even though Congress has repeatedly rejected proposals to pass such an extension). The administration's budget documents, therefore, assume that the Bush tax cuts have already been extended in their entirety. As a result, the portion of the Bush tax cuts that the President wants to let expire are counted as tax *increases* in the administration's budget documents.

The approach that we and CBO take of viewing the extension of any of the Bush tax cuts as new tax cuts that increase the budget deficit highlights how much they contribute to the deficit. The table above illustrates that the President's proposal to extend the Bush tax cuts for almost all Americans

[1] For more discussion of the causes of the budget deficits, see Kathy Ruffing and James R. Horney, "President Obama Largely Inherited Today's Huge Deficits: Economic Downturn, Financial Rescues, and Bush-Era Policies Drive the Numbers," December 16, 2009, Center on Budget and Policy Priorities. http://www.cbpp.org/cms/index.cfm?fa=view&id=3036

accounts for 42 percent of the President's ten-year projected budget deficits, and more than half of the projected deficits in the second half of the decade.

The Obama administration did not create the budget deficits, and it has begun to take steps to reduce them. But the loophole-closers and revenue-raisers the President proposes only reverse part of the damage done by the previous administration. Even if Congress enacted every proposal in the President's budget (a highly unlikely proposition), the administration concludes that the ten-year budget deficit would total $8.5 trillion.

To address this, the administration says it will create a commission to propose deficit reductions, designed to cut the deficits in half as a share of the economy by 2015. This will be quite difficult, given that that the projected annual deficit is to exceed half a trillion dollars by the end of the decade — even assuming enactment of the President's revenue proposals.

This is why the President's revenue goals should be considered bare minimum goals for Congress to achieve.

II. Tax Cuts in the President's Budget

A. Make Permanent the Bush Income Tax Cuts for about 98 Percent of Taxpayers and AMT Relief
Ten-Year Cost: $2.06 Trillion for Bush Income Tax Cuts, $671.7 Billion for AMT Relief

Opponents of the President have claimed that his plans include tax increases that will hurt the economy. These claims are unfounded. At the end of the Clinton years, taxes were much higher than they are now, and the economy was obviously performing better than it is today. Clearly the Bush tax cuts did not result in the explosion of prosperity that was promised.

But President Bush and his allies in Congress were adamant that lower taxes are good for the economy, and they enacted tax cuts in 2001, 2002, 2003, 2004 and 2006. Some allies of the former President still argue that Congress is now insufficiently focused on tax cuts. As we have argued before, this view seems bizarre given the sad economic facts all around us.

Indeed, one might reasonably conclude that we could safely allow most of the Bush tax cuts to expire at the end of 2010, as they are scheduled to under current law, without any concern about how this will impact the economy.

Percentage of Taxpayers Who Would Lose Some of The Bush Income Tax Cuts in 2011 Under President Obama's Tax Plan
(listed by state, in alphabetical order)

State	%	State	%
Alabama	1.6%	Montana	1.3%
Alaska	1.9%	Nebraska	1.4%
Arizona	1.6%	Nevada	2.0%
Arkansas	1.3%	New Hampshire	2.3%
California	3.0%	New Jersey	4.1%
Colorado	2.5%	New Mexico	1.5%
Connecticut	4.5%	New York	3.0%
Delaware	2.0%	North Carolina	1.6%
District of Columbia	4.8%	North Dakota	1.6%
Florida	2.3%	Ohio	1.5%
Georgia	1.8%	Oklahoma	1.4%
Hawaii	1.9%	Oregon	1.7%
Idaho	1.3%	Pennsylvania	2.0%
Illinois	2.6%	Rhode Island	2.0%
Indiana	1.2%	South Carolina	1.5%
Iowa	1.3%	South Dakota	1.5%
Kansas	1.7%	Tennessee	1.7%
Kentucky	1.1%	Texas	2.3%
Louisiana	1.4%	Utah	1.7%
Maine	1.5%	Vermont	1.7%
Maryland	3.2%	Virginia	2.8%
Massachusetts	3.4%	Washington	2.5%
Michigan	1.4%	West Virginia	0.9%
Minnesota	2.3%	Wisconsin	1.5%
Mississippi	1.1%	Wyoming	2.0%
Missouri	1.6%	**United States**	**2.1%**

Source: ITEP Microsimulation Tax Model, February 2010

Income Group	Average Income	# Taxpayers Removed from AMT	# Taxpayers Still on AMT	Average Tax Cut	Tax Cut as % of Income	Share of Tax Cut
Impact of AMT Relief in 2011 (assuming the Bush tax cuts are extended for taxpayers with AGI below $200k/250k)						
Lowest 20%	$ 12,730	0	0	$ —	0.0%	0.0%
Second 20%	25,540	41,310	0	—	0.0%	0.0%
Middle 20%	41,010	576,980	4,910	–20	0.0%	0.6%
Fourth 20%	67,030	5,435,080	72,450	–190	0.3%	7.7%
Next 10%	102,040	8,992,340	129,020	–1,230	1.2%	24.7%
Next 5%	143,580	5,616,860	349,340	–2,570	1.8%	25.8%
Next 4%	250,830	2,624,170	2,649,410	–4,840	1.9%	39.0%
Top 1%	1,369,110	58,460	616,830	–1,060	0.1%	2.1%
ALL	**$ 69,280**	**23,345,220**	**3,821,980**	**$ –490**	**0.7%**	**100.0%**
Bottom 60%	$ 26,430	618,300	4,920	$ –10	0.0%	0.7%

Source: ITEP Microsimulation Model, February 2010

However, President Obama has not taken this approach. Instead, he has proposed to make the Bush income tax cuts permanent for married couples with adjusted gross income (AGI) below $250,000 and for unmarried taxpayers with AGI below $200,000, which is about 98 percent of taxpayers. The budget proposal would also make permanent the AMT relief that has been enacted periodically over the past nine years to keep the AMT from affecting large numbers of upper-middle-income families. (Two thirds of the benefits of AMT relief go to the best-off ten percent of taxpayers and over 90 percent of the benefits go to the best-off fifth of taxpayers.) Altogether, these income tax cut extensions are estimated to cost $2.7 trillion over 10 years.

The tables below compare the impact of making all the Bush income tax cuts permanent, as some lawmakers propose, to the impact of making the Bush income tax cuts permanent only for unmarried taxpayers with AGI below $200,000 and married taxpayers with AGI below $250,000. (Both tables also include the effects of enacting permanent AMT relief.) Nearly a third of the benefits of extending the Bush income tax cuts for *all* taxpayers would go to the richest 1 percent. (These tables only include the cuts enacted under President Bush to the *income* tax. The benefits are even more skewed towards the richest one percent when the estate tax cuts are also included in the analysis, as the tables on page two illustrate.)

President Obama proposes to let the Bush reductions in the top two income tax rates expire as scheduled (taxpayers below the $200,000/$250,000 threshold would not be affected). He would also allow the phase-out for personal exemptions and the limitation on itemized deductions (which were eliminated as part of the Bush tax cuts) to come back into effect for those above the $200,000/$250,000 threshold.

Income Group	Average Income	Average Tax Cut	Tax Cut as % of Income	Share of Tax Cut
Impact of Extending the Bush Income Tax Cuts for All Taxpayers & AMT Relief (Estate Tax Cut Not Included) in 2011				
Lowest 20%	$ 12,730	$ –100	0.8%	1.3%
Second 20%	25,540	–470	1.8%	6.1%
Middle 20%	41,010	–760	1.9%	9.8%
Fourth 20%	67,030	–1,250	1.9%	16.1%
Next 10%	102,040	–2,250	2.2%	14.4%
Next 5%	143,580	–3,320	2.3%	10.6%
Next 4%	250,830	–4,850	1.9%	12.4%
Top 1%	1,369,110	–45,850	3.3%	29.4%
ALL	**$ 69,280**	**$ –1,540**	**2.2%**	**100.0%**
Bottom 60%	$ 26,430	$ –450	1.7%	17.1%

Source: ITEP Microsimulation Model, February 2010

Income Group	Average Income	Average Tax Cut	Tax Cut as % of Income	Share of Tax Cut
Impact of Extending the Bush Income Tax Cuts for Taxpayers with AGI < $200k/$250k & AMT Relief (Estate Tax Cut Not Included) in 2011				
Lowest 20%	$ 12,730	$ –100	0.8%	1.7%
Second 20%	25,540	–470	1.8%	7.8%
Middle 20%	41,010	–760	1.9%	12.6%
Fourth 20%	67,030	–1,250	1.9%	20.7%
Next 10%	102,040	–2,250	2.2%	18.6%
Next 5%	143,580	–3,320	2.3%	13.7%
Next 4%	250,830	–4,670	1.9%	15.4%
Top 1%	1,369,110	–11,630	0.8%	9.6%
ALL	**$ 69,280**	**$ –1,200**	**1.7%**	**100.0%**
Bottom 60%	$ 26,430	$ –450	1.7%	22.1%

Source: ITEP Microsimulation Model, February 2010

These tables also include President Obama's proposal to allow the special breaks enacted under Bush for investment income to *partially* expire. When Bush took office, a special top income tax rate of 20 percent already applied to capital gains, and stock dividends were taxed like all other income. The Bush tax cuts reduced the top rate for capital gains to 15 percent and created a brand new preference for stock dividends by subjecting them to the same 15 percent rate.

President Obama proposes to allow the 15 percent rate for capital gains to expire (for those taxpayers above the $200,000/$250,000 threshold, who have the vast majority of this type of income), meaning it will be taxed at a top rate of 20 percent again. But he also proposes to tax stock dividends at a top rate of 20 percent, which is a tax cut compared to current law (since dividends would be taxed at ordinary rates as high as 39.6 percent in 2011 if Congress does nothing).

This is part of the reason why, even under Obama's limited extension of the Bush tax cuts, the richest one percent would still receive almost a tenth of the benefits. The President's plan would partially extend the Bush tax cut for dividends by taxing them at a top rate of 20 percent instead of taxing them as ordinary income.[2]

There are particular components of the Bush income tax cuts that are progressive, but extending the bulk of them as President Obama proposes, along with AMT relief, is not particularly progressive. Only about 22 percent of the benefits would go to the bottom 60 percent of the income distribution. (There are additional tax cuts that President Obama proposes that are more progressive, as discussed later on.)

B. Partially Extend the Bush Estate Tax Cut
Ten-Year Cost: $264.5 Billion

The tax cut law enacted by President Bush and his allies in Congress in 2001 included a gradual elimination of the federal estate tax, shrinking the tax over several years (by increasing the amount exempt from the tax and decreasing the rate) until repealing it entirely in 2010. But, like all the Bush tax cuts, this break from the estate tax expires at the end of 2010, meaning the estate tax will return in its pre-Bush form if Congress simply does nothing. Even then, the estate tax will exempt $1 million in assets for a single person and $2 million for a married couple.

If Congress feels compelled to address the estate tax, it should set the parameters of the tax as closely as possible to the pre-Bush rules. For example, a per-spouse exemption of $2 million would be sufficiently generous to shield over 99 percent of estates from the tax. This is easy to demonstrate because the per-spouse exemption *was* $2 million from 2006 through 2008.

Estate taxes are usually paid in the year following the year in which an individual dies. The table on the following page shows that only 0.7 percent of the deaths in 2006 and 2007 resulted in estate tax liability in 2007 and 2008. (Data are not yet available to show how many deaths in 2008 resulted in estate tax, but it's reasonable to assume similar figures for that year.)

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[2] Another reason is that the richest taxpayers benefit from the rate reductions that apply to lower tax brackets. For all taxpayers, the first portion of taxable income is taxed at the lowest bracket, the next portion at the second bracket, etc.

It is the richest Americans who benefit the most from the public services that taxes make possible. The massive fortunes accumulated by Americans who are industrious, clever or just lucky would never materialize if not for the infrastructure, educated workforce, public safety and stability that government provides. It is therefore reasonable that the extremely wealthy contribute a greater share of their income in taxes than the middle-class. It's also reasonable to tax the transfer of enormous estates — most of which consists of income that was never taxed[3] — from one generation of a super-rich family to the next.

Sadly, many lawmakers (including members of both parties) have been influenced by an organized campaign to characterize the estate tax as unfair and economically unsound. In 2006, a report from Public Citizen and United for a Fair Economy documented how 18 extremely wealthy families coordinated to spend hundreds of millions of dollars to promote repeal of the federal estate tax, which would save them, collectively, over $70 billion.[4] The claims made by this campaign have been outlandish. For example, one often repeated charge is that the estate tax causes family farmers to lose their farms, which has not been supported by a single real-life example.[5]

Number of Estates Owing Federal Estate Taxes in 2006 through 2008 by State

	# of Estates Owing Tax			% of Estates Owing Tax		
	2006	2007	2008	2006	2007	2008
United States	**22,798**	**17,416**	**17,172**	**0.9%**	**0.7%**	**0.7%**
Alabama	219	189	196	0.5%	0.4%	0.4%
Alaska	*	*	12	*	*	0.3%
Arizona	371	287	222	0.8%	0.6%	0.5%
Arkansas	142	82	83	0.5%	0.3%	0.3%
California	4,492	3,637	3,337	1.9%	1.5%	1.4%
Colorado	210	180	251	0.7%	0.6%	0.8%
Connecticut	399	393	288	1.4%	1.3%	1.0%
Delaware	83	36	54	1.1%	0.5%	0.7%
District of Columbia	44	76	71	0.8%	1.4%	1.4%
Florida	2,482	1,667	1,747	1.5%	1.0%	1.0%
Georgia	429	333	399	0.6%	0.5%	0.6%
Hawaii	131	75	58	1.4%	0.8%	0.6%
Idaho	48	76	31	0.5%	0.7%	0.3%
Illinois	1,120	907	679	1.1%	0.9%	0.7%
Indiana	270	196	202	0.5%	0.4%	0.4%
Iowa	237	158	225	0.9%	0.6%	0.8%
Kansas	191	102	148	0.8%	0.4%	0.6%
Kentucky	160	78	162	0.4%	0.2%	0.4%
Louisiana	198	162	135	0.4%	0.4%	0.3%
Maine	116	93	42	0.9%	0.8%	0.3%
Maryland	542	371	454	1.2%	0.9%	1.0%
Massachusetts	606	455	449	1.1%	0.9%	0.8%
Michigan	551	480	366	0.6%	0.6%	0.4%
Minnesota	230	221	216	0.6%	0.6%	0.6%
Mississippi	106	41	93	0.4%	0.1%	0.3%
Missouri	371	222	372	0.7%	0.4%	0.7%
Montana	92	80	88	1.1%	0.9%	1.0%
Nebraska	62	58	102	0.4%	0.4%	0.7%
Nevada	144	119	140	0.8%	0.6%	0.8%
New Hampshire	131	96	68	1.3%	1.0%	0.7%
New Jersey	739	569	668	1.0%	0.8%	1.0%
New Mexico	75	101	80	0.5%	0.7%	0.5%
New York	1,750	1,339	1,379	1.1%	0.9%	0.9%
North Carolina	523	379	376	0.7%	0.5%	0.5%
North Dakota	*	*	12	*	*	0.2%
Ohio	790	425	379	0.7%	0.4%	0.4%
Oklahoma	196	180	138	0.5%	0.5%	0.4%
Oregon	290	111	202	0.9%	0.4%	0.6%
Pennsylvania	732	578	525	0.6%	0.5%	0.4%
Rhode Island	111	40	82	1.1%	0.4%	0.8%
South Carolina	272	150	155	0.7%	0.4%	0.4%
South Dakota	46	51	15	0.6%	0.7%	0.2%
Tennessee	204	156	250	0.4%	0.3%	0.4%
Texas	1,082	906	940	0.7%	0.6%	0.6%
Utah	66	34	55	0.5%	0.2%	0.4%
Vermont	47	65	12	0.9%	1.3%	0.2%
Virginia	657	573	492	1.1%	1.0%	0.8%
Washington	472	384	380	1.0%	0.8%	0.8%
West Virginia	163	76	60	0.8%	0.4%	0.3%
Wisconsin	232	291	179	0.5%	0.6%	0.4%
Wyoming	*	39	50	*	0.9%	1.2%

* No estate tax figures are provided by IRS for these states in some years due to privacy concerns. These excluded figures are, however, included in the national totals.
Data on deaths in each state is from the Center for Disease Control.

[3] James Poterba and Scott Weisbenner, "The Distributional Burden of Taxing Estates and Unrealized Capital Gains At the Time of Death," p. 19, NBER, July 2000. http://papers.nber.org/papers/w7811.pdf
[4] Public Citizen and United for a Fair Economy, "Spending Millions to Save Billions: The Campaign of the Super Wealthy to Kill the Estate Tax," April 2006. http://www.citizen.org/documents/EstateTaxFinal.pdf
[5] David Cay Johnston, "Talk of Lost Farms Reflects Muddle of Estate Tax Debate," New York Times, April 8, 2001.

C. Additional Tax Cuts for Families and Individuals

1. Make Permanent Enhanced Refundability of Child Tax Credit
Ten-Year Cost: $83.1 Billion

The American Recovery and Reinvestment Act (ARRA) expanded the refundability of the Child Tax Credit (CTC) for two years. If not for this expansion, a parent earning less than $12,550 in 2009 and 2010 would not benefit from the $1,000 per-child tax credit because the refundable portion of the CTC was limited to 15 percent of earnings above $12,550. The ARRA reduced the earnings threshold from $12,550 to $3,000, making more working families eligible for the refundable portion of the credit. This provision was enacted for only two years but Obama's budget would make this change permanent.

Combined Impact of President Obama's EITC and Child Tax Credit Expansion and Making Work Pay Credit, in 2011

Income Group	Average Income	Average Tax Cut	Tax Cut as % of Income	Share of Tax Cut
Lowest 20%	$ 12,730	$ –410	3.2%	17.6%
Second 20%	25,540	–440	1.7%	18.9%
Middle 20%	41,010	–470	1.1%	19.8%
Fourth 20%	67,030	–550	0.8%	23.3%
Next 10%	102,040	–590	0.6%	12.6%
Next 5%	143,580	–600	0.4%	6.4%
Next 4%	250,830	–160	0.1%	1.4%
Top 1%	1,369,110	–10	0.0%	0.0%
ALL	**$ 69,280**	**$ –460**	**0.7%**	**100.0%**
Bottom 60%	$ 26,430	$ –440	1.7%	56.2%

Source: ITEP Microsimulation Model, February 2010

America's tax system overall (including federal, state and local taxes) is not particularly progressive. State and local taxes actually take a greater share of income from low- and middle-income taxpayers than rich taxpayers in almost every state.[6] It is therefore vital that the federal tax system be significantly progressive if only to help offset the regressive impact of state and local taxes.

This requires some federal income tax provisions that benefit the poorest Americans. Families too poor to owe federal income taxes can benefit from refundable federal tax credits like the Child Tax Credit (and the Earned Income Tax Credit, as discussed later on).

2. Make the American Opportunity Tax Credit Permanent
Ten-Year Cost: $75.5 Billion

The ARRA included an expansion of the HOPE credit for higher education, called the American Opportunity Tax Credit (AOTC). For 2009 and 2010 only, the AOTC allows a credit of 100 percent of the first $2,000 spent on higher education and 25 percent of the next $2,000; the maximum credit is $2,500. The provision allows the credit for the first four years of post-secondary education (compared to only the first two years under prior law). The provision also allows the credit to be used for amounts paid for course materials (in addition to tuition and fees) and makes 40 percent of the credit refundable. The President's Budget would make the AOTC provisions permanent.

3. Extend the Making Work Pay Credit for One Year
Ten-Year Cost: $61.2 Billion

The "Making Work Pay" tax credit was enacted as part of the ARRA for 2009 and 2010. The credit is 6.2% of earned income (such as wages and self-employment income), up to a maximum credit of $400

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[6] Institute on Taxation and Economic Policy (ITEP), *Who Pays: A Distributional Analysis of the Tax Systems in All 50 States, Third Edition*, November 2009. http://www.itepnet.org/whopays.htm

(twice that for married joint filers). It's the equivalent of exempting the first $6,452 in earnings (or the first $12,903 in earnings for married couples) from the employee half of Social Security taxes. The MWPC is phased out at a rate of 2 cents for every dollar of income over $75,000 (or $150,000 for married couples). Obama's budget proposes to extend the MWPC for one additional year, through 2011. The MWPC was included in the ARRA with the idea that putting extra cash in the hands of middle-income families would boost consumption and help stimulate demand for goods and services to mitigate the recession. Since many economists expect the economy to be struggling for a few years, the administration decided to extend this break for an additional year.

Last year, the Obama administration proposed to make the MWPC permanent as a way to offset the increased cost of goods and services that will likely result from efforts to curb global warming. The climate change legislation that was approved by the House of Representatives last year has other features that attempt to offset these impacts for low- and middle-income families.

4. Expand the Saver's Credit and Require Automatic Enrollment in IRAs and 401(k)s
Ten-Year Cost: $40.2 Billion
Under current law, the saver's credit is a nonrefundable credit of 10, 20 or 50 percent (depending on income) of contributions into a retirement plan. The maximum creditable contribution annually is $2,000 a year for an unmarried taxpayer and $4,000 for a married couple, meaning the maximum credit is $1,000 and $2,000 respectively. The credit is also phased out for taxpayers at relatively low income levels.

The President's proposal would make the saver's credit a *refundable* credit of 50 percent of contributions into retirement plans and would raise the income limits. Making the credit refundable would provide a savings incentive for those who do not earn enough to have federal income tax liability, while increasing the income limits would increase the number of middle-income taxpayers eligible for the credit.

The President's proposal would also require employers who do not offer a tax-preferred retirement plan to automatically enroll employees in an individual retirement account (IRA) and divert a portion of the employees' pay into it, unless the employee opts out. This proposal is inspired by research showing that whether people save for retirement is largely influenced by whether they have to do anything to enroll in a savings plan. A small tax credit for businesses would be provided to help offset administrative costs.

5. Make Expansion of Earned Income Tax Credit Permanent
Ten-Year Cost: $30.1 Billion
In 2008, the maximum Earned Income Tax Credit (EITC) for families with children was 34 percent of earnings (up to a maximum amount of earnings) for those with one child and 40 percent of earnings (up to the maximum) for those with two or more children. (A smaller EITC is provided for childless workers with very low incomes.) The ARRA includes a provision that increased the amount of EITC available to families with three or more children to 45 percent of earnings (up to the maximum) for 2009 and 2010. The ARRA also increased the additional EITC benefit available to low-income married couples (further reducing the "marriage penalty") by increasing the income level at which the credit begins to phase out for joint filers. Under the President's budget, these two expansions in the EITC would be made permanent.

D. Tax Cuts for Businesses

1. Make the Research and Experimentation Tax Credit Permanent
Ten-Year Cost: $85.7 Billion

President Obama's budget includes a proposal to make permanent the credit that businesses take against their taxes for increasing their research and experimentation. This credit expired at the end of 2009, but it is on a list of provisions that Congress extends every year (often retroactively). Making the credit permanent would avoid the perennial extension and would make the budget honestly reflect that the R&E Credit will cost the government revenue in every year for the next decade, instead of just this year. This is an improvement in terms of budget transparency, but the benefit of the credit itself is highly questionable.

The R&E credit, introduced during the Reagan administration, has been the subject of many tax scandals as companies have tried, often successfully, to treat activities that are obviously not scientific research — such as developing hamburger recipes or accounting software — as qualified R&E. In fact early in the Bush administration, the Treasury Department tried to redefine "research and experimentation" to require neither. Thankfully, that effort didn't succeed.

The R&E credit has a curious following among politicians who normally style themselves as free-market advocates, but who nevertheless maintain that big business needs to be subsidized to do research. The fact that the tax breaks from the R&E credit are narrowly concentrated on a relative handful of very large corporations probably explains the intensity of the lobbying to keep extending this tax break, and perhaps the enthusiasm in Congress for doing so.

There is little persuasive evidence that the credit actually encourages research. Instead, it is a federal subsidy to companies for research they likely would have undertaken anyway, and for non-research activities that companies call "research." In fact, a recent report from the Government Accountability Office found that "a substantial portion of credit dollars is a windfall for taxpayers, earned for spending they would have done anyway, instead of being used to support potentially beneficial new research."[7]

2. Extend Certain Expiring Tax Cuts through 2011 (aka, "the extenders")
Ten-Year Cost: $53.7 Billion

Every year or so, Congress enacts a law to extend a collection of tax breaks, mostly for business, in what is often called an "extenders" bill. Most of these tax cuts serve no identifiable purpose other than to encourage campaign contributions. (The R&E credit, which the administration wants to make a permanent tax break, is currently one of these tax provisions that Congress must extend each year.)

Last year, however, the House of Representatives approved an "extenders" bill (for 2010) that was supported by several progressive organizations because it would replace the lost revenue by closing loopholes and cracking down on tax evasion.[8] The House bill also would mandate a study of each of the individual tax breaks among the extenders and analyze their costs and benefits. We hope that such information might lead lawmakers to allow several of the tax breaks to expire for good.

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[7] Government Accountability Office, "The Research Tax Credit's Design and Administration Can Be Improved," GAO-10-136, November 6, 2009. http://www.gao.gov/products/GAO-10-136

[8] Letter to members of Congress in support of H.R. 4213, December 8, 2009. http://www.ctj.org/pdf/extenders2009.pdf

The Senate has not yet acted on the extenders for 2010, but probably will do so in the coming weeks or months. Not surprisingly, the President's budget assumes that Congress will enact them again in 2011.

3. Jobs Initiatives (Lasting One Year)
Ten-Year Cost: $50 Billion
The President's budget includes $50 billion for "jobs initiatives" but does not describe any specific proposals. Presumably, that includes the job creation tax credits that the President proposed at the end of January.[9] The proposal includes a $5,000 credit for each new employee hired in 2010, and a credit for any increase in Social Security payroll taxes (above inflation) paid by a company. Because Social Security payroll taxes are only paid on wages up to $106,800 in 2010, this prevents this part of the proposal from rewarding companies for hiring extremely highly-paid individuals. The total amount of credits that any one business could receive would be capped at $500,000 to prevent gigantic companies from receiving most of the benefits.

One obvious problem with any tax cut meant to encourage hiring is that a large portion of the benefits surely would go to businesses that would have hired anyway. Another problem is that companies will try to find ways to manipulate the credit by, for example, reorganizing under a new name to claim it. It may be difficult for the administration to craft rules to prevent such gaming without a great deal of complexity.

The CBO recently concluded that giving companies that increase payroll a break on payroll taxes would stimulate job-creation much more than other types of tax cuts, but less than increasing unemployment benefits.[10] The most successful job-creation policy in the short-term will be one that results in money being spent immediately. Putting money in the hands of poor or unemployed people, who are likely to spend it right away, is therefore more effective than tax cuts for the wealthy, who are likely to save any extra money that comes their way. Most tax cuts for businesses are also ineffective because a business will not expand unless there is sufficient demand for whatever it sells, regardless of what tax breaks are available.

The CBO concluded that increased aid for the unemployed would do more to create jobs than cutting payroll taxes for businesses that increase payroll. Why doesn't Congress simply focus on the option the CBO found most effective?

III. Revenue-Raising Provisions in the President's Budget

A. Limit Itemized Deductions for the Wealthy
Ten-Year Revenue Gain: $291.2 Billion

The President's budget includes a proposal to limit the tax benefit of itemized deductions for wealthy taxpayers. The proposal would limit the tax savings from itemized deductions to 28 percent of the amount deducted for people in tax brackets above 28 percent. This would only impact 1.3 percent of taxpayers, almost all of whom are among the very richest Americans.

[9] White House fact sheet, "Small Business Jobs and Wage Tax Cut," January 29, 2010. http://www.whitehouse.gov/sites/default/files/FACT_SHEET_Small_Business%20_jobs_and_Wages_Tax_Cut.pdf
[10] Congressional Budget Office, "Policies for Increasing Economic Growth and Employment in 2010 and 2011," January 2010. http://www.cbo.gov/ftpdocs/108xx/doc10803/01-14-Employment.pdf

Itemized deductions provide subsidies for certain activities (like buying a home or giving to charity) through the tax system. But they subsidize these activities at higher rates for wealthy families than they do for middle-income families. The President's proposal would reduce, but not eliminate, this unfairness.

People filing their federal income taxes are allowed deductions to lower their taxable income. They can either take a "standard deduction" or choose to "itemize" their deductions. Most people take the standard deduction, but well-off families typically itemize.

The problem is that itemized deductions subsidize certain activities at a higher rate for high-income taxpayers. For example, the itemized deduction for home mortgage interest is supposed to encourage home ownership, but it provides far more benefits to higher-income people. Someone rich enough to be in the 39.6 percent income tax bracket in 2011 will save almost 40 cents for each dollar they spend on mortgage interest. A middle-income family might be in the 15 percent tax bracket. This family will save only 15 cents for each dollar they spend on mortgage interest.

If a member of Congress proposed a program to encourage home ownership through direct subsidies, with larger subsidies going to rich families than middle-income families, we would say that's absurd. But that's exactly how the itemized deductions work.

The President would limit the savings for each dollar of deductions to 28 cents. So someone in the 39.6 percent tax bracket would save 28 cents (instead of nearly 40 cents) for each dollar of itemized deductions. That's still more than the family in the 15 percent bracket would save, but the difference would be reduced.

Percentage of Taxpayers w/Tax Increase Under President's Proposal to Limit Itemized Deductions to 28% in 2011
(listed by state, in alphabetical order)

State	%	State	%
Alabama	1.2%	Montana	0.6%
Alaska	1.5%	Nebraska	0.7%
Arizona	1.1%	Nevada	1.8%
Arkansas	0.7%	New Hampshire	1.6%
California	1.4%	New Jersey	1.7%
Colorado	1.6%	New Mexico	0.9%
Connecticut	2.6%	New York	1.2%
Delaware	1.2%	North Carolina	0.8%
District of Columbia	2.4%	North Dakota	0.9%
Florida	1.7%	Ohio	0.7%
Georgia	1.3%	Oklahoma	1.0%
Hawaii	1.1%	Oregon	0.8%
Idaho	0.6%	Pennsylvania	1.1%
Illinois	1.6%	Rhode Island	0.9%
Indiana	0.7%	South Carolina	0.8%
Iowa	0.8%	South Dakota	1.2%
Kansas	1.0%	Tennessee	1.4%
Kentucky	0.7%	Texas	1.8%
Louisiana	1.1%	Utah	1.0%
Maine	0.6%	Vermont	0.4%
Maryland	1.6%	Virginia	1.6%
Massachusetts	2.0%	Washington	1.9%
Michigan	0.8%	West Virginia	0.6%
Minnesota	1.1%	Wisconsin	0.7%
Mississippi	0.6%	Wyoming	1.5%
Missouri	0.8%	**United States**	**1.3%**

Source: ITEP Microsimulation Tax Model, February 2010

Only 1.3 percent of taxpayers would be impacted in any way. Over 90 percent of the resulting tax increase would be paid by the richest one percent of taxpayers and over 99 percent would be paid by the richest 5 percent of taxpayers.

The percentage of taxpayers impacted varies by state, but not by much. The state with the largest percentage of taxpayers impacted is Connecticut, with 2.6 percent receiving a tax increase as a result of this reform. The state with the lowest percentage of taxpayers impacted is Vermont, with 0.4 percent of taxpayers receiving a tax increase.

B. Reform the U.S International Tax System
Ten-Year Revenue Gain: $122.4 Billion

The President proposes to curb the ability of corporations and wealthy people to shift income and profits offshore and thereby shirk their tax responsibilities.

Some of the offshore tax abuses constitute tax *avoidance*, meaning practices that are not necessarily illegal but which clearly manipulate the tax laws in ways that undermine the basic purposes of the tax system. Other offshore abuses constitute tax *evasion*, meaning practices that are definitely illegal and which usually involve individuals who hide their income from the IRS.

Whether illegal or legal, many offshore tax abuses involve offshore transactions that exist on paper only, meaning no productive activities are actually being carried out in the foreign country. The investments or transactions are merely schemes to avoid or evade U.S. taxes.

The tax abuses targeted are blatantly unfair. Some effectively provide a negative tax rate on income that corporations shift offshore. But members of Congress are often fearful to take on the multinational corporations who seem to have limitless resources to lobby, make political donations and finance political advertisements.

The President should be applauded for taking on these powerful interests. At the same time, it's somewhat disappointing that the administration's proposals to reform the international tax system are weaker than the versions put forth last year. This is mainly because the administration has dropped a proposal to reform the so-called "check-the-box" rules (which is discussed later in this paper as one of the additional steps Congress should take) and because the administration has scaled back its proposal to limit deductions for expenses of earning foreign income, as explained below.

The following are some of the largest (in terms of revenue impact) components of the President's proposal to reform the U.S.'s international tax rules.

1. Close Loopholes in the Foreign Tax Credit
Ten-Year Revenue Gain: $59.4 Billion

Individuals or companies with income generated abroad get a credit against their U.S. taxes for any taxes paid to a foreign government, in order to prevent double-taxation. This makes sense in theory. But, unfortunately, corporations sometimes get the credit when there is no possibility of double taxation (for example, for foreign taxes on income that the U.S. doesn't tax). Similarly, corporations sometimes get foreign tax credits that exceed the U.S. taxes that apply to such income, meaning that the U.S. is cutting their U.S. taxes on their U.S. profits, not just avoiding double taxation on their foreign income. To limit the use of foreign tax credits to reduce U.S. taxes on U.S. profits, the President proposes to close these loopholes.

2. Limit U.S. Deductions for the Interest Expenses Related to Earning Untaxed Foreign Profits
Ten-Year Revenue Gain: $25.6 Billion

U.S. multinational companies are allowed to "defer" the U.S. taxes on income generated by their foreign subsidiaries until that income is brought back to the U.S. ("repatriated"). There are numerous problems with deferral, but it's particularly problematic when a U.S. company defers U.S. taxes on foreign income even while it deducts the expenses of earning that foreign income against its U.S. profits. To better protect the U.S. tax base on U.S. profits, the President's proposal would require that

U.S. companies defer deductions for interest expenses related to earning income abroad until that income is subject to U.S. taxation (if ever).

C. Reform Treatment of Financial Institutions
Ten-Year Revenue Gain: $93.3 Billion

The President proposes new taxes on banks, primarily a new annual fee of 0.15 percent of the value of the riskier assets held by the 50 largest financial institutions (those with assets of more than $50 billions each). The fee would be in place for at least ten years and the Administration estimates that it would collect around $90 billion over a decade. If the $700 billion distributed through the financial bailout (the Troubled Asset Relief Program, or TARP) is not entirely paid back by that time, then the fee would remain in effect for additional years.

The proposal could discourage the excessive risk-taking that helped cause the recession and at the same time would require large banks to help pay for the implicit government guarantee that they now seem to have.

Excessive risk-taking by the financial industry as a whole led to a systemic meltdown. As a result, the banking system as a whole began to fail, meaning businesses were unable to obtain credit, making it impossible for them to function. The bailout propped up the banking system to avoid a deeper recession, but the distasteful side effect is that the largest banks know full well that they are now considered “too big to fail.”

So now the biggest banks have insufficient incentive to avoid the sort of risk-taking that led to the collapse. The implicit government guarantee gives them a special advantage that smaller banks don’t have, since banks that are not considered “too big to fail” are less likely to be bailed out by the federal government. The proposed fee would seem to address these problems at least to some extent, by reducing the incentive for risk-taking as well as the advantage that the largest banks have over smaller banks.

Progressive supporters of the proposed bank fee have been joined by some noted conservatives. Greg Mankiw, Chairman of President George W. Bush’s Council of Economic Advisers, and David Stockman, director of the Office and Management and Budget under President Reagan, both support the proposed bank fee.[11]

D. Repeal Last-In, First-Out (LIFO) Accounting
Ten-Year Revenue Gain: $59.1 Billion

The President’s budget includes a proposal to repeal the “last-in, first-out” (LIFO) method of accounting for inventories. This accounting method allows companies to deduct the higher cost of recently acquired or produced inventory, rather than the lower cost of older inventory.

For example, we normally think of profit this way: You buy something for $30 and sell it for $50 and your profit is $20 (ignoring any other expenses). But corporations, notably oil companies, use an

[11] Greg Mankiw, “The Bank Tax,” January 15, 2010, *Greg Mankiw’s Blog*. http://gregmankiw.blogspot.com/2010/01/bank-tax.html; David Stockman, “Taxing Wall Street Down to Size,” January 19, 2010, *New York Times*. http://www.nytimes.com/2010/01/20/opinion/20stockman.html

accounting method that doesn't fit this picture. They might buy oil for $30 a barrel, and when the price rises they might buy some more for $45 a barrel. But when they sell a barrel of oil for $50, they get to assume that they sold the very last barrel they bought, the one that cost $45. That means the profit they report to the IRS is $5 instead of $20.

This "last-in, first-out" rule (LIFO) has been in place for decades, and critics have long called for its repeal. In 2005, the then-Republican-led Senate tried to repeal it for oil and gas companies. (The provision was dropped from the tax bill in conference, so oil companies still get to use LIFO.)

E. Eliminate Breaks for Fossil Fuels
Ten-Year Revenue Gain: $38.8 Billion

The budget proposal takes aim at several tax provisions that benefit the oil, gas and coal industries. Repealing these special rules — subsidies to these industries paid for by everyone else — would raise $38.8 billion over ten years. Here are a few of the largest (in terms of revenue impact) tax breaks for fossil fuels that the President proposes to eliminate.

1. Bar Oil and Gas Companies from Using the Manufacturing Tax Deduction
Ten-Year Revenue Gain: $17.3 Billion
The manufacturing tax deduction was added to the law in 2004 and allows companies to deduct 9 percent of their net income from domestic production. Some might wonder why oil and gas companies can use a deduction for "manufacturing" in the first place. But Congress specifically included "extraction" in the definition of manufacturing so that it included oil and gas production, obviously at the behest of the industry.

2. Repeal Percentage Depletion for Oil and Natural Gas
Ten-Year Revenue Gain: $10 Billion
Most businesses must write off the actual costs of equipment and other property that declines in value over a period of time (albeit faster than things actually wear out). If oil companies had to do the same, they would write off the cost of oil fields until the oil was depleted. Instead, percentage depletion allows certain types of oil and gas producers to simply deduct a flat percentage of gross revenues — 15 percent in the case of oil and 22 percent in the case of natural gas. The percentage depletion deductions continue even after all of the costs of the property have been written off.

3. Repeal Expensing of Intangible Drilling Costs
Ten-Year Revenue Gain: $7.8 Billion
The "intangible" costs of exploration and development include wages, costs of using equipment for drilling, and the costs of materials that get used up during the process of building wells. Most businesses write off such expenses over the useful life of the property, but oil companies, thanks to their lobbying clout, get to deduct these expenses immediately.

F. Close the "Carried Interest" Loophole
Ten-Year Revenue Gain: $24 Billion

Some businesses, primarily private equity, real estate, and venture capital, use a technique called a "carried interest" to compensate their managers. Instead of receiving wages, the managers get a share of the profits from investments that they manage without having to invest their own money. The tax effect of this arrangement is that the managers pay taxes on their compensation at the 15 percent rate

for capital gains instead of the ordinary income tax rates (up to 39.6 percent in 2011) that normally apply to wages and other compensation.

Income in the form of carried interest can run into the hundreds of millions (or even in excess of a billion dollars) a year for individual fund managers. How do we know that "carried interest" is compensation, and not capital gain? There are several reasons:

The fund managers don't invest their own money. They get a share of the profits in exchange for their financial expertise. If the fund loses money, the managers can walk away without any cost.

A "carried interest" is much like executive stock options. When corporate executives get stock options, it gives them the right to buy their company's stock at a fixed price. If the stock goes up in value, the executives can cash in the options and pocket the difference. If the stock declines, then the executives get nothing. But they never have a loss. When corporate executives make money from their stock options, they pay both income taxes at the regular rates and payroll taxes on their earnings.

Private equity managers (sometimes) even admit that "carried interest" is compensation. In a filing with the Securities and Exchange Commission in connection with taking its management partnership public, the Blackstone Group, a leading private equity firm, had this to say in 1997 about its activities (in order to avoid regulation under the Investment Act of 1940):

> "We believe that we are engaged primarily in the business of asset management and financial advisory services and not in the business of investing, reinvesting, or trading in securities. We also believe that the primary source of income from each of our businesses is properly characterized as income earned in exchange for the provision of services."

The President's budget proposes to close this loophole, raising revenue of $24 billion over a decade.

IV. Additional Revenue-Raising Provisions Could Greatly Improve the Administration's Budget

Congress should raise at least as much revenue as the President proposes in his budget outline, and eventually needs to go even farther in finding revenue to fund public services. The following are examples of measures that would make our tax system fairer while raising substantial amounts of revenue.

A. Reform "Check-the-Box" Rules for U.S. Corporations

The budget outline the President proposed last year included a reform of the "check-the-box" rules that currently allow U.S. multinational corporations to manipulate transfers between their subsidiaries in different countries to make foreign income "disappear."

The "check-the-box" rules were created by a regulation that the Clinton administration mistakenly adopted in 1996 to allow companies to choose whether or not a foreign affiliate will be treated as a separate corporation or as a non-separate entity for tax purposes by simply checking a box on a form.[12]

[12] Officials in the Clinton administration seemed to think this change would reduce litigation. This was probably true, in the sense that tax litigation can always be reduced if the federal government simply stops objecting to a form of tax avoidance.

As a result, U.S. companies can easily shift U.S. profits offshore by routing them first through a non-tax-haven country and then to a tax haven. By electing to treat the tax-haven affiliate as a corporation for purposes of the non-tax-haven country's tax system, but as a non-separate entity for U.S. tax purposes, it avoids tax in both the U.S. and the non-tax-haven country.

To curb this scheme to shift U.S. profits to tax havens, the budget outline proposed by the President last year would have required that certain foreign affiliates be characterized as corporations.

Unfortunately, the administration did not include this crucial reform in the budget proposal this year.

B. Repeal the Manufacturing Deduction

In 2002, the World Trade Organization (WTO) found that a particular tax break violated U.S. trade treaties with other countries. In the wake of this ruling, the European Union began imposing retaliatory sanctions against the United States in March of 2004. Congressional tax writers immediately sought to comply with the WTO ruling by repealing the illegal tax break. But lawmakers were wary of being seen as hiking taxes on manufacturers—even when the "tax hike" in question resulted from repealing an illegal tax break—and sought to enact new tax cuts that would offset the lost illegal subsidy for manufacturers. However, as the tax bill took shape, this provision was hijacked by legislators seeking to use the tax bill to provide new tax breaks for other favored corporations.

As finally enacted, the "manufacturing deduction" ballooned to apply to a wide variety of corporate activities, and was the most expensive ornament on a bill derisively labeled a "Christmas tree" by many observers.

The most egregious use of the deduction is for oil drilling (which is hard to call "manufacturing") and the President has proposed to prohibit oil and gas companies from using the break, as discussed earlier. But Congress should go much farther and repeal the manufacturing deduction altogether. It provides no identifiable benefit to the economy and repealing it altogether could raise over $100 billion over a decade. (The President's proposal to bar oil and gas companies from using it would only raise $17.3 billion over a decade.)

Repeal of the manufacturing deduction would also greatly help several state governments (many of which are facing dire budget crises). This is because many states have corporate income taxes that are linked to the federal corporate income tax, so a deduction on the federal level applies on the state level as well.[13] State lawmakers can enact legislation to "decouple" from the federal rules related to this deduction. But political and constitutional constraints in some states make it difficult to enact any sort of "tax increase," even when it only consists of decoupling from federal rules allowing a deduction.

C. Eliminate (or at Least Reduce) the Tax Preferences for Capital Gains and Dividends

The tax preferences for capital gains and stock dividends are among the most blatantly unfair features of the tax code, since they allow extremely wealthy individuals to pay taxes at lower rates than middle-income people. What makes this particularly unfair is the fact that the vast majority of capital gains and

[13] Institute on Taxation and Economic Policy, "The QPAI Corporate Tax Break: How It Works and How States Can Respond," October 2008. http://www.itepnet.org/pb33qpai.pdf

stock dividends go to the very wealthiest taxpayers — and this is the income that Congress has singled out for preferential tax rates.

Imagine that an heiress is so wealthy that she does not have to work. She has a huge amount of stocks and other investments. She gets an excellent income from two sources. She receives stock dividends, and when she sells assets (through her broker, of course) for more than their original purchase price, she enjoys the profit, which is called a capital gain. On these two types of income, she only pays a tax rate of 15 percent, thanks to the tax cuts enacted under President Bush. Next year, under President Obama's proposal, she'll pay 20 percent.

Impact of President Obama's Proposal to Tax Stock Dividends at a Top Rate of 20% (Instead of Ordinary Rates), in 2011

Income Group	Average Income	Total Tax Cut (in $thousands)	Average Tax Cut	Tax Cut as % of Income	% Taxpayers w/Tax Cut	Share of Tax Cut
Lowest 20%	$ 12,730	$ –32,800	$ —	0.0%	1.6%	0.2%
Second 20%	25,540	–153,300	–10	0.0%	5.4%	1.0%
Middle 20%	41,010	–394,300	–10	0.0%	11.1%	2.5%
Fourth 20%	67,030	–1,505,100	–50	0.1%	25.9%	9.4%
Next 10%	102,040	–1,850,200	–130	0.1%	43.2%	11.5%
Next 5%	143,580	–1,629,800	–230	0.2%	56.6%	10.1%
Next 4%	250,830	–3,440,800	–610	0.2%	74.1%	21.4%
Top 1%	1,369,110	–7,076,700	$ –4,980	0.4%	85.8%	44.0%
ALL	**$ 69,280**	**$ –16,083,000**	**$ –110**	**0.2%**	**19.5%**	**100.0%**
Bottom 60%	$ 26,430	$ –580,300	$ –10	0.0%	6.0%	3.6%

Source: ITEP Microsimulation Model, February 2010

Now let's imagine a receptionist who works at the brokerage that handles some of the heiress's dealings. Let's say this receptionist earns $50,000 a year. Unlike the heiress, his income comes in the form of wages, because, alas, he has to work for a living. His wages are taxed at progressive rates, and a portion of his income is actually taxed at 25 percent. (In other words, he faces a marginal rate of 25 percent, meaning each additional dollar he earns is taxed at that amount).

But that's just the federal income tax. He also pays the federal payroll tax of around 15 percent. (Technically he pays only half of the payroll tax and his employer pays the other half, but economists generally agree that it's all ultimately borne by the employee in the form of reduced wages.) So he pays taxes on his income at a higher rate than the heiress who lives off her wealth.

The first thing to note is that the President's proposal would preserve most of the Bush cut for dividends. Obama would set the top rate on dividends at 20 percent (rather than returning to the pre-Bush rule that dividends were taxed at the same tax rates as most other income). The table above illustrates the impact of the proposal to tax dividends at a top rate of 20 percent, compared to current law. Over 65 percent of the benefits of this tax cut go to the richest five percent of taxpayers, while the bottom three fifths of taxpayers receive less than four percent of the benefits.

A 20 percent preferential rate for capital gains was in place before President George W. Bush took office, but there was a time when capital gains were taxed as ordinary income. The tax reform signed into law by President Reagan in 1986 taxed all income at the same progressive rates. The capital gains break was eventually placed back in the income tax and later expanded by President Bush.

Ending this subsidy to investors would raise a substantial amount of revenue and would mainly impact the very wealthy. The table on the following page illustrates the impact of taxing capital gains like any other income, assuming that Congress has already enacted Obama's proposal to allow the top rate for capital gains to revert to 20 percent for those taxpayers above the $200,000/$250,000 threshold. In other words, under this scenario, people wealthy enough to be in the top income tax bracket in 2011 would pay a marginal rate of 39.6 percent on their capital gains instead of 20 percent.

Almost three fourths of the tax increase would be paid by the wealthiest one percent of taxpayers, and only about 1 percent would be paid by the bottom three fifths of the income distribution. Over 90 percent of the tax hike would be paid by the richest tenth of taxpayers.

Clearly, the vast majority of tax-preferred capital gains income goes to the rich.

Some middle-income people may worry that they would be adversely impacted if Congress changed the tax treatment of investment income. But most stock owned by middle-income people is in 401(k) plans, Individual Retirement Accounts (IRAs) or other similar retirement savings vehicles. Earnings inside a retirement plan are not subject to current tax and withdrawals from these accounts are not affected by the special low tax rates on capital gains and dividends.

Impact of Hypothetical Proposal to Tax Capital Gains as Ordinary Income in 2011

Income Group	Average Income	Total Tax Hike (in $thousands)	Average Tax Hike	Tax Hike % of Income	% Taxpayers w/Tax Hike	Share of Tax Hike
Lowest 20%	$ 12,730	$ 25,300	$ —	0.0%	1.0%	0.0%
Second 20%	25,540	134,300	—	0.0%	3.5%	0.3%
Middle 20%	41,010	434,700	20	0.0%	7.5%	0.8%
Fourth 20%	67,030	1,756,800	60	0.1%	17.6%	3.3%
Next 10%	102,040	2,329,000	160	0.2%	30.2%	4.3%
Next 5%	143,580	2,496,100	350	0.2%	41.5%	4.7%
Next 4%	250,830	6,744,500	1,190	0.5%	57.3%	12.6%
Top 1%	1,369,110	39,642,800	$ 27,920	2.0%	71.2%	74.0%
ALL	**$ 69,280**	**$ 53,563,600**	**$ 370**	**0.5%**	**13.8%**	**100.0%**
Bottom 60%	$ 26,430	$ 594,300	$ 10	0.0%	4.0%	1.1%

Source: ITEP Microsimulation Model, February 2010

The capital gains tax break is effectively a subsidy, provided through the tax code, for wealthy investors. If lawmakers cannot bring themselves to eliminate this subsidy, at very least they could reduce it. During his presidential campaign, then-candidate Obama suggested at one point that the top rate for capital gains be raised to 28 percent. This would at least move the tax system in the right direction.

President Obama's Feb 1, 2010 Tax Proposals, Fiscal 2010–2020 Revenue Estimates

fiscal years, $-billions	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2010-20
TOTAL PROPOSED NET TAX REDUCTIONS	**–62.8**	**–229.1**	**–220.2**	**–199.6**	**–224.8**	**–247.2**	**–269.0**	**–289.7**	**–313.0**	**–335.5**	**–359.5**	**–2,750.4**
Personal Tax Cuts:												
Reenact 81 percent of all otherwise-expiring Bush tax cuts												
Reenact all Bush personal income tax cuts for everyone except the very rich	–1.8	–107.6	–165.9	–181.5	–198.4	–211.5	–220.6	–229.8	–238.9	–247.6	–256.3	–2,059.9
Extend AMT relief permanently (indexed)	–13.0	–64.1	–32.4	–37.9	–45.1	–53.2	–62.5	–72.5	–84.0	–96.8	–110.3	–671.7
Maintain 2009 Bush estate tax rules permanently	–2.0	+6.2	–18.9	–23.7	–26.0	–28.1	–30.2	–32.2	–34.3	–36.5	–38.8	–264.5
Total expiring Bush tax cuts reenacted	***–16.8***	***–165.5***	***–217.1***	***–243.1***	***–269.5***	***–292.8***	***–313.3***	***–334.5***	***–357.2***	***–381.0***	***–405.4***	***–2,996.1***
Additional personal tax cuts												
Make $3,000 threshold for child tax credit refunds permanent	—	—	–9.6	–9.4	–9.3	–9.2	–9.2	–9.1	–9.1	–9.1	–9.1	–83.1
Make college tuition credit ("American Opportunity Tax Credit") permanent	—	–1.0	–6.9	–7.4	–7.8	–8.4	–8.8	–8.6	–8.7	–8.9	–8.9	–75.5
Extend "Making Work Pay" payroll tax credit through 2011	—	–30.1	–31.1	—	—	—	—	—	—	—	—	–61.2
Expand saver's credit and require automatic enrollment in IRAs and 401(k)s	—	–0.3	–3.2	–3.8	–3.9	–4.1	–4.3	–4.6	–4.9	–5.3	–5.7	–40.2
Make earned income tax credit expansion for 3 or more children permanent	—	–0.1	–1.7	–1.6	–1.6	–1.6	–1.6	–1.7	–1.7	–1.7	–1.8	–15.2
Make earned income tax credit marriage penalty relief permanent	—	–0.0	–1.7	–1.7	–1.7	–1.6	–1.6	–1.6	–1.6	–1.6	–1.7	–14.9
Expand child-and-dependent-care credit	—	–0.4	–1.3	–1.4	–1.4	–1.4	–1.4	–1.4	–1.4	–1.4	–1.3	–12.6
Extend deduction for state sales taxes through 2011	—	–0.2	–1.3	–0.3	—	—	—	—	—	—	—	–1.8
Total additional personal tax cuts	***—***	***–32.1***	***–56.8***	***–25.7***	***–25.7***	***–26.3***	***–26.9***	***–26.9***	***–27.4***	***–28.0***	***–28.5***	***–304.5***
Total Personal Tax Cuts	**–16.8**	**–197.6**	**–273.9**	**–268.8**	**–295.3**	**–319.1**	**–340.2**	**–361.4**	**–384.6**	**–409.0**	**–433.9**	**–3,300.5**
Business Tax Cuts:												
Make research and experimentation tax credit permanent	–3.0	–5.3	–6.0	–6.6	–7.3	–7.9	–8.6	–9.2	–9.9	–10.5	–11.2	–85.7
Extend certain expiring tax cuts (primarily business) through calendar 2011	–8.9	–21.3	–10.6	–1.9	–1.6	–1.4	–1.3	–1.0	–1.1	–1.4	–3.1	–53.7
"Jobs initiatives" (hiring tax credit, etc.)	–12.0	–25.0	–8.0	–3.0	–2.0	—	—	—	—	—	—	–50.0
Eliminate capital gains taxes on sales of small business stock	—	—	—	—	–0.1	–0.3	–0.7	–1.2	–1.6	–1.9	–2.2	–8.1
Provide additional tax credits for qualified advanced energy projects	—	–0.3	–0.7	–1.1	–1.1	–0.5	–0.1	+0.1	+0.1	+0.1	+0.0	–3.7
Extend and modify the New Markets tax credit	—	–0.1	–0.2	–0.3	–0.4	–0.5	–0.5	–0.5	–0.4	–0.3	–0.1	–3.4
Remove cell phones from listed property	–0.1	–0.3	–0.2	–0.2	–0.2	–0.3	–0.3	–0.3	–0.3	–0.3	–0.3	–2.9
Extend temporary bonus depreciation for certain property for one year	–22.4	–15.2	+11.9	+7.5	+5.1	+3.9	+2.6	+1.7	+1.1	+0.8	+0.7	–2.3
Reform and extend Build America bonds	—	+0.0	–0.0	–0.0	–0.0	–0.0	–0.0	–0.0	–0.0	–0.0	–0.0	–0.0
Extend temporary increase in expensing for small business for one year	–0.7	–0.4	+0.4	+0.3	+0.2	+0.1	+0.1	+0.0	+0.0	+0.0	+0.0	—
Total Business Tax Cuts	**–47.1**	**–68.0**	**–13.4**	**–5.5**	**–7.4**	**–6.9**	**–8.9**	**–10.5**	**–12.2**	**–13.6**	**–16.2**	**–209.7**
Total Proposed Tax Cuts (gross)	**–63.9**	**–265.6**	**–287.3**	**–274.3**	**–302.6**	**–326.0**	**–349.1**	**–371.9**	**–396.8**	**–422.6**	**–450.1**	**–3,510.3**
Loophole Closers & Other Revenue Raisers:												
Miscellaneous reforms & changes:												
Limit the tax rate at which itemized deductions reduce tax liability to 28 percent	—	+7.9	+21.6	+24.5	+27.0	+29.4	+31.6	+33.9	+36.3	+38.4	+40.6	**+291.2**
Repeal LIFO method of accounting for inventories	—	—	+2.7	+6.0	+7.1	+7.1	+7.2	+7.2	+7.2	+7.3	+7.4	**+59.1**
Curb paper company abuse of cellulosic biofuel credit ("black liquor")	+0.8	+6.6	+8.1	+4.9	+2.7	+1.5	+0.3	—	—	—	—	**+24.8**
Tax investment manager fees ("carried interest") at regular tax rates	—	+1.5	+3.3	+3.9	+3.7	+3.2	+2.5	+2.0	+1.5	+1.4	+1.0	**+24.0**
Reinstate Superfund taxes	—	+1.2	+1.6	+1.7	+1.8	+1.9	+2.0	+2.1	+2.1	+2.2	+2.2	**+18.9**
Make unemployment insurance surtax permanent	—	—	+1.5	+1.5	+1.5	+1.6	+1.6	+1.6	+1.6	+1.6	+1.6	**+14.2**
Repeal lower-of-cost-or-market inventory accounting method	—	—	+0.3	+1.4	+2.0	+1.4	+1.1	+0.3	+0.3	+0.3	+0.3	**+7.5**
Repeal gain limitation for dividends received in reorganization exchanges	—	+0.0	+0.1	+0.1	+0.1	+0.1	+0.1	+0.1	+0.1	+0.1	+0.1	**+0.8**
Eliminate advanced earned income tax credit	—	+0.1	+0.1	+0.1	+0.1	+0.1	+0.1	+0.1	+0.1	+0.1	+0.1	**+0.8**
Deny deduction for punitive damages	—	—	+0.0	+0.0	+0.0	+0.0	+0.0	+0.0	+0.0	+0.0	+0.0	**+0.3**
Total miscellaneous reforms & changes	***+0.8***	***+17.3***	***+39.1***	***+44.2***	***+46.1***	***+46.2***	***+46.5***	***+47.3***	***+49.3***	***+51.4***	***+53.4***	***+441.5***
Reform U.S. international tax system:												
Foreign tax credit: Determine the foreign tax credit on a pooling basis	—	+1.9	+3.2	+3.2	+3.2	+3.3	+3.4	+3.4	+3.4	+3.5	+3.5	**+32.0**
Foreign tax credit: Prevent splitting of foreign income and foreign taxes	—	+1.2	+2.2	+2.5	+2.7	+2.9	+3.0	+3.1	+3.2	+3.3	+3.3	**+27.4**
Defer deduction of interest expense related to deferred income	—	+2.0	+3.4	+3.3	+3.4	+3.4	+3.5	+3.6	+1.8	+0.6	+0.6	**+25.6**
Tax currently excess returns associated with transfers of intangibles offshore	—	+0.6	+1.6	+1.6	+1.6	+1.6	+1.7	+1.7	+1.7	+1.7	+1.7	**+15.5**
Modify tax rules for dual capacity taxpayers	—	+0.4	+0.7	+0.7	+0.8	+0.8	+0.9	+1.0	+1.0	+1.1	+1.1	**+8.5**
Combat under-reporting of income on offshore accounts and entities	+0.0	+0.1	+0.2	+0.7	+0.9	+0.4	+0.4	+0.5	+0.7	+0.7	+0.8	**+5.5**
Limit earnings stripping by expatriated entities	—	+0.2	+0.4	+0.4	+0.4	+0.4	+0.4	+0.4	+0.4	+0.4	+0.4	**+3.6**
Prevent the use of equity swaps to avoid dividend withholding taxes	+0.2	+0.3	+0.1	+0.1	+0.1	+0.1	+0.1	+0.1	+0.1	+0.1	+0.1	**+1.5**
Limit shifting of income through intangible property transfers	—	+0.0	+0.0	+0.1	+0.1	+0.1	+0.1	+0.2	+0.2	+0.2	+0.3	**+1.2**
Repeal 80/20 company rules	—	+0.1	+0.1	+0.1	+0.1	+0.1	+0.1	+0.1	+0.1	+0.1	+0.1	**+1.1**
Disallow the deduction for excess nontaxed reinsurance premiums	—	+0.0	+0.1	+0.1	+0.1	+0.1	+0.1	+0.1	+0.1	+0.1	+0.1	**+0.5**
Total reforms to U.S. international tax system	***+0.2***	***+6.9***	***+11.9***	***+12.7***	***+13.2***	***+13.2***	***+13.6***	***+14.1***	***+12.7***	***+11.8***	***+12.0***	***+122.4***
Reform treatment of financial institutions and products:												
Impose a financial crisis responsibility fee	—	+8.0	+8.0	+9.0	+9.0	+9.0	+9.0	+9.0	+9.0	+10.0	+10.0	**+90.0**
Require ordinary treatment of income from day-to-day dealer activities for certain dealers of equity options and commodities	+0.0	+0.2	+0.2	+0.2	+0.2	+0.3	+0.3	+0.3	+0.3	+0.3	+0.3	**+2.7**
Modify the definition of "control" for purposes of section 249	+0.0	+0.0	+0.0	+0.0	+0.0	+0.0	+0.0	+0.0	+0.0	+0.0	+0.0	**+0.4**
Require accrual of income on forward sale of corporate stock	+0.0	+0.0	+0.0	+0.0	+0.0	+0.0	+0.0	+0.0	+0.0	+0.0	+0.0	**+0.3**
Total reforms to treatment of financial institutions and products	***+0.1***	***+8.2***	***+8.3***	***+9.3***	***+9.3***	***+9.3***	***+9.3***	***+9.4***	***+9.4***	***+10.4***	***+10.4***	***+93.3***

(continued on next page)

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fiscal years, $-billions	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2010-20
Eliminate fossil fuel tax preferences:												
Oil and gas company preferences:												
Repeal domestic manufacturing tax deduction for oil and natural gas	—	+0.9	+1.5	+1.6	+1.7	+1.7	+1.8	+1.9	+2.0	+2.1	+2.2	**+17.3**
Repeal percentage depletion for oil and natural gas wells	—	+0.5	+0.9	+0.9	+1.0	+1.0	+1.1	+1.1	+1.1	+1.2	+1.2	**+10.0**
Repeal expensing of intangible drilling costs	—	+1.2	+1.6	+1.1	+0.9	+0.8	+0.7	+0.5	+0.4	+0.3	+0.3	**+7.8**
Increase geological and geophysical amortization period	—	+0.0	+0.2	+0.2	+0.2	+0.2	+0.1	+0.1	+0.0	+0.0	+0.0	**+1.1**
Repeal exception to passive loss limitations for oil and natural gas	—	+0.0	+0.0	+0.0	+0.0	+0.0	+0.0	+0.0	+0.0	+0.0	+0.0	**+0.2**
Repeal deduction for tertiary injectants	—	+0.0	+0.0	+0.0	+0.0	+0.0	+0.0	+0.0	+0.0	+0.0	+0.0	**+0.1**
Subtotal, oil and gas company preferences	—	*+2.6*	*+4.1*	*+3.9*	*+3.8*	*+3.8*	*+3.7*	*+3.6*	*+3.6*	*+3.7*	*+3.8*	***+36.5***
Coal tax preferences:												
Repeal percentage depletion for hard mineral fossil fuels	—	+0.1	+0.1	+0.1	+0.1	+0.1	+0.1	+0.1	+0.1	+0.1	+0.1	**+1.1**
Repeal capital gains treatment for royalties	+0.0	+0.0	+0.0	+0.0	+0.1	+0.1	+0.1	+0.1	+0.1	+0.1	+0.1	**+0.8**
Repeal expensing of exploration and development costs	—	+0.0	+0.1	+0.0	+0.0	+0.0	+0.0	+0.0	+0.0	+0.0	+0.0	**+0.4**
Repeal domestic manufacturing deduction for hard mineral fossil fuels	—	+0.0	+0.0	+0.0	+0.0	+0.0	+0.0	+0.0	+0.0	+0.0	+0.0	**+0.1**
Subtotal, coal tax preferences	*+0.0*	*+0.1*	*+0.2*	*+0.2*	*+0.2*	*+0.2*	*+0.2*	*+0.3*	*+0.3*	*+0.3*	*+0.3*	***+2.3***
Total eliminations of fossil fuel tax preferences	***+0.0***	***+2.8***	***+4.3***	***+4.1***	***+4.0***	***+4.0***	***+4.0***	***+3.8***	***+3.8***	***+3.9***	***+4.0***	***+38.8***
Estate and gift tax reforms:												
Modify rules on valuation discounts	—	+0.7	+1.4	+1.5	+1.7	+1.8	+2.0	+2.1	+2.3	+2.5	+2.7	**+18.7**
Require a minimum term for grantor retained annuity trusts (GRATs)	—	+0.0	+0.0	+0.1	+0.2	+0.2	+0.3	+0.4	+0.5	+0.6	+0.7	**+3.0**
Require consistent valuation for transfer and income tax purposes	+0.0	+0.1	+0.2	+0.2	+0.2	+0.2	+0.2	+0.2	+0.2	+0.3	+0.3	**+2.1**
Total estate and gift tax reforms	***+0.0***	***+0.8***	***+1.6***	***+1.8***	***+2.0***	***+2.3***	***+2.5***	***+2.8***	***+3.0***	***+3.3***	***+3.6***	***+23.8***
Reform treatment of insurance institutions and products:												
Expand pro rata interest disallowance for corporate-owned life insur.	—	+0.0	+0.1	+0.2	+0.3	+0.4	+0.7	+0.9	+1.3	+1.7	+2.2	**+7.8**
Modify dividends-received deduction for life insurance cos.	—	+0.1	+0.4	+0.4	+0.4	+0.4	+0.5	+0.5	+0.5	+0.5	+0.5	**+4.3**
Modify rules that apply to sales of life insurance contracts	—	+0.0	+0.1	+0.1	+0.1	+0.1	+0.1	+0.2	+0.2	+0.2	+0.2	**+1.3**
Permit partial annuitization of a nonqualified annuity contract	—	+0.0	+0.0	+0.0	+0.1	+0.1	+0.1	+0.1	+0.2	+0.2	+0.2	**+1.0**
Total reforms to treatment of life insurance and products	***—***	***+0.2***	***+0.6***	***+0.7***	***+0.9***	***+1.1***	***+1.4***	***+1.7***	***+2.1***	***+2.6***	***+3.2***	***+14.4***
Reduce the tax gap:												
Expand information reporting:												
Require information reporting on payments to corporations	—	+0.1	+0.6	+0.8	+0.9	+1.0	+1.0	+1.1	+1.2	+1.2	+1.3	**+9.2**
Require information reporting for rental property expense payments	—	+0.2	+0.3	+0.3	+0.3	+0.3	+0.3	+0.3	+0.4	+0.4	+0.4	**+3.1**
Require a certified Taxpayer Identification Number for contractors	—	+0.0	+0.0	+0.1	+0.1	+0.1	+0.1	+0.1	+0.1	+0.1	+0.1	**+0.7**
Require increased information reporting for certain government payments	—	+0.0	+0.1	+0.1	+0.0	+0.0	+0.0	+0.0	+0.0	+0.0	+0.0	**+0.4**
Increase information return penalties	—	+0.0	+0.0	+0.0	+0.0	+0.0	+0.0	+0.0	+0.0	+0.0	+0.0	**+0.4**
Require information reporting for private accounts of life insurance cos.	—	+0.0	+0.0	+0.0	+0.0	+0.0	+0.0	+0.0	+0.0	+0.0	+0.0	**+0.1**
Subtotal, expand information reporting	—	*+0.3*	*+1.0*	*+1.2*	*+1.4*	*+1.4*	*+1.5*	*+1.6*	*+1.7*	*+1.8*	*+1.9*	***+13.8***
Improve compliance by businesses:												
Reform rules for classification of employees as independent contractors	—	+0.0	+0.2	+0.5	+0.7	+0.8	+0.8	+0.9	+1.0	+1.1	+1.2	**+7.3**
Implement standards clarifying when employee leasing companies can be held liable for their clients' Federal employment taxes	—	+0.0	+0.0	+0.0	+0.0	+0.0	+0.0	+0.0	+0.0	+0.0	+0.0	**+0.1**
Subtotal, improve compliance by businesses	—	*+0.0*	*+0.2*	*+0.5*	*+0.7*	*+0.8*	*+0.9*	*+0.9*	*+1.0*	*+1.1*	*+1.2*	***+7.4***
Strengthen tax administration:												
Codify "economic substance doctrine"	—	+0.0	+0.1	+0.2	+0.3	+0.4	+0.5	+0.6	+0.7	+0.8	+0.8	**+4.2**
Allow assessment of criminal restitution as tax	—	—	+0.0	+0.0	+0.0	+0.0	+0.0	+0.0	+0.0	+0.0	+0.0	**+0.0**
Revise offer-in-compromise application rules	+0.0	+0.0	+0.0	+0.0	+0.0	+0.0	+0.0	+0.0	+0.0	+0.0	+0.0	**+0.0**
Make repeated willful failure to file a tax return a felony	—	—	—	—	+0.0	+0.0	+0.0	+0.0	+0.0	+0.0	+0.0	**+0.0**
Facilitate tax compliance with local jurisdictions	—	—	—	—	—	+0.0	+0.0	+0.0	+0.0	+0.0	+0.0	**+0.0**
Extend statute of limitations where state adjustment affects federal tax	—	+0.0	+0.0	+0.0	+0.0	+0.0	+0.0	+0.0	+0.0	+0.0	+0.0	**+0.0**
Improve investigative disclosure statute	—	—	—	—	+0.0	+0.0	+0.0	+0.0	+0.0	+0.0	+0.0	**+0.0**
Subtotal, strengthen tax administration	*+0.0*	*+0.0*	*+0.1*	*+0.2*	*+0.3*	*+0.4*	*+0.5*	*+0.6*	*+0.7*	*+0.8*	*+0.9*	***+4.4***
Expand penalties:												
Clarify the bad check penalty applies to electronic checks, etc.	—	+0.0	+0.0	+0.0	+0.0	+0.0	+0.0	+0.0	+0.0	+0.0	+0.0	**+0.0**
Impose a penalty on failure to comply with electronic filing requirements	—	—	—	—	—	+0.0	+0.0	+0.0	+0.0	+0.0	+0.0	**+0.0**
Subtotal, expand penalties	—	*+0.0*	*+0.0*	*+0.0*	*+0.0*	*+0.0*	*+0.0*	*+0.0*	*+0.0*	*+0.0*	*+0.0*	***+0.0***
Total reductions in the tax gap	***+0.0***	***+0.4***	***+1.3***	***+1.9***	***+2.3***	***+2.6***	***+2.9***	***+3.2***	***+3.4***	***+3.7***	***+3.9***	***+25.6***
Total Proposed Loophole Closers & Other Revenue Raisers (gross)	**+1.1**	**+36.5**	**+67.1**	**+74.7**	**+77.9**	**+78.7**	**+80.1**	**+82.2**	**+83.8**	**+87.2**	**+90.6**	**+759.9**
TOTAL PROPOSED NET TAX REDUCTIONS	**–62.8**	**–229.1**	**–220.2**	**–199.6**	**–224.8**	**–247.2**	**–269.0**	**–289.7**	**–313.0**	**–335.5**	**–359.5**	**–2,750.4**

Note: This table shows tax changes under the Obama plan compared to current law. Under current law, the Bush tax cuts are scheduled to expire at the end of 2010.

Sources: Office of Management and Budget, U.S. Treasury Department, Joint Committee on Taxation (2010).

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