



Obama's Tax Cuts Would Go to the Middle-Class, McCain's Would Go to the Wealthy, and Neither Proposes to Increase Federal Revenue

Presidential candidate John McCain's campaign is running [ads](#) that say Senator Obama proposes "painful tax increases on working American families." Senator McCain lately has been telling Americans that "Senator Obama will raise your taxes." These statements show either a proud ignorance or a willful dishonesty.

Citizens for Tax Justice (CTJ) does not think that new tax cuts will improve the lives of ordinary Americans, but we do feel that the public should receive accurate information about the tax cuts both candidates are offering. We respectfully ask that Senator McCain act honorably and avoid attempts to mislead the public about his opponent's positions.

1. Senator Obama proposes two types of tax cuts. First, he proposes making the Bush tax cuts permanent for all but the richest 2 or 3 percent of taxpayers. Second, he proposes the creation of many additional tax cuts for the middle-class.

President Bush and his allies in Congress enacted tax cuts that are scheduled to expire after 2010. Obama would repeal the Bush tax cuts for the richest 2 or 3 percent, which means that for years after 2010 there would simply be no change in the law for these taxpayers. For everyone else, Senator Obama would change the law to make the Bush tax cuts permanent, and he also proposes many additional tax cuts for the middle-class, which are described below.

Specifically, Senator Obama calls for making the Bush tax cuts permanent for everyone except married couples with incomes above \$250,000 and singles with incomes above \$200,000. CTJ released a [report](#) in January finding that only 2.1 percent of taxpayers have adjusted gross income (AGI) over \$250,000, while only 3.2 percent have AGI over \$200,000. Even these richest taxpayers would enjoy some tax cuts under Obama's plan after 2010 that they would not receive under current law (a partial extension of the cut in the estate tax and a partial extension of the loophole for dividends).

Senator McCain proposes to make the Bush tax cuts permanent for all Americans, regardless of how wealthy they are. The fact that Obama would not make them all permanent for the richest 2 or 3 percent of Americans has been falsely presented by the McCain campaign as "painful tax increases on working American families."

2. Both candidates propose additional tax cuts, but Obama's new tax cuts benefit middle- and low-income families while McCain's new tax cuts primarily benefit corporations and businesses.

Senator McCain proposes major cuts in taxes paid by corporations and businesses. He also proposes an increase in the exemption for dependents, which would not benefit those taxpayers (over 40 percent of all taxpayers) who pay federal payroll taxes but don't pay federal income taxes.

In contrast, Senator Obama's plan has a variety of new tax breaks targeting middle- and low-income families. His refundable Making Work Pay Credit would refund \$500 in payroll taxes (or \$1,000 for a working couple). His refundable American Opportunity Credit would provide up to \$4,000 for post-secondary education. He would exempt seniors with incomes below \$50,000 from income taxes. His refundable Universal Mortgage Credit would offer a tax break for homeowners who don't benefit from the current mortgage interest deduction. He would strengthen the Earned Income Tax Credit, which President Reagan called the "the best anti-poverty, the best pro-family, the best job creation measure to come out of Congress."

The list goes on, but the point is clear. Senator Obama proposes to cut taxes in a big way for middle- and low-income families.

3. McCain's chief economic adviser has admitted that Obama's plan does not raise taxes.

Senator McCain's advisers are fully aware that the message the McCain campaign is delivering about taxes is untrue. TIME's Michael Sherer [wrote](#), back in July:

"Here is Douglas Holtz-Eakin, McCain's chief economic policy adviser. 'I used to say that Barack Obama raises taxes and John McCain cuts them, and I was convinced,' he told me in a phone interview this week. 'I stand corrected [about Obama's plans].'"

4. McCain condemns Obama for refusing to make the Bush tax cuts permanent for everyone, even though McCain voted against *enacting* the Bush tax cuts.

Senator McCain actually voted *against* the two major components of the Bush tax cuts. He first voted against the 2001 law that cut the personal income tax, mostly benefitting the rich, and phased out the estate tax, which entirely benefits the rich. He then voted against the 2003 law that increased the loophole for capital gains, created a new one for dividends, and sped up or extended other cuts in the personal and corporate income taxes.

Senator McCain was critical of Bush's tax proposals even before Bush took office. Senator McCain [said](#) back in 2000, "Gov. Bush wants to spend the entire surplus on tax cuts. 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."

5. There is no evidence that allowing taxes to revert to the levels in place under President Clinton will harm the economy. It is therefore even less likely that Obama's plan, which would only do this for the richest 2 or 3 percent, would harm the economy.

For the best-off 2 or 3 percent, Obama would extend only part of the Bush tax cuts, specifically a lower estate tax and a tax break for dividends. Otherwise, he would let the rest of the Bush tax cuts for the very wealthy expire.

But even if *all* Americans faced the tax rules that existed during the Clinton years, it's hard to see how this would hurt the economy. Real median household income, which grew during the Clinton years, has [fallen in the Bush years](#). The poverty rate, which declined under Clinton, has inched back up during the Bush years. Unemployment, which fell under Clinton, has risen under Bush. And, of course, the Clinton budget surpluses have turned into giant deficits under Bush. As it turned out, wildly cutting taxes was bad fiscal policy and bad economics.