



The Tax Proposals of Presidential Candidates John McCain and Barack Obama

One of the most passionate, and most confused, debates taking place during this election season is the debate over federal tax policy. Both presidential candidates, Barack Obama and John McCain, are proposing large tax cuts that would reduce federal revenues that are needed to fully fund public services. But the tax plan proposed by Senator Obama is far less expensive, and far more of the benefits are directed towards low- and middle-income people.

Citizens for Tax Justice has estimated the effects of the tax plans of each candidate. The nearby table includes figures for 2012, a year in which most of the provisions in both candidates' tax plans would be fully in effect.

Average Change in Taxes Per Tax Unit Under McCain and Obama Tax Plans in 2012
(including full or partial extension of Bush tax cuts)

	McCain	Obama
Lowest 20%	\$ -236	\$ -518
Second 20%	-826	-1,040
Middle 20%	-1,405	-1,575
Fourth 20%	-2,698	-2,375
Next 15%	-5,989	-4,320
Next 4%	-18,988	-7,272
Top 1%	-202,830	-4,620
ALL	\$ -4,679	\$ -2,046
Bottom 60%	-823	-1,044

Source: ITEP Microsimulation Tax Model, October 2008

I. Summary of Key Findings

Taxes Overall

- Obama's plan would give taxpayers in the bottom 60 percent of the income distribution a larger tax cut, on average, than McCain's plan (\$1,044 vs. \$823 in 2012).
- The average benefits for the richest one percent of taxpayers under McCain's plan would be 43 times as large as the average benefits for this group under Obama's plan.

Personal Income Taxes

- Senator McCain proposes to extend all the Bush income tax cuts for 100 percent of taxpayers, while Senator Obama proposes to extend these cuts for over 97 percent of taxpayers.
- Because such a huge share of the Bush tax cuts goes to the richest Americans, Obama's proposal to extend them for all but the richest 2.6 percent of taxpayers would cost a third less than McCain's proposal to extend them for everyone (\$146 billion vs. \$216 billion in 2012).
- McCain has indicated a desire to repeal the Alternative Minimum Tax (AMT), which would cost \$155 billion in 2012, while Obama would scale back the AMT, at a cost of \$110 billion in 2012.

- The biggest additional cut in the income tax proposed by McCain is his so-called alternative “simplified” tax. In 2012 alone, this would cost \$98 billion, and 58 percent of this would go to the richest five percent of taxpayers.

- The biggest additional cut in the income tax proposed by Obama is his Making Work Pay Credit, which in 2012 alone would cost \$65 billion. Over half of this would go to the poorest 60 percent of taxpayers.

Corporate Taxes

- Unlike Obama, McCain proposes a massive cut in the statutory tax rate for corporations.

- Both candidates propose to close loopholes that affect corporations (and some other businesses and very high-income individuals) but not enough to offset the overall costs of their enormous proposed tax cuts.¹

Estate Taxes

- Both candidates propose costly and regressive cuts in the estate tax, which only benefit people who inherit huge amounts of wealth, but McCain proposes a far larger estate tax reduction than Obama.

As illustrated in the table on page one, Senator McCain’s tax plan directs an enormous average tax cut of over \$202,000 to the richest taxpayers.^{2 3} The average tax cut under Obama’s plan for the poorest 60 percent would be just over \$1,044 in 2012, larger than the \$823 average that taxpayers in this group would receive under McCain’s plan. Senator McCain’s proposed tax cuts are largely targeted to the wealthy, while Senator Obama’s proposed tax cuts would

¹Because we use current law (under which the Bush tax cuts expire at the end of 2010) as our baseline, these loophole-closing measures are the only tax increases that we include in our estimates for 2012. Cost estimates from the two campaigns use a different baseline that assumes the extension of the Bush tax cuts, and these analyses conclude that the Obama plan raises revenue by not making the Bush tax cuts permanent for the very rich.

²Our analysis of the net tax change for the top one percent of tax units under the Obama plan differs somewhat from figures put out by the Urban/Brookings Tax Policy Center (TPC). Specifically, we show a small tax reduction for the top one percent (equal to 0.3 percent of pre-tax income), while TPC shows a small tax increase (equal to 1.0 percent of pre-tax income). Most of this small difference appears to reflect differing assumptions about the effects of Obama’s proposed cut in the estate tax. Following the lead of the congressional Joint Committee on Taxation (see Joint Committee on Taxation, “Methodology and Issues in Measuring Changes in the Distribution of Tax Burdens,” June 14, 1993, p. 71), we believe that the lion’s share of Obama’s proposed estate tax cut will go to the top one percent. This approach is consistent with the fact that under current law, most of the estate tax in 2012 will be paid by the largest 0.1 percent of estates. In contrast, TPC estimates that the top one percent will get a smaller share of Obama’s proposed estate tax cut.

³Under any assumptions, some taxpayers in the top one percent would likely face a net tax increase under Obama’s tax plan because he proposes to close several loopholes enjoyed by corporations, businesses and wealthy individuals, and the impacts of these measures will outweigh the tax cuts for many in this group. McCain also proposes to close some corporate tax loopholes, but the amount of revenue he aims to raise from this is less, and it is far less likely that the huge tax cuts he proposes for those in the top one percent would be offset.

not be available to the very rich (with some significant exceptions) and include several new tax cuts for low- and middle-income families.

II. Summary of the Candidates' Proposals

Both candidates would significantly reduce the personal income tax. First, both would extend the Bush tax cuts for most people (in the case of Obama) or for everyone (in the case of McCain). Second, both would change the Alternative Minimum Tax (AMT). Obama would keep the AMT from affecting those who are not rich, while McCain has indicated a desire to repeal it altogether.

Third, both would also offer additional cuts in the personal income tax. The largest new cut in the personal income tax proposed by Obama is his refundable Making Work Pay Credit, which is targeted towards middle-income people. The most significant new cut in the personal income tax proposed by McCain is an alternative “simplified” tax (AST) which, as explained further on, is likely to benefit the wealthy and make the tax system *more complicated*.

The candidates' proposals for corporate taxes are very different because, unlike Obama, McCain proposes a massive reduction in the corporate tax rate. Both propose other types of cuts for corporations and other businesses, like Obama's proposal to eliminate capital gains taxes for start-up companies and McCain's proposal to allow first-year “expensing” for equipment and technology. Both propose to cut some loopholes affecting corporations and businesses, but not enough to offset the cost of their proposed tax cuts.

Finally, both propose to reduce the estate tax. Obama would allow transfers of up to \$7 million tax-free. McCain would allow transfers of up to \$10 million tax-free and would significantly reduce the tax rate for estates above that amount — a boon for rich families.

The common element one finds in looking at the two tax plans is that Senator Obama proposes to shower tax cuts on all but the very richest Americans, while McCain proposes novel ways to direct tax cuts even to the very richest taxpayers. This is one reason why McCain's plan would lose even more federal revenue than Obama's.

III. Personal Income Taxes: Both Candidates Propose New Cuts, But McCain's Are More Expensive and Targeted More to the Rich

The next table illustrates the cost of the major changes each candidate would make in the personal income tax. Senator McCain's proposed changes would cost an incredible \$489 billion in 2012 *alone*, and half of the benefits would go to the richest five percent of taxpayers. Obama's proposed changes would also be expensive but less so, costing \$348 billion in 2012 alone. While 21 percent of the benefits of Obama's personal income tax cuts would go to the richest five percent, this would still be considerably less regressive than McCain's proposed changes.

**Costs of Personal Income Tax Changes
Proposed by the Candidates, in 2012, in \$Billions**

	McCain	Obama
Bush Income Tax Cuts	Fully extend \$ -216	Partially extend \$ -146
Alternative Minimum Tax	Abolish \$ -155	Reform \$ -110
Largest Additional Cut	Alternative simplified tax \$ -98	Making Work Pay credit \$ -65
Other Cuts	Increase dependent exemption \$ -20	Mortgage, EITC, education, childcare provisions and seniors exemption \$ -27
TOTAL Cuts in Personal Income Tax	\$ -489	\$ -348

Source: Institute on Taxation and Economic Policy (ITEP) Tax Model, October 2008

Note: Senator Obama has proposed tax cuts to encourage retirement savings (automatic 401(k) plans, improvements in the saver's credit) that are not included in these estimates due to lack of data.

McCain Would Extend the Bush Income Tax Cuts for Everyone, Obama Would Extend the Bush Income Tax Cuts for *Almost* Everyone

Because the Bush tax cuts (which include reductions in both personal income taxes and estate taxes) expire at the end of 2010, Congress has been feuding for some time about whether or not the tax cuts should be made fully or partially permanent. Surprisingly, McCain and Obama agree that the Bush tax cuts should be extended for the vast majority of taxpayers, but they differ on how to treat those at the very top of the income scale.

The cuts in personal income taxes enacted under Bush include several changes that have benefitted the rich. The very wealthiest enjoy reductions in the top tax rates for ordinary income, as well as special low rates for investment income (capital gains and stock dividends). President Bush expanded the loophole for capital gains (reducing the special top rate of 20 percent to 15 percent) and created a new loophole for dividends (which were previously taxed as any other income but are now subject to a top rate of 15 percent as well). The wealthy also benefit from the gradual repeal of provisions that limit their use of personal exemptions and itemized deductions.

While Obama would extend the Bush tax cuts for over 97 percent of Americans, Senator McCain would extend them for 100 percent of Americans.

The Bush tax cuts do include several changes that have benefitted middle-income families, like the introduction of the 10 percent rate, the reduction in the other rates for ordinary income, the doubling of the child tax credit to \$1,000, the adjustment in the brackets to remove the “marriage penalty,” and others.

Nonetheless, the benefits of the personal income tax cuts enacted under Bush are very heavily targeted towards the wealthy. If they are fully made permanent, as Senator McCain proposes, about 48 percent of the benefits would go to the richest five percent, and the cost would be \$216 billion in 2012 alone.

Senator Obama's plan would extend Bush's personal income tax cuts for all but the very rich. Twenty-three percent of the benefits would go to the richest five percent, and the cost would be \$146 billion in 2012, which is about a third less than the cost of McCain's proposal to extend them for everyone.

Senator Obama proposes to extend the Bush personal income tax cuts for everyone except married couples with adjusted gross income (AGI) over \$250,000 and singles with AGI over \$200,000 (indexed for inflation). In 2012, only 2.6 percent of taxpayers will have AGI above this threshold. In other words, Obama proposes to extend all the Bush personal income tax cuts for over 97 percent of taxpayers.

Components of the Bush Cuts in Personal Income Taxes and the Candidates' Positions

	McCain	Obama
Creation of ten percent tax bracket for ordinary income	Extend	Extend
Reduction in the 28% rate to 25% and the 31% rate to 28% for ordinary income	Extend	Extend
Adjustment in standard deduction to reduce marriage penalty	Extend	Extend
Adjustment in EITC to reduce marriage penalty	Extend	Extend
Child credit doubled, made partially refundable	Extend	Extend
Dependent care credit expanded	Extend	Extend
Reduction in rates for investment income in the lower brackets	Extend	Extend
Gradual repeal of limits on exemptions and itemized deductions for the wealthy	Extend	Reverse
Reduction in rates for ordinary income in top two brackets	Extend	Reverse
Reduction in rates for capital gains in top two brackets	Extend	Reverse
Reduction in rates for dividends in top two brackets	Extend	Partially Extend/Reverse

McCain's Extension of the Bush Personal Income Tax Cuts for All

While Senator Obama would extend the Bush tax cuts for over 97 percent of Americans, Senator McCain would extend the Bush tax cuts for 100 percent of Americans. The difference (the richest 2.6 percent of taxpayers who do not get to keep all of their income tax cuts under Obama's plan) appears to be the basis of claims made by the McCain campaign that Obama proposes "painful tax increases on working American families." While many of these richest 2.6 percent of taxpayers undoubtedly work hard, they will have an average income of \$854,000 in 2012. The fact that McCain prioritizes making the Bush income tax cuts permanent for this group marks a stark difference between his tax plan and Obama's.

Are the Candidates' Positions on the Bush Income Tax Cuts Similar? Yes and No

Obama and McCain's positions on the Bush cuts in personal income taxes sound very similar since they only differ over how to treat 2.6 percent of taxpayers. But the difference in their proposals does impact their overall cost. Because such an enormous share of the Bush income tax cuts go to those at the very top of the income ladder, Obama's proposal to extend them for all but the richest 2.6 percent of taxpayers costs about a third less than McCain's proposal to extend the Bush income tax cuts for all taxpayers.

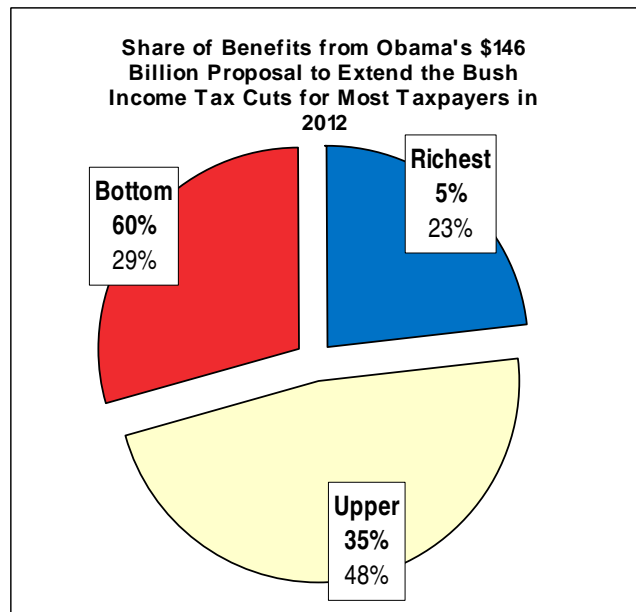
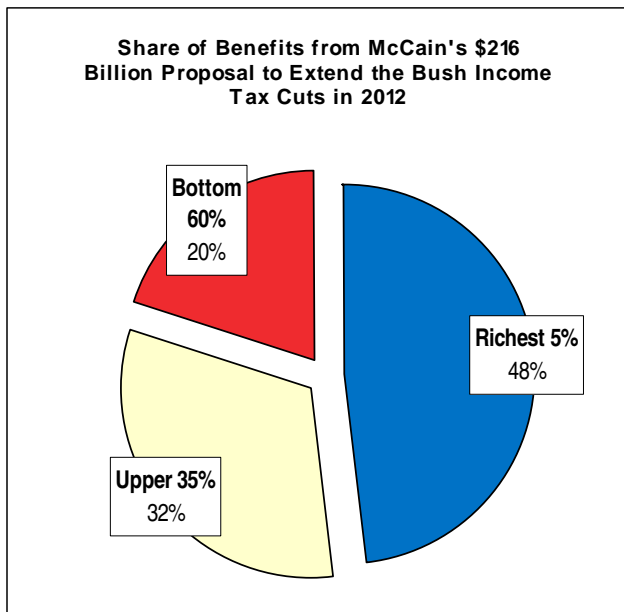
Obama's Tax Cuts for "Ordinary" Income

Specifically, Obama proposes to keep in place the rate reductions for "ordinary" income (income that does not take the form of capital gains or dividends) for all but the top two tax brackets. The top two rates, which were reduced to 33 percent and 35 percent under Bush, would return to 36 percent and 39.6 percent for those with AGI above the \$250,000/\$200,000 threshold. (Obama also proposes to adjust these top two brackets to ensure that only those with AGI over the \$250,000/\$200,000 threshold are subject to these rates.)^{4 5}

Obama's Tax Cuts for Investment Income

Currently, some investment income is taxed at lower rates than ordinary income. Before Bush took office, capital gains were taxed at a special top rate of 20 percent while dividends were taxed just like any other income. Bush temporarily lowered the top rate for capital gains to 15 percent and also created a top rate of 15 percent for dividends.

Obama would make permanent the special low rate of 15 percent for capital gains and dividends for those below the \$250,000/\$200,000 threshold, but would raise the top rate to 20 percent for those above that threshold. Under current law in 2012 the top rate for capital gains will be 20 percent anyway (since the reductions enacted under Bush will have expired) so the law would be unchanged for wealthy people with a lot of capital gains income.



⁴Barack Obama, "Barack Obama's Comprehensive Tax Plan."

http://www.barackobama.com/pdf/taxes/Factsheet_Tax_Plan_FINAL.pdf

⁵Even extremely high-income taxpayers will benefit somewhat from the reductions in rates in the lower tax brackets. This is because all of the progressive income tax rates apply to taxable income. For example, taxable income up to a specific amount is taxed at the lowest rate, then the remaining taxable income up to a specific amount is taxed at the second to lowest rate, and so on. A taxpayer who is far above the \$250k/\$200k threshold and who has only ordinary income (meaning no capital gains or dividends) could save over \$8,000 in this way under Obama's plan.

But for wealthy people with a lot of dividends, which under current law will be once again taxed as ordinary income in 2012, Obama's proposed top rate of 20 percent is a significant tax cut. In other words, even those taxpayers with AGI above the \$250,000/\$200,000 threshold will enjoy a significant dividends tax cut under Obama's plan.

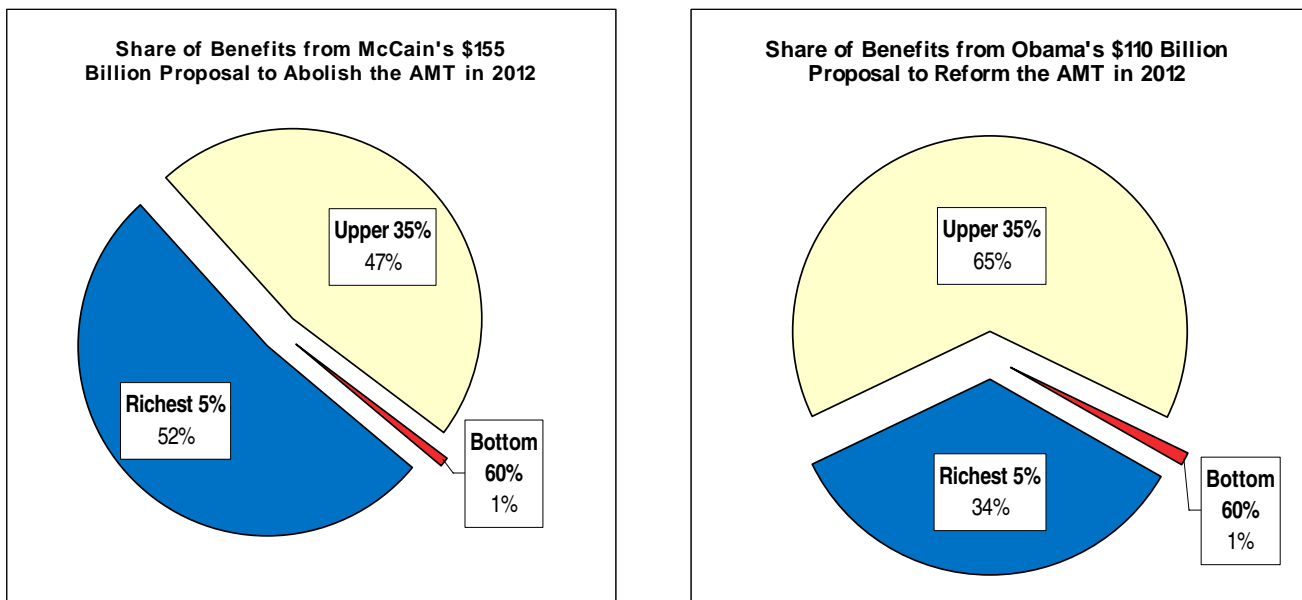
So while McCain would fully extend President Bush's loopholes for capital gains and dividends, Obama would partially extend them. Lawmakers should instead consider closing these loopholes altogether. They raise serious questions about fairness, since they allow people who live off their wealth to pay income taxes at lower rates than people who have to work for a living and who have lower incomes.⁶

Alternative Minimum Tax: Reform or Repeal?

The Alternative Minimum Tax (AMT) is a backstop tax designed to ensure that well-off people pay some minimum tax no matter how proficient they are at finding loopholes to reduce their tax liability. Tax liability is calculated under the regular rules and the AMT rules, and you only have to pay the AMT if your AMT liability exceeds your regular income tax liability.

For most middle-class taxpayers, this is not an issue. But the Bush administration chose to lower the regular income tax without making any permanent change to the AMT, so of course that meant more people would have to pay the AMT unless additional changes were made. Another problem, albeit a less important one, is that inflation is eating away at the value of the exemptions that keep most of us from paying the AMT. The Clinton administration increased these exemptions, but no permanent increase has been made during the Bush years.

Congress recently enacted a temporary adjustment in the AMT that will increase these exemptions so that most of us will continue to be unaffected by the AMT when we pay our 2008 taxes next April.



⁶Citizens for Tax Justice. "Time to Stop Subsidizing Wall Street: Eliminate the Tax Loopholes for Capital Gains and Dividends," October 1, 2008. <http://www.ctj.org/pdf/endcgdivloopholes.pdf>

Senator Obama says he supports “fiscally responsible” reform of the AMT. It is generally assumed that Obama means he would make permanent the type of AMT relief that Congress recently enacted. We assume that, under Obama’s plan, the exemptions and other parameters for the AMT in the recently enacted AMT relief provisions would be made permanent and indexed for inflation for years after 2008.

Senator McCain’s staff has said that he would “reform” the AMT, but the candidate himself has indicated at various times that he would repeal it altogether. Extending AMT relief would ensure that the non-rich don’t have to worry about the AMT, but repealing it altogether would extend the same favor to even the richest Americans, who would then be more able to use loopholes to reduce or wipe out their tax liability. We take Senator McCain’s statements that he wants to repeal the AMT at face value.

McCain’s proposal to eliminate the AMT would cost \$155 billion in 2012 alone and 52 percent of the benefits would go to the richest five percent of taxpayers, as shown in the chart above. Obama’s plan to extend AMT relief would still be expensive but would cost less, at \$110 billion in 2012 alone, and 34 percent of the benefits would go to the richest five percent.

Both Candidates Propose More Tax Cuts On Top of Extending the Bush Tax Cuts: Obama’s Making Work Pay Credit vs. McCain’s Alternative Simplified Tax

Both candidates also propose additional cuts in the personal income tax. For Obama, the most significant is his proposed refundable Making Work Pay Credit (MWPC). For McCain, the most significant is what is often called an alternative simplified tax (AST).

Obama’s Biggest Additional Cut in the Personal Income Tax: The Making Work Pay Credit

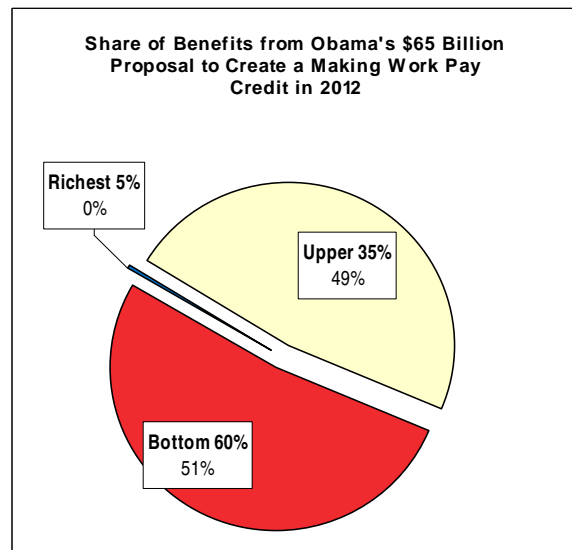
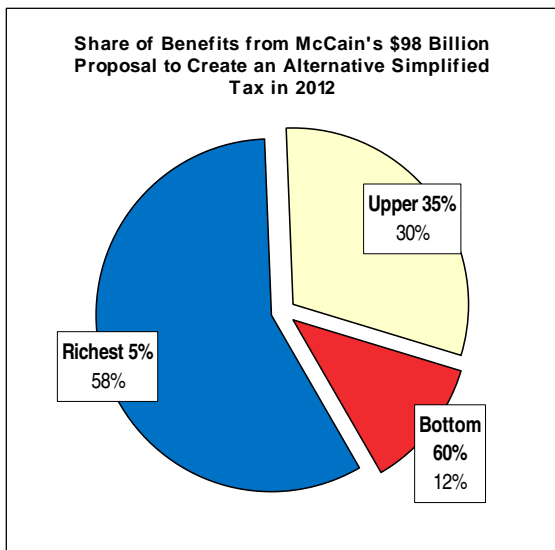
Obama’s proposed MWPC would refund \$500 in payroll taxes (or \$1,000 for a couple if both spouses work). This is the equivalent of each working spouse getting a break from Social Security taxes on up to \$8,100 of earnings. Because the campaign says this credit will not be available to the rich, it is assumed that it would be phased out at higher income levels.

The MWPC would cost about \$65 billion in 2012 alone. Almost none of the benefits would go to the richest five percent of taxpayers and over half of the benefits would go to the poorest 60 percent, as shown in the chart below.

McCain’s Biggest Additional Cut in the Personal Income Tax: The Alternative Simplified Tax

Senator McCain has proposed enacting an alternative “simplified” tax (which we will call the AST) that taxpayers could file under at their option. There have been several proposals for simpler tax systems that are optional, but one immediately wonders how this can really simplify tax filing. Clearly, anyone who can choose between two different taxes is going to calculate their liability under both (or, for the wealthy, have their accountants calculate their liability under both) and then choose whichever one results in lower tax liability. It cannot be simpler to have everyone do their taxes twice.

Even stranger is that the McCain campaign, while claiming to have no details settled on this



proposal, says that the AST would be revenue-neutral. Proponents of this concept sometimes argue that people will be willing to pay a little more in return for using the simpler tax, but this is preposterous because filers already can have a simpler tax by simply forgoing the various deductions and credits that are offered to them. It's highly unlikely that many people opt to do this.

Anyone who can choose between two different taxes is going to calculate their liability under both and then choose whichever one results in lower tax liability. It cannot be simpler to have everyone do their taxes twice.

While the McCain campaign has not specified the parameters of the AST, it is clearly inspired by similar proposals that have been put forward by former Senator Fred Thompson and Republicans in the House of Representatives. We assume that McCain's proposed AST would be very similar to those proposals, and also that Americans would behave rationally and opt to file under the AST only when it saves them money.

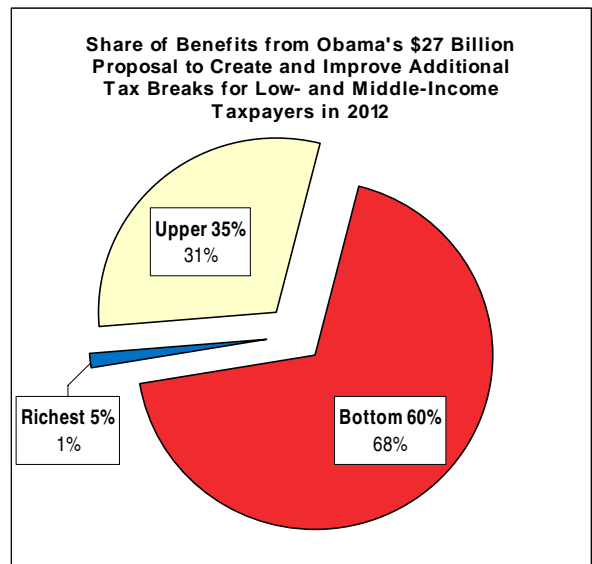
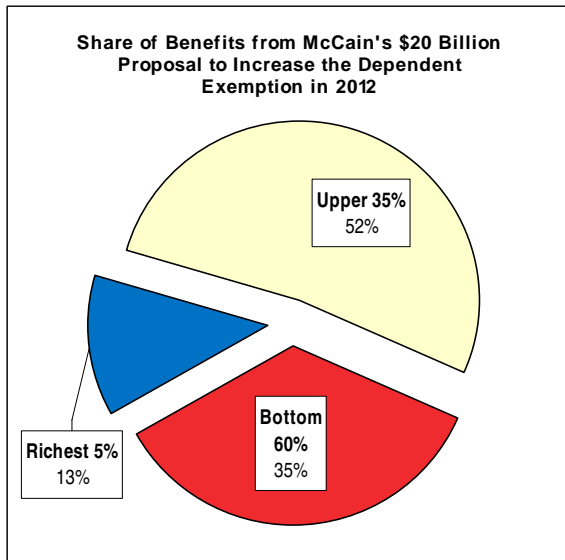
McCain's proposed AST would cost \$98 billion in 2012 alone. As illustrated in the chart above, about 58 percent of the benefits would go to the richest five percent and only about 12 percent of the benefits would go to the poorest 60 percent of taxpayers.

Other Additional Cuts in the Personal Income Tax

Both candidates propose other, smaller cuts in the personal income tax. Senator McCain proposes an increase in the exemption for dependents, which would not benefit those families who pay federal payroll taxes but whose income is too low to trigger income tax liability.

Under current law, personal exemptions for taxpayers and their dependents will be \$3,500 in 2009. McCain's proposal would increase the exemption (for dependents only) by \$500 each year until it reaches \$7,000 in 2016. For families below a certain income level (\$50,000 for married couples with dependents) the increase in the exemption would take place immediately.⁷

⁷Douglas Holtz-Eakin, "The McCain Budget Plan," Washington Post, July 14, 2008.
<http://www.washingtonpost.com/wp-dyn/content/article/2008/07/13/AR2008071301643.html>



In 2012, when this provision of McCain's tax plan would be only partially phased in, it would cost about \$20 billion. About 13 percent of the benefits would go to the richest five percent of taxpayers while about 35 percent would go to those among the poorest 60 percent.

Senator Obama's plan has a variety of new tax breaks targeting middle- and low-income families, including

- a refundable American Opportunity Credit that would provide up to \$4,000 for post-secondary education;
- an exemption from income taxes for seniors with AGI below \$50,000;
- a refundable Universal Mortgage Credit that would offer a tax break for homeowners who don't benefit from the current mortgage interest deduction;
- a strengthened Earned Income Tax Credit;
- an expanded and refundable dependent care tax credit;
- a new requirement for employers to offer automatic 401(k) or IRAs and an expanded and fully refundable saver's credit.

The cost of these provisions under Obama's plan would be \$27 billion in 2012 alone.⁸ (This estimate does not include the cost of the automatic retirement savings enrollment and expanded saver's credit due to data limitations.) Only about 1 percent of the benefits would go to the richest five percent of taxpayers, while 68 percent of the benefits would go to the poorest 60 percent of taxpayers.

⁸The total cost of enacting these proposed tax breaks for low- and middle-income taxpayers could vary greatly depending on behavioral responses and many other factors. For example, the number of people obtaining post-secondary education could increase in response to Obama's proposed education credit, and several of the refundable credits could result in more poor families becoming income tax filers. We do not assume any behavior responses in our analysis.

IV. Corporate Taxes: McCain Proposes a Massive Rate Cut for Corporations, Both Candidates Propose to Close Loopholes

McCain's Proposed Cut in the Corporate Income Tax

The two candidates have very different positions on taxes that affect corporations and other businesses. Unlike Senator Obama, Senator McCain proposes to reduce the statutory tax rate on corporate income from 35 percent to 25 percent. At a time when the federal government is already running huge deficits and the corporate tax code is riddled with loopholes, reducing the corporate tax rate is a terrible idea.

Corporations currently pay federal income taxes at a statutory rate of 35 percent. But the *effective* rate paid by corporations (the percentage of income paid in taxes after taking into account the deductions and credits and other breaks that lower their tax liability) is far lower than 35 percent.

A 2004 study from Citizens for Tax Justice examined corporate tax liability in the 2001-2003 period, focusing on 275 of the largest corporations and including only those that were profitable in each of the three years.⁹ The report found that the average effective tax rate for these corporations was less than half the statutory rate of 35 percent. Nearly a third of the corporations paid no taxes in at least one of the three years.

Many corporate lobbyists and spokespersons claim that the United States has one of the highest corporate tax rates in the world, but this is really misleading because it is based on the statutory rate and not on the effective rate (the rate actually paid). Comparing corporate taxes as a share of gross domestic product (as a share of the overall economy), the United States actually ranks relatively low compared to other developed nations.¹⁰

Because it is difficult to determine what tax loopholes corporations are currently using, only a rough estimate can be made of the cost of any proposal to reduce the statutory rate. We estimate that the corporate rate cut proposed by McCain would cost around \$100 billion in 2012.

We make the standard assumption that changes in corporate taxes (increases or decreases) are born by owners of corporate stock, which is concentrated among the wealthy.

Other Tax Cuts for Business

Senator Obama does not propose to cut the corporate tax rate, but both candidates do propose other cuts for corporations and businesses.

Senator McCain proposes to enact first-year deduction or “expensing” of equipment, which,

⁹Robert S. McIntyre and T.D. Co Nguyen, “Corporate Income Taxes During the Bush Years,” Citizens for Tax Justice, September 2004. <http://www.ctj.org/corpfed04an.pdf>

¹⁰Citizens for Tax Justice, “United States Remains One of the Least Taxed Industrial Countries,” April 27, 2007.

along with a lower corporate tax rate, will create new opportunities for tax sheltering by the wealthy.¹¹ Senator Obama would eliminate capital gains for investment in start-up companies.¹² Both candidates also propose a permanent research and development tax credit, although they differ on how the credit should be structured.

Loophole-Closing for Corporations and Other Businesses

Both campaigns have claimed that their candidates can raise a certain amount of revenue by closing tax loopholes. McCain's campaign says he could raise about \$30 billion a year by closing corporate tax loopholes, but has not given specifics other than to say that certain breaks for energy companies would be repealed, as well as the section 199 deduction for domestic production.¹³

The Obama campaign says that Senator Obama can raise \$76 billion in 2009 alone by taking certain steps to close loopholes and crack down on tax evasion. These steps include repealing special breaks for energy companies and imposing a windfall profits tax on them, sanctioning countries that are tax havens (that do not cooperate with U.S. tax enforcement efforts), shutting down certain schemes used in the financial sector to take advantage of the capital gains rate for income that is not really capital gains, and several others.

It would be very difficult or impossible to estimate how much revenue could really be raised by the measures put forth by the campaigns. We assume that the estimates given by the campaigns are accurate but note that if enacted, the revenue actually raised by these measures could be much more or less.

V. Obama Proposes to Cut the Estate Tax, McCain Proposes to Cut It Even More

Unfortunately, both Senator Obama and Senator McCain propose to cut the estate tax.

The 2001 tax cut law enacted by President Bush and his allies in Congress gradually reduces the estate tax by increasing the estate tax exemptions and lowering the estate tax rate until it is entirely repealed in 2010. However, like almost all of the Bush tax cuts, this provision expires at the end of 2010, meaning the estate tax returns in 2011.

Earlier this year, Citizens for Tax Justice released a report that concluded, based on the most

¹¹Reuven S. Avi-Yonah, "Senator McCain's Corporate Tax Proposal: A Critical Examination," Center for American Progress Action Fund, April 2008.

¹²This seems to be one of many policies enacted or proposed in the last few years, like the special low rate for capital gains generally, which are argued to encourage risk-taking by investors. Why risk is something the government should subsidize has never been fully explained and is particularly questionable in light of evidence that much recent investment was *too* risky.

¹³Len Burman et al. "An Updated Analysis of the 2008 Presidential Candidates' Tax Plan," revised August 15, 2008, Tax Policy Center, p. 12.

recent available data from the IRS and the Centers for Disease Control, that less than one percent of deaths in the United States in 2004 and 2005 resulted in any estate tax liability.¹⁴ The data used covered deaths in the years 2004 and 2005, when estates worth up to \$1.5 million (or \$3 million for estates owned by a married couple) were exempt from the estate tax. This year the number will likely be even lower because the exemption has increased to \$2 million (\$4 million for married couples) and in 2009 the exemption will increase to \$3.5 million (\$7 million for married couples).

Senator Obama proposes to freeze in place the reduced exemption and rates that will be in effect in 2009. In addition to making permanent the \$3.5/\$7 million exemption, this would freeze the top estate tax rate at 45 percent. The Congressional Budget Office has said that this would cost around \$29 billion in 2012 alone.¹⁵

McCain would slash the estate tax still further. He would exempt estates worth up to \$5 million (or \$10 million for a married couple) and would decrease the rate to just 15 percent. The Tax Policy Center has estimated that this will cost \$60 billion in fiscal year 2012 alone.¹⁶

The modern estate tax was adopted in the United States during a time when people worried that wealth was becoming too concentrated in the hands of a powerful few and that this was having a negative effect on democracy. Many would say that is exactly what is happening in America today. So it is strange that many lawmakers support reducing, or even eliminating, the estate tax, which only affects those who are wealthy enough to have very large inheritances.¹⁷

What is particularly alarming is that limiting or repealing the estate tax can result in huge amounts of income never being taxed. Much or even most of the value of estates subject to the tax consists of capital gains that have never been taxed.

Anti-tax activists and lawmakers have dubbed the estate tax the “death tax” and have convinced many people that it is destroying family farms.

This could not be further from the truth. The American Farm Bureau Federation, which lobbied for the repeal of the estate tax, famously admitted to the New York Times in 2001 that they

¹⁴Citizens for Tax Justice, “Fewer Than One Percent of Estates Are Taxed: State-by-State Data on the Estate Tax.” March 6, 2008. <http://www.ctj.org/pdf/estatetax20080306.pdf>

¹⁵Congressional Budget Office, “Budget Options,” February, 2007, p. 313. <http://www.cbo.gov/doc.cfm?index=7821>

¹⁶ Tax Policy Center, “Table T08-0167: Senator John McCain's Tax Proposals as Described by his Economic Advisors, Impact on Tax Revenue, 2009-18,” July 23, 2008. <http://www.taxpolicycenter.org/numbers/displayatab.cfm?DocID=1875>

¹⁷It is particularly strange that conservative lawmakers who usually argue that taxes discourage work and investment (even though there is little evidence that they do) are not more supportive of the estate tax. While some worry that taxing wages or profits discourages work and investment, surely a tax on huge transfers of wealth from rich adults to their children would be less likely to have this effect and might even encourage the heirs of such wealth to work more.

could not cite a single example of a farm that had to be sold due to the estate tax.¹⁸

To the contrary, family farms and other closely held businesses get additional breaks from the estate tax (in addition to the exemptions all estates get) including a provision that allows the tax to be paid off over a period of 14 years. The estate tax is largely confined to serving its actual purpose — reducing extreme concentration of wealth in the hands of a few super-wealthy families, and asking these families to contribute to the society that made their wealth possible.

VI. Conclusion

When the United States is fighting two wars, navigating a financial meltdown and running record-breaking budget deficits, it seems unlikely that tax cuts are what Americans need right now. Unfortunately, both presidential candidates have proposed large new tax cuts.

But the tax plans of the two candidates are not the same. Senator McCain's tax proposal would give the taxpayers in the richest one percent an average tax cut forty-three times the size of the average tax cut this group would receive if Obama's plan was enacted. Several of the provisions in Obama's tax plan would mainly benefit the poorest 60 percent of taxpayers, which cannot be said for McCain's plan.

Senator McCain's tax plan would also cost considerably more. The cuts he proposes in the personal income tax alone would cost \$489 billion in 2012, while the personal income tax cuts Obama proposes would cost \$348 billion that year.

The best that can be said for either of these tax plans is that they might not be fully implemented. When faced with the rapidly changing economic storms around us and the increasing budget deficits that are likely to result, the next president — whoever he is — could decide to significantly cut back on the portions on his proposals that are more targeted to the wealthy.

¹⁸David Cay Johnston, "Talk of Lost Farms Reflects Muddle of Estate Tax Debate," New York Times, April 8, 2001.

Appendix: Average Tax Change from Components of Tax Plans

John McCain's Tax Plan: Average Tax Change from Components of Plan							
income group	Bush Tax Cuts (income tax and estate) (fully extend income tax cuts, partially extend estate tax repeal)	Alternative Minimum Tax (repeal)	Largest Additional Income Tax Cut (alternative simplified tax)	Other Income Tax Cuts (increase dependent exemption)	Corporate Tax Cuts (corporate rate cut, expensing, R&D credit)	Loophole-Closers/Reduce Tax Avoidance (revenue estimate from campaign)	TOTAL
Lowest 20%	-124	-0	-71	-5	-47	11	-236
Second 20%	-526	-2	-130	-73	-126	30	-826
Middle 20%	-825	-44	-196	-156	-243	59	-1,405
Fourth 20%	-1,240	-543	-400	-163	-464	112	-2,698
Next 15%	-1,504	-2,596	-815	-251	-1,084	262	-5,989
Next 4%	-3,699	-9,776	-1,360	-333	-5,033	1,215	-18,988
Top 1%	-98,616	-16,588	-33,186	-392	-71,242	17,193	-202,830
ALL	-1,877	-1,050	-659	-133	-1,267	306	-4,679

Barack Obama's Tax Plan: Average Tax Change from Components of Plan							
income group	Bush Tax Cuts (income tax and estate) (partially extend income tax cuts, partially extend estate tax cut)	Alternative Minimum Tax (reform)	Largest Additional Income Tax Cut (Making Work Pay credit)	Other Income Tax Cuts (mortgage, EITC, childcare provisions, seniors exemption)	Corporate Tax Cuts (R&D credit)	Loophole-Closers/Reduce Tax Avoidance (revenue estimate from campaign)	TOTAL
Lowest 20%	-124	-0	-293	-121	-3	22	-518
Second 20%	-526	-2	-382	-181	-9	60	-1,040
Middle 20%	-825	-44	-478	-325	-18	115	-1,575
Fourth 20%	-1,240	-534	-603	-184	-34	220	-2,375
Next 15%	-1,504	-2,515	-608	-129	-78	514	-4,320
Next 4%	-2,885	-6,316	-41	-51	-364	2,386	-7,272
Top 1%	-32,492	-685	-4	-52	-5,156	33,769	-4,620
ALL	-1,192	-742	-438	-181	-92	600	-2,046