



BARACK OBAMA'S COMPREHENSIVE TAX PLAN

Barack Obama's tax plan delivers broad-based tax relief to middle class families and cuts taxes for small businesses and companies that create jobs in America, while restoring fairness to our tax code and returning to fiscal responsibility. Coupled with Obama's commitment to invest in key areas like health, clean energy, innovation and education, his tax plan will help restore bottom-up economic growth that helps create good jobs in America and empowers all families achieve the American dream. The Obama plan will:

- *Cut taxes for 95 percent of workers and their families with a tax cut of \$500 for workers or \$1,000 for working couples.*
- *Provide generous tax cuts for low- and middle-income seniors, homeowners, the uninsured, and families sending a child to college or looking to save and accumulate wealth.*
- *Eliminate capital gains taxes for small businesses, cut corporate taxes for firms that invest and create jobs in the United States, and provide tax credits to reduce the cost of healthcare and to reward investments in innovation.*
- *Dramatically simplify taxes by consolidating existing tax credits, eliminating the need for millions of senior citizens to file tax forms, and enabling as many as 40 million middle-class Americans to do their own taxes in less than five minutes without an accountant.*

Under the Obama Plan:

- **Middle class families will see their taxes cut – and no family making less than \$250,000 will see their taxes increase.** The typical middle class family will receive well over \$1,000 in tax relief under the Obama plan, and will pay tax rates that are 20% lower than they faced under President Reagan.ⁱ According to the Tax Policy Center, the Obama plan provides three times as much tax relief for middle class families as the McCain plan.ⁱⁱ Indeed, according to the National Review, McCain's plan [“offers very little in the way of direct benefits to Americans in the middle of the income scale.”](#)
- **Families making more than \$250,000 will pay either the same or lower tax rates than they paid in the 1990s.** Obama will ask the wealthiest 2% of families to give back a portion of the taxes they have received over the past eight years to ensure we are restoring fairness and returning to fiscal responsibility. But no family will pay higher tax rates than they would have paid in the 1990s. In fact, dividend rates would be 39 percent lower than what President Bush proposed in his 2001 tax cut.
- **Obama's plan will cut taxes overall, reducing revenues to below the levels that prevailed under Ronald Reagan** (less than 18.2 percent of GDP).ⁱⁱⁱ The Obama tax plan is a net tax cut – his tax relief for middle class families is larger than the revenue raised by his tax changes for families over \$250,000. Coupled with his commitment to cut unnecessary spending, Obama will pay for this tax relief while bringing down the budget deficit.

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I. TAX RELIEF FOR MIDDLE CLASS FAMILIES:

At the core of Senator Obama's tax plan is broad middle class tax relief. After the first economic recovery on record where ordinary Americans saw their incomes *decline* by nearly \$1000, Obama believes it is critical to focus tax relief on middle class families. Obama's middle class tax cuts are designed to help relieve the burdens on families today, while empowering them to get ahead in the future. Barack Obama's middle class tax cuts include:

- **A \$1,000 "Making Work Pay" Tax Credit.** For 95 percent of workers and their families—150 million workers overall—the "Making Work Pay" credit will provide a refundable tax cut of \$500 for workers or \$1,000 for working couples. This credit will benefit over 15 million self employed workers and for 10 million low-income Americans, will completely eliminate their federal income taxes.
- **A Refundable \$4,000 American Opportunity Tax Credit.** Barack Obama will provide a \$4,000 fully-refundable tax credit to ensure that college is affordable for all American families. This credit will cover 100% of the first \$4,000 of qualified tuition expenses, making community college essentially free and covering about 2/3 of the cost of public 4-year college.^{iv}
- **A Universal 10% Mortgage Interest Tax Credit.** Barack Obama will provide a 10% refundable credit to offset mortgage interest payments and make homeownership more affordable for lower- and middle-income families. This universal credit will provide an average tax cut of \$500 to 10 million homeowners who do not currently itemize.
- **Eliminating Income Taxes for Seniors Making Less than \$50,000.** Barack Obama will eliminate all income taxation of seniors making less than \$50,000 per year. This will eliminate taxes for 7 million seniors – saving them an average of \$1,400 a year-- and will also mean that 27 million seniors will not need to file an income tax return at all.
- **Expanding Retirement Savings Incentives.** To increase retirement security, Barack Obama will ensure that every American worker has the option of saving in an easy, automatic pension account and will expand the existing Savers Credit to match 50 percent of the first \$1,000 of savings for families that earn under \$75,000. He will also make the Savers Credit fully refundable.
- **Health Care Tax Credits.** Obama's health plan centers around tax credits that, together with his other proposals to expand pooling options and ease enrollment, will ensure that health insurance is available and affordable for all families.
- **Expand the Earned Income Tax Credit:** Obama will increase the number of working parents eligible for EITC benefits, increase the benefits available to noncustodial parents who fulfill their child support obligations, increase benefits for families with three or more children, and reduce the EITC marriage penalty, which hurts low-income families.
- **Increase Tax Benefits for Child Care:** Obama recognizes that ensuring affordable child care is critical to helping working parents get ahead. His plan will reform the Child and Dependent Care Tax Credit by making it refundable and allowing low-income families to receive up to a 50 percent credit on the first \$6,000 of child care expenses. This will benefit 7.5 million working mothers.

Expanded Tax Credits for Clean Vehicles: Obama will help families purchase more energy efficient appliances and products by extending the existing consumer tax credits and offering up to a \$7,000 tax credit for the purchase of advanced technology vehicles.

- **Simplify Tax System So 40 Million Americans Can Do Their Taxes in Less Than Five Minutes.** Obama will reform our tax system to greatly reduce its complexity, consolidating several credits and giving taxpayers the option of pre-filled tax forms to verify, sign and return. Under the Obama tax plan, 40 million Americans who take the standard deduction will be able to do their taxes in less than five minutes and will not have to hire an accountant. This will save Americans more than \$2 billion in tax preparer fees and more than 200 million hours of work.

Obama’s Middle Class Tax In Action:

WHO	TAX CUT
Married Couple Making \$75,000 with two children, one of whom is in college	<u>\$3,700</u> [includes \$1,000 Making Work Pay; \$500 universal mortgage credit; and \$4,000 college credit net of current college credits]
Married Couple making \$90,000	<u>\$1,000</u>
Single Parent making \$40,000 with two young children and childcare expenses.	<u>\$2,100</u> [includes \$500 making work pay; \$500 universal mortgage credit, and \$1,100 from Obama expansion of the child care tax credit]
70-Year Old Widow Making \$35,000	<u>\$1,900</u>

Source: Calculations based on IRS Statistics of Income. Tax savings is conservative; does not account for up to \$500 in savings from expanded Savers Credit and the \$2,500 in savings per family from the Obama healthcare plan.

II. TAX CUTS TO ENHANCE COMPETITIVENESS AND HELP CREATE JOBS

Barack Obama’s tax plan will help small businesses grow and will encourage job creation in America. He will directly cut taxes for small business and for firms that invest and create jobs in the United States, will relieve healthcare costs for all firms and will reward investments in innovation. Barack Obama pro-business tax policies include:

- **Eliminating Capital Gains Taxes for Entrepreneurs and Investors in Small Business.** Barack Obama understands that small businesses are the engines of our economy, and he will eliminate all capital gains taxes on investments in small and start up firms.
- **Cutting Corporate Tax Rates for Firms that Create Jobs in America.** Barack Obama will repeal tax breaks and loopholes that reward corporations that retain their earnings overseas, and will use those savings to lower corporate tax rates for companies that expand or start operations in the United States.

- **Offering a Small Business Healthcare Tax Credit:** To help small businesses compete in the global economy while still providing quality health insurance, Barack Obama will offer a new refundable 50 percent health tax credit on employee premiums paid by employers. His comprehensive healthcare plan will relieve health costs for all firms by bringing down national healthcare costs by \$2,500 per family, annually.
- **Making the R&D Tax Credit Permanent.** Barack Obama will make the Research and Development tax credit permanent so that firms can rely on it when making decisions to invest in domestic R&D over multi-year timeframes.

III. CUTTING TAXES BELOW THE LEVEL UNDER RONALD REAGAN WHILE RESTORING FISCAL RESPONSIBILITY

Barack Obama will keep taxes low for everyone, while working to reform our tax code and make sure that everyone pays their fair share. Obama also believes that after eight years of reckless fiscal policies that squandered historic surpluses and added \$4 trillion to the deficit, it is vital for candidates to put forward specific ideas on how they will pay for their proposals without passing on further deficits, debt, and a weaker economy to our children. That is why he has called for closing inefficient tax loopholes, cracking down on offshore tax havens, and repealing a portion of the tax cuts passed in the last eight years for families making over \$250,000.

In net, even after these tax changes, the Obama plan is a tax cut. His middle class tax cuts are larger than the loophole closers and rollbacks that he has proposed for families making over \$250,000. According to the *Tax Policy Center*, the Obama plan would reduce taxes as a share of the economy to less than 18.2 percent - the level of taxes that prevailed under President Ronald Reagan.^v The Obama plan pays for these tax cuts by cutting spending overall. Obama's spending cuts include responsibly ending the war in Iraq, limiting payments to high-income farmers, cutting subsidies for private plans in Medicare, reforming student loans, cutting earmarks to at least the level they were in 1994, ending no-bid contracting, and phasing out unnecessary and duplicative programs. He will also support pay-as-you-go budget rules and a constitutionally acceptable line-item veto to cut pork-barrel spending. Overall, Barack Obama's budget will reduce the deficit relative its current level and its realistic future trajectory.

The fiscally responsible tax changes that Obama is calling for include:

- **Broaden the corporate tax base and eliminate special preferences:** Our tax code is riddled with special interest loopholes that allow some corporations and wealthy individuals to avoid paying their fair share of taxes. As President, Obama would move aggressively to close inefficient loopholes by taking steps that include:
 - *Reforming international tax loopholes:* including reforming deferral to end the incentive for companies to ship jobs overseas and closing the offshore pension loophole;
 - *Closing domestic tax loopholes:* including clarifying the economic substance doctrine and increasing reporting of capital gains to close the tax gap;
 - *Eliminating special tax breaks for oil and gas companies:* including repealing special expensing rules, foreign tax credit benefits, and manufacturing deductions for oil and gas firms; and
 - *Closing other loopholes:* including taxing carried interest as ordinary income, and closing the CEO pay loophole.
- **Cracking down on international tax havens:** According to a recent Congressional investigation, offshore

tax abuse costs this country up to \$100 billion each year.^{vi} Barack Obama has been a leader in the Senate on designing efforts to crack down on tax havens by requiring greater disclosure of financial transactions in tax secrecy jurisdictions. As President, Obama would work with Congress to enact meaningful legislation to ensure that the Treasury and IRS have the tools they need to close down the use of international tax havens for improper tax avoidance or tax evasion. This will save the United States tens of billions of dollars each year.

- **Repealing a portion of the Bush tax cuts for families over \$250,000 while continuing to leave their tax rates at or below where they were in the 1990s:**
 - **Ordinary Income:** The top two income tax brackets would return to their 1990's levels of 36% and 39.6%. All other tax brackets would remain as they are today. Obama would also restore the 1990's levels for the personal exemption and itemized deduction phaseouts (known as PEP and Pease). Obama would work with the Treasury Department to adjust the thresholds of these rates slightly to ensure that no married couple making less than \$250,000 (or single making less than \$200,000) was affected by these changes.
 - **Capital Gains:** Families with incomes below \$250,000 will continue to pay the capital gains rates that they pay today. For those in the top two income tax brackets – likewise adjusted to affect only families over \$250,000 – Obama will create a new top capital gains rate of 20 percent. Obama's 20% rate is equal to the lowest rate that existed in the 1990s and the rate that President Bush proposed in 2001. It is almost a third lower than the rate that President Reagan signed into law in 1986.^{vii}
 - **Dividends:** The top dividends rate for people making over \$250,000 would be set at 20 percent. Dividends will *not* return to being taxed at ordinary income tax rates. Obama's 20 percent rate on dividends will be 39 percent lower than the rate President Bush proposed in 2001, and would be lower than all but 5 of the last 92 years we have been taxing dividends.^{viii}
 - **Estate Tax:** The estate tax would be effectively repealed for 99.7 percent of estates. For the remaining 0.3% of estates over \$7 million per couple, Obama will retain a rate of 45%. This policy would cut the number of estates covered by the tax by 84 percent relative to 2000.^{ix}
 - **Average Tax Rates Below the 1990s:** Overall, the top 1 percent of households – people with an average income of \$1.6 million per year – would see their average federal income and payroll tax rate increase from 21 percent today to 24 percent, less than the 25 percent these households would have paid under the tax laws of the late 1990s.^x

ⁱ Under Obama's plan, the combined income tax and payroll tax (on both the employer and employee side) will equal 19.6% for the income of a median family of four. This is a rate that is 19 percent lower than the average rates paid under Reagan. Source: Obama Campaign calculations, based on:

<http://www.taxpolicycenter.org/taxfacts/displayafact.cfm?DocID=226&Topic2id=20&Topic3id=22> &
<http://www.taxpolicycenter.org/taxfacts/displayafact.cfm?Docid=227>

ⁱⁱ Tax Policy Center, *An Updated Analysis of the 2008 Presidential Candidates' Tax Plans*, July 23, 2008, available at <http://www.taxpolicycenter.org/publications/url.cfm?ID=411741> (hereinafter TPC Analysis).

ⁱⁱⁱ TPC Analysis, p. 22. Note: TPC finds that the Obama plan generates revenues that are 18.2% of GDP exactly, but their model assumes a 25% capital gains and dividend tax rate, while Obama's plan is for a 20% capital gains and dividend tax rate for those over \$250,000.

^{iv} The average cost of tuition at a 4-year public college in 2007-2008 was \$6,185. College Board, *Trends in College Pricing*, 2007.

^v TPC Analysis, p. 22.

^{vi} Permanent Subcommittee on Investigations, Senate Committee on Homeland Security and Government Affairs, August 2006, available at <http://levin.senate.gov/senate/investigations/index.html>

^{vii} For a historical federal income tax rates on income, capital gains, and dividends, see Citizens for Tax Justice's documentation, available at www.ctj.org/pdf/regcg.pdf.

^{viii} *Id.*

^{ix} *Id.*

^x Congressional Budget Office; Calculations based on IRS data.