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The Obama Tax Plan

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Even as Barack Obama proposes fiscally responsible tax reform to strengthen our economy and restore the balance that has been lost in recent years, we hear the familiar protests and distortions from the guardians of the broken status quo.

Many of these very same critics made many of these same overheated predictions in previous elections. They said President Clinton's 1993 deficit-reduction plan would wreck the economy. Eight years and 23 million new jobs later, the economy proved them wrong. Now they are making the same claims about Sen. Obama's tax plan, which has even lower taxes than prevailed in the 1990s -- including lower taxes on middle-class families, lower taxes for capital gains, and lower taxes for dividends.

Overall, Sen. Obama's middle-class tax cuts are larger than his partial rollbacks for families earning over \$250,000, making the proposal as a whole a net tax cut and reducing revenues to less than 18.2% of GDP -- the level of taxes that prevailed under President Reagan.

Both candidates for president have proposed tax plans. But they are starkly different in their approaches and their economic impact. Sen. Obama is focused on cutting taxes for middle-class families and small businesses, and investing in key areas like health, innovation and education. He would do this while cutting unnecessary spending, paying for his proposals and bringing down the budget deficit.

In contrast, John McCain offers what would essentially be a third Bush term, with his economic speeches outlining \$3.4 trillion of tax cuts over 10 years beyond what President Bush has already proposed and geared even more to high-income earners. The McCain plan would lead to deficits the likes of which we have never seen in this country. It would take money from the middle class and from future generations so that the wealthy can live better today.

Sen. Obama believes a focus on the middle class is appropriate in the wake of the first economic expansion on record where the typical family's income fell by almost \$1,000. The Obama plan would cut taxes for 95% of workers and their families with a tax cut of \$500 for workers or \$1,000 for working couples. In addition, Sen. Obama is proposing 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.

The Obama plan would 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 filers to do their own taxes in less than five minutes and not have to hire an accountant.

Sen. Obama also recognizes that small businesses are the engine of job growth in the economy. That is why he is proposing additional tax cuts, including a tax credit for small businesses that provide health care, and the elimination of capital gains taxes for small businesses and start-ups. The vast majority of small businesses would face lower taxes under the Obama plan than under the McCain plan. In addition, Sen. Obama supports reforming corporate taxes in a

manner that would help create jobs in America and simplify the tax code by eliminating distortions and special preferences.

Sen. Obama believes that responsible candidates must put forward specific ideas of how they would pay for their proposals. That is why he would repeal a portion of the tax cuts passed in the last eight years for families making over \$250,000. But to be clear: He would leave their tax rates at or below where they were in the 1990s.

- The top two income-tax brackets would return to their 1990s levels of 36% and 39.6% (including the exemption and deduction phase-outs). All other brackets would remain as they are today.

- The top capital-gains rate for families making more than \$250,000 would return to 20% -- the lowest rate that existed in the 1990s and the rate President Bush proposed in his 2001 tax cut. A 20% rate is almost a third lower than the rate President Reagan set in 1986.

- The tax rate on dividends would also be 20% for families making more than \$250,000, rather than returning to the ordinary income rate. This rate would be 39% lower than the rate President Bush proposed in his 2001 tax cut and would be lower than all but five of the last 92 years we have been taxing dividends.

- The estate tax would be effectively repealed for 99.7% of estates, and retained at a 45% rate for estates valued at over \$7 million per couple. This would cut the number of estates covered by the tax by 84% relative to 2000.

Overall, in an Obama administration, the top 1% 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% today to 24%, less than the 25% these households would have paid under the tax laws of the late 1990s.

Sen. Obama believes that one of the principal problems facing the economy today is the lack of discretionary income for middle-class wage earners. That's why his plan would not raise any taxes on couples making less than \$250,000 a year, nor on any single person with income under \$200,000 -- not income taxes, capital gains taxes, dividend or payroll taxes.

In contrast, Sen. McCain's tax plan largely leaves the middle class behind. His one and only middle-class tax cut -- a slow phase-in of a bigger dependent exemption -- would provide no benefit whatsoever to 101 million families who do not have children or other dependents, or who have a low income.

But Sen. McCain's plan does include one new proposal that would result in higher taxes on the middle class. As even Sen. McCain's advisers have acknowledged, his health-care plan would impose a \$3.6 trillion tax increase over 10 years on workers. Sen. McCain's plan will count the health care you get from your employer as if it were taxable cash income. Even after accounting for Sen. McCain's proposed health-care tax credits, this plan would eventually leave tens of millions of middle-class families paying higher taxes. In addition, as the Congressional Budget Office has shown, this kind of plan would push people into higher tax brackets and increase the taxes people pay as their compensation rises, raising marginal tax rates by even more than if we let the entire Bush tax-cut plan expire tomorrow.

The McCain plan represents Bush economics on steroids. It has \$3.4 trillion more in tax cuts

than President Bush is proposing, largely directed at corporations and the most affluent. Sen. McCain would implement these cuts without proposing any meaningful steps to simplify taxes or eliminate distortions and loopholes. In addition, Sen. McCain has floated over \$1 trillion in new spending increases but barely any specific spending cuts.

As previously mentioned, the Obama plan is a net tax cut -- his middle-class tax cuts are larger than the rollbacks he has proposed for families making over \$250,000. Sen. Obama would pay for this tax cut by cutting spending -- including responsibly ending the war in Iraq, reducing excessive payments to private plans in Medicare, limiting payments for high-income farmers, reducing subsidies for banks that make student loans, reforming earmarks, ending no-bid contracts, and eliminating other wasteful and unnecessary programs.

While Sen. Obama would shrink the deficit from its current record levels, he recognizes that it is even more important to confront our long-term fiscal challenges, including the growth of health costs in the public and private sector. He also believes it is critical to work with members of Congress from both parties to strengthen Social Security while protecting middle-class families from tax increases or benefit cuts. He has done what few presidential candidates have been willing to do by making a politically risky proposal to strengthen solvency by asking those making over \$250,000 to contribute a bit more to Social Security to keep it sound.

Sen. Obama does not support uncapping the full payroll tax of 12.4% rate. Instead, he is considering plans that would ask those making over \$250,000 to pay in the range of 2% to 4% more in total (combined employer and employee). This change to Social Security would start a decade or more from now and is similar to the rate increases floated by Sen. McCain's close adviser Lindsey Graham, and that Sen. McCain has previously said he "could" support.

In contrast, Sen. McCain has put forward the most fiscally reckless presidential platform in modern memory. The likely results of his Bush-plus policies are clear. As Berkeley economist Brad DeLong has estimated, the McCain plan, as compared to the Obama plan, would lower annual incomes by \$300 billion or more in real terms by 2017, costing the typical worker \$1,800 or more due to the effect of large deficits on national savings and thus capital formation. Sen. McCain's neglect of critical public investments would further impede economic growth for decades to come.

Do not take the critics' word for it. Go look at the plans for yourself at www.barackobama.com/taxes. Get the facts and you will see the real priorities at stake in this election. America cannot afford another eight years like these.

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