President-Elect Obama's Tax and Stimulus Plans

Roberton Williams

January 2009

Tax Policy Center and Urban Institute. This paper is a revised version of a paper prepared for "Memo to the President: Tax Reform's Challenges and Opportunities," a December 5, 2008 conference sponsored by the Tax Policy Center, Tax Analysts, and the Brookings Institution. The paper draws heavily on previous Tax Policy Center analysis, especially "An Updated Analysis of the 2008 Presidential Candidates' Tax Plans: Revised August 15, 2008." I am grateful for helpful advice and comments from Len Burman, Nada Eissa, Jeff Rohaly, Kim Rueben, and Eric Toder. The analysis is based on the Obama campaign aides' descriptions of the plan, President-elect Obama's statements and campaign web site, and TPC's assumptions about essential but unspecified plan details. Views expressed are those of the author and should not be attributed to the Urban Institute, its trustees, or its funders.

In September 2007, with unemployment at 4½ percent and the Congressional Budget Office (CBO) projecting a cumulative budget surplus of nearly $300 billion over the next decade, presidential candidate Barack Obama presented a comprehensive tax plan to raise taxes on high-income taxpayers, provide tax cuts for low- and middle-income households, and lose an estimated $2.9 trillion dollars of revenue over 10 years.

Just 15 months later, now President-elect Obama faces an economy in a deep recession with unemployment at 6.7 percent and climbing, crippled housing and credit markets, and a rapidly deteriorating fiscal situation. In September, before the worst economic news hit, the CBO revised its budget projection to a cumulative 10-year deficit of $2.3 trillion—assuming that the Bush tax cuts expire after 2010 and that Congress stops patching the alternative minimum tax and renewing expiring tax provisions. Reversing all of those assumptions, the CBO projected that the 10-year deficit would balloon to $7.4 trillion. The situation has worsened dramatically since September and CBO's next projection will show even larger future deficits (see box 1).

In the last month of the campaign, Obama offered specific tax-related proposals to address some of the problems created by the downturn but did not revise his basic tax plan in light of changing economic conditions. In fact, immediately after the election, Obama's newly named chief of staff Rahm Emanuel clearly stated that the new administration would push Congress to enact the tax plan shortly after the inauguration. More recently, the president-elect and his advisors have stressed the need for immediate and substantial economic stimulus while reiterating his plan to enact his tax changes immediately.

The tax plan offered during the campaign calls for extending the Bush tax cuts for all but the highest-income households, raising tax rates for the wealthy in 2009, targeting refundable tax credits for workers, savers, college students, and families, and providing temporary tax breaks to ease problems caused by the recession. In general, the proposed changes would make the tax system more progressive but would further clutter the income tax with credits designed to promote specific social goals. And, unless accompanied by substantial reductions in spending, the tax cuts would substantially worsen the nation's fiscal deficit.

Large budget deficits may make sense when the economy is weak and needs stimulus, but it is important not to lose sight of the long-term budget disaster that will occur if we fail to restore fiscal responsibility once the economy improves. Enacting permanent tax cuts would make it substantially more difficult to bring future budgets into balance. In light of rising health care costs and the impending growth of entitlement spending as baby boomers retire, the most prudent course for the nation is to make any new tax cuts temporary, thereby making it easier to attain fiscal balance when economic conditions allow.

Since the election, the incoming administration has worked to craft a major economic stimulus bill that would combine substantial spending with middle-class tax cuts aimed at providing a much-needed jolt to the economy. Advisors have expressed hopes that the new Congress will enact the bill—dubbed the American Recovery and Reinvestment Plan—before the inauguration. The plan, which could cost $850 billion or more over two years, would include funds for infrastructure projects ranging from rebuilding roads, bridges, and public transportation to constructing schools, pursuing renewable energy initiatives, and modernizing health care systems. It would also provide funds to cash-strapped state governments to help forestall cuts in state programs and to support Medicaid. And the plan would offer immediate tax cuts that would raise take-home pay for millions of workers.

Box 1. The Deteriorating Fiscal Situation

The nation's fiscal situation went downhill rapidly during 2008 because of both the worsening economy and general agreement that most, if not all, of the Bush tax cuts should be made permanent (and thus incorporated in the fiscal baseline). In January, the Congressional Budget Office (CBO) projected a 10-year surplus of nearly $300 billion (figure 1), assuming the tax cuts expire in 2011 as scheduled and Congress stops patching the alternative minimum tax (AMT). By September, falling tax revenues and increased spending had turned that surplus into a $2.3 trillion 10-year deficit (figure 2). If instead, the Bush tax cuts, the AMT patch, and various tax extenders were all made permanent, the deficit would more than triple to $7.4 trillion (figure 3). Finally, recent and proposed steps to address the economic crisis will boost deficits by substantial but unknown amounts this year and next. The Troubled Assets Relief Program (TARP) could add $700 billion (although the Treasury will eventually recoup some of that money). President-elect Obama has called for further economic stimulus—aid to states and localities, investment in infrastructure and green technology, and increased benefits—that could add another $850 billion or more. Deficits for this year and next will undoubtedly hit record levels (figure 4).

Figure 1. Projected Budget Deficit, 2008-2018
CBO - Current Law - January 2008

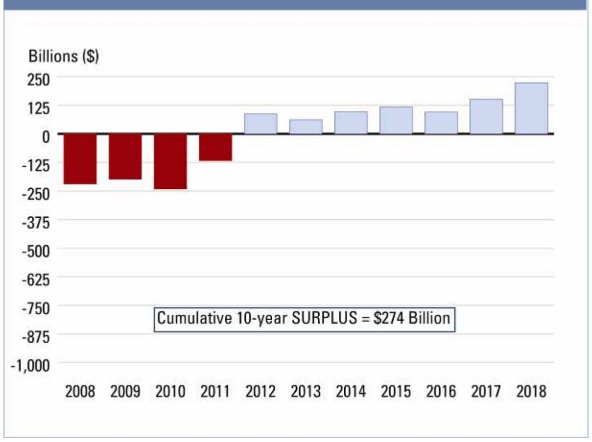


Figure 2. Projected Budget Deficit, 2008-2018
CBO - Current Law - September 2008

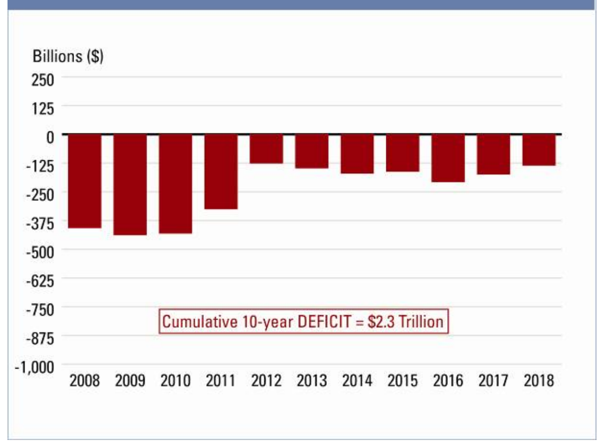


Figure 3. Projected Budget Deficit, 2008-2018
CBO - Current Policy - September 2008

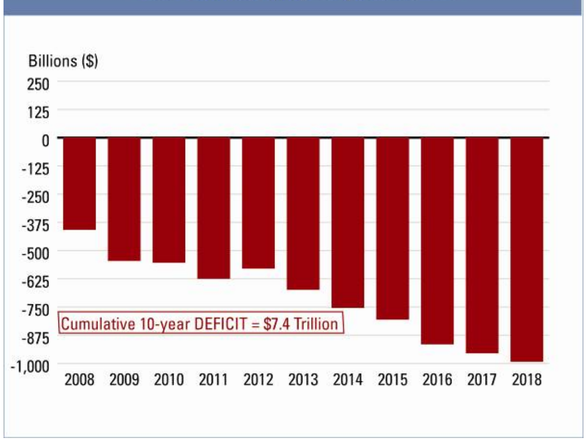
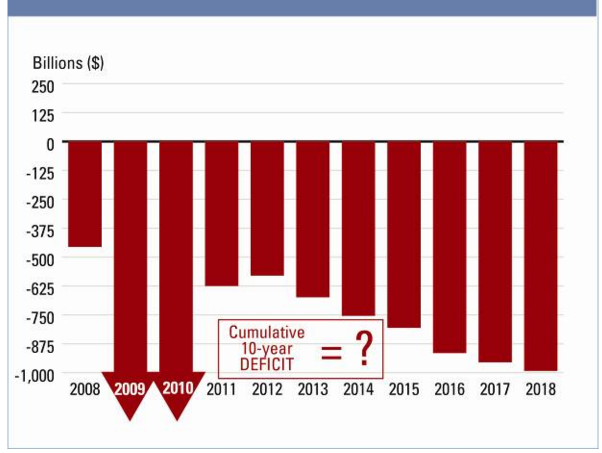


Figure 4. Projected Budget Deficit, 2008-2018
CBO - Current Policy - December 2008



Although we do not yet know the timing and precise details of the plan, it is important to understand the revenue and distributional effects of the proposals that have already been made. It is also important to understand the role they might play—if any—in promoting economic recovery or easing the adversities caused by the downturn.

I. Obama's Campaign Tax Plan

The tax plan proposed by President-elect Obama during his campaign addressed the impending expiration of the Bush tax cuts, permanently patching the alternative minimum tax (AMT), stabilizing the estate tax, creating specific tax credits, increasing some tax rates on dividends and capital gains, and modifying the corporate income tax. Obama has also suggested an increase in payroll taxes that finance Social Security benefits, but offered few details.

Federal taxes have become much less progressive since 2000. The president-elect's proposal would reverse that trend, but would do so at the cost of higher marginal tax rates for high-income taxpayers and additional complexity. Many provisions in the plan rely on phaseouts to limit their benefits and constrain revenue costs. Phaseouts reduce tax benefits over a range of income and thus increase the effective marginal tax rate on taxpayers in that range. To the extent that higher tax rates affect behavior—inducing people to work fewer hours or save and invest less—the phaseouts adversely affect economic activity and growth. They also add significant complexity to the tax code, making it harder for taxpayers to determine how much they owe and to understand how the tax system works.

Despite its many phaseouts, however, Obama's tax plan would actually reduce marginal tax rates for most taxpayers (see box 2). Only in the highest income ranges, for which Obama would immediately raise tax rates to their pre-2001 levels, would most taxpayers experience higher marginal rates.

Measured relative to a current-law baseline, President-elect Obama's tax proposals would reduce federal revenues by $2.9 trillion between 2009 and 2018 (see table 1). Extending the Bush tax cuts, even offset by raising tax rates on high-income taxpayers in 2009, would cut revenues by $950 billion over 10 years. Making the AMT patch permanent would lose nearly $1.2 trillion over the decade. And new and expanded refundable tax credits would cost another $1.25 trillion. A set of proposals that would close various tax loopholes would offset those reductions by raising more than $900 billion over 10 years—if estimates from Obama's economic advisors prove true.[1]

Partially extend the 2001 and 2003 tax cuts. The tax plan would maintain current tax rates for all but the top two tax brackets and make permanent the $1,000 child credit and changes affecting marriage bonuses and penalties. It would raise taxes on high-income taxpayers[2] in 2009 by restoring the 36 and 39.6 percent rates, raising the maximum tax rate on capital gains and dividends from 15 to 20 percent,[3] and restoring the phaseouts of personal exemptions and

[1] See footnote 16 below for further detail on Obama's revenue raisers.
[2] In general, tax increases would apply only to taxpayers with adjusted gross income over $250,000 for married couples and $200,000 for others. For simplicity of exposition, I refer to that group as "high-income taxpayers."
[3] After 2010, this would represent a tax cut on dividends, which would be taxed at ordinary income rates up to 39.6 percent under current law.

Box 2. Effective Marginal Tax Rates and the Obama Tax Plan

A taxpayer's marginal tax rate (MTR) is the percentage of an additional dollar of income that would be paid in federal income tax. Marginal tax rates differ from statutory tax rates because the tax code phases various credits and deductions in and out over specific ranges of income.

An individual's MTR may affect decisions about whether to work more, save more, or avoid income tax. For example, a tax on earnings may discourage work by reducing after-tax wages: the higher the MTR on earnings, the lower the after-tax wage and the greater the negative effect on hours worked. Similarly, the MTR on investment income makes people less likely to save and invest; again, the higher the MTR, the greater the negative effect. And high MTRs may encourage taxpayers to shift their compensation packages away from taxable wages and salaries and into untaxed fringe benefits.

Analysis by Katie Lim and Jeff Rohaly (2008) shows that President-elect Obama's tax plan would lower MTRs for most tax units, although the effect would differ across income groups and over time and would also depend on what is assumed about the Bush tax cuts and the alternative minimum tax (AMT). In 2009, more than 60 percent of tax units face lower MTRs, more than four times the 15 percent whose MTRs would go up (see top graph). The effect would vary by income: MTRs would drop for low-income households—who would benefit from Obama's proposed refundable tax credits—while more high-income households would face higher MTRs because Obama would raise tax rates for the top tax brackets.

More households would have lower MTRs in 2012, assuming the Bush tax cuts expire and the AMT is not patched: MTRs would drop for nearly 75 percent of households (see middle graph) because Obama would maintain current tax rates for all but the richest taxpayers in addition to offering refundable tax credits. In contrast, if the Bush tax cuts are extended and the AMT patched, just half of tax units would see lower MTRs in 2012 and most high-income households would face higher MTRs (see bottom graph).

These findings differ from the assertion of Alex Brill and Alan Viard (2008) that MTRs would increase for tax units at most income levels. Their analysis focused on representative tax units and did not examine the impact of Obama's tax plan on the actual population.

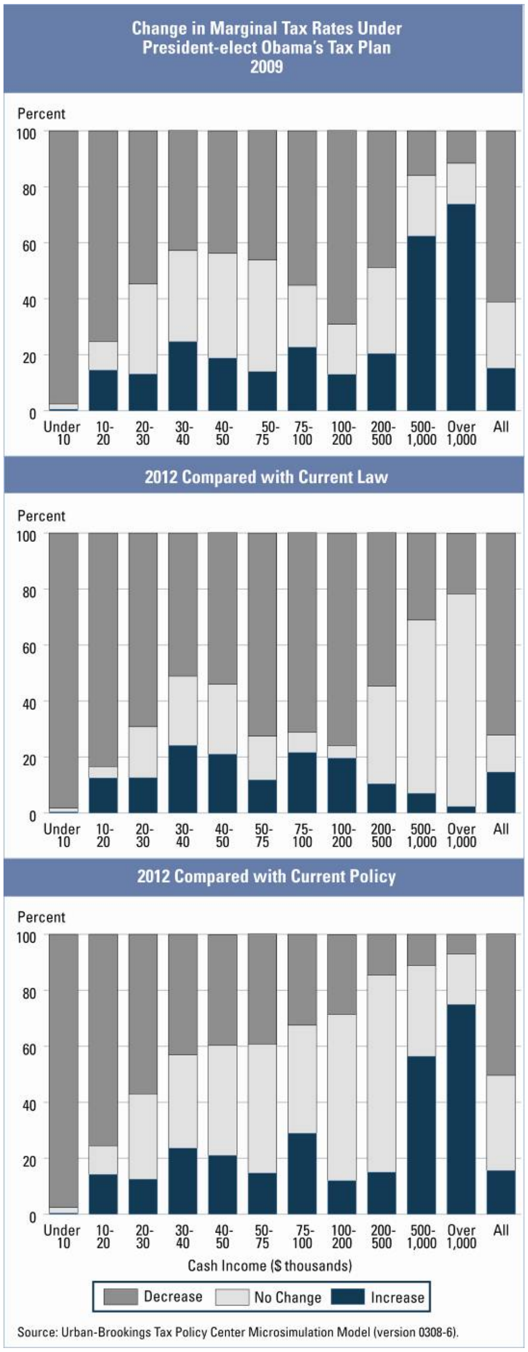


Table 1. Change in Tax Revenue due to Obama Tax Proposals, Measured Relative to Current Law Baseline, 2009-18 (in billions of dollars)		
	2009-13	2009-18
Tax Rates and Other Basic Features		
Make permanent the EGTRRA 10%/15%/25%/28% rates, child credit expansions, and marriage penalty relief; increase Pease and PEP thresholds to $250,000 ($200,000 for unmarried individuals)	-307.5	-853.5
Make permanent the 0%/15% tax rates on capital gains and qualified dividends for taxpayers with AGI under $250,000 ($200,000 unmarried) and impose 20% rate on gains and dividends for taxpayers above those thresholds, effective 01/01/09	-24.0	-166.8
Restore the 36/39.6% rates and PEP and Pease with the increased thresholds in 2009-10	71.7	71.7
New and Expanded Refundable Credits		
Create “Making Work Pay” credit	-323.7	-709.5
Create “Universal Mortgage Credit” for non-itemizers	-54.0	-125.7
Create “American Opportunity Tax Credit” for college education	-58.2	-138.9
Mandate automatic 401(k)s and IRAs, expand saver’s credit	-92.3	-203.5
Expand the earned income tax credit (phased-in)	-19.3	-46.5
Expand the child and dependent care tax credit and make it refundable	-10.6	-22.8
Seniors: Exempt taxpayers over age 65 earning less than $50,000 from income taxation (phase in tax between $50,000 and $60,000)	-35.4	-69.9
Alternative Minimum Tax (AMT): Extend and index the 2007 patch	-379.9	-1167.1
Estate Tax: Freeze 2009 law—45% rate, $3.5M exemption (not indexed)	-76.6	-284.1
Business Credits: Make permanent the research and development (R&D) and renewable energy production credits	-56.6	-155.1
Revenue-raisers: Unverifiable campaign-provided revenue estimate	399.7	924.1
Total of all provisions	**-966.7**	**-2,947.6**
Addenda:		
Net revenue impact against tax cuts extended, AMT-patched baseline	180.9	627.1
Federal tax revenue as a share of GDP	18.3	18.2

Source: Urban-Brookings Tax Policy Center Microsimulation Model (version 0308-6).

Note: Official budget estimates measure refundable credits as outlays rather than as revenue losses. TPC includes the effect of refundable credits as a reduction in revenue.

itemized deductions. The plan would also extend several smaller expiring tax cuts, including the adoption credit and the simplifications to the earned income tax credit.

Many high-income taxpayers would face higher marginal tax rates in 2009 and 2010 than under current law; after 2010, their tax rates would be the same as scheduled with the expiration of the Bush tax cuts except that tax rates on dividends would be lower. Those changes would affect economic choices about work, saving, and investment, potentially worsening economic outcomes for affected taxpayers. Evidence is mixed on how much high-income taxpayers react to increases in their tax rates: most research has found only relatively small permanent reductions in income, but that taxpayers with the highest incomes respond more to tax changes than those with lower incomes and have more ability to shift income to avoid temporarily high tax rates.

The plan's thresholds for raising taxes—$250,000 for couples and $200,000 for single people—creates potentially large marriage penalties on high income earners. Two people, each earning $180,000, would face higher tax rates if they were married but not if they were single. But other proposals would mitigate existing marriage penalties, particularly those created by the AMT, primarily by sharply decreasing the number of taxpayers who owe the alternative tax.

Create and modify refundable credits. The plan would create four new refundable tax credits, broaden the existing child and dependent care tax credit and make it refundable, and expand the earned income tax credit (EITC). Making credits refundable extends their benefit to low-income tax filers who have too little tax liability to take full advantage of nonrefundable credits. In general, that shifts resources toward poorer workers and families and makes the tax system more progressive. The credits could affect work patterns and other behavior because most of them would affect after-tax wage rates or the net cost of working, saving, and attending school.

Obama's plan would phase out all of the refundable credits for taxpayers with income above specified levels, taking away the credits over a range of income. For taxpayers in the phaseout range, marginal tax rates would increase by the rate at which the credit declines with rising income. Tax credits can affect labor supply through participation and hours. Most recipients of the refundable earned income tax credit are single parents, and the effects of work-related tax credits on their participation are unambiguous: because single parents only get the tax credits if they work, the credits encourage labor force participation. The credits can have positive or negative effects on hours worked. In the phase-in range, the credits encourage working longer; in the phase-out range, they encourage less work. Empirical evidence suggests that the main effect of refundable tax credits is to encourage labor force participation. They may also have a small negative effect on hours worked, especially for second earners, but on balance, they seem to encourage work. Whether these results are applicable to the president-elect's proposals, which would massively expand the scope of refundable credits, is an open question and one that will surely inspire much research if the credits are enacted.

- **Making Work Pay credit.** This new refundable tax credit would give wage earners and the self-employed a credit equal to 6.2 percent of up to $8,100 of earnings (yielding a maximum credit of approximately $500). Spouses filing jointly could each claim the credit based on their own earnings.[4] A phaseout would reduce the credit by 5 percent of adjusted gross income (AGI) over $75,000 ($150,000 for couples).[5] The credit would partially offset the regressivity of payroll taxes and encourage low-income people to work, but its revenue cost is large—$710 billion over 10 years. Because most workers earn more than $8,100, most of the lost revenue would go to taxpayers who receive no incentive to work more, and, in fact, the phaseout of the credit might induce some people with higher incomes to work less. On efficiency grounds, the money would probably be better spent reducing marginal tax rates overall or reducing the deficit.

- **Universal Mortgage credit.** The plan would allow taxpayers who do not itemize their deductions to claim a refundable credit equal to 10 percent of mortgage interest up to a maximum credit of $800 (indexed after 2009). The credit might be preferable to the inefficient and poorly targeted housing subsidies we have now, and, indeed, President Bush's tax reform panel proposed to replace the mortgage interest deduction with a tax credit. But simply adding yet another subsidy to the expensive panoply of homeowner tax subsidies would increase the sharp tilt of the tax system in favor of homeowners over renters and housing over other kinds of investment.[6] Moreover, the credit would complicate tax preparation for some because they would have to figure out whether to claim the credit and forgo itemizing deductions—a difficult calculation for those who prepare their tax returns by hand.
- **Savers' credit.** The tax plan would modify the current nonrefundable saver's tax credit[7], making it fully refundable and equal to 50 percent of qualified retirement savings contributions up to $500 for an individual and $1,000 for a couple (for a maximum credit of $250 and $500, respectively). A phaseout would reduce the credit by 5 percent of AGI over $32,500 for individuals and $65,000 for couples (indexed for inflation after 2009). Making the credit refundable would make it available to those with low incomes who generally receive no benefit from current tax subsidies for saving. The credit would encourage them to save more by boosting the after-tax return to their saving.
- **American Opportunity Tax Credit.** This credit would replace the current Hope credit, which is nonrefundable and in 2008 equals 100 percent of the first $1,200 of qualified higher educational expenses (generally tuition and fees) plus 50 percent of the next $1,200 up to a maximum of $1,800 per student for each of the first two years of postsecondary

[4] For example, a couple in which husband and wife each earn $8,100 would qualify for $1,000 in tax credits, while a couple with one spouse earning $16,200 would receive only the $500 individual credit.
[5] This and all other thresholds would be indexed for inflation after 2009.
[6] The Housing and Economic Recovery Act of 2008 has already provided two forms of temporary assistance to homeowners: non-itemizers may deduct up to $500 ($1,000 for joint filers) of property taxes paid during 2008 and new home buyers may claim a 10 percent credit up to $7,500 on the purchase price of their homes. For further discussion of the act, see "Mortgage Crisis: What is the Housing Assistance Tax Act of 2008?" *The Tax Policy Briefing Book: A Citizens' Guide for the 2008 Election and Beyond* at http://www.taxpolicycenter.org/briefing-book/state-local/mortgage-crisis/2008act.cfm.
[7] The current credit equals between 10 percent and 50 percent (depending on income) of up to $2,000 ($4,000 for married couples filing jointly) in contributed to qualifying retirement savings accounts. The maximum credit per person is thus $1,000—50 percent of $2,000. Income cutoffs in 2008 are $53,000 for married couples filing jointly, $39,750 for heads of household, and $26,500 for single people and married individuals filing separately. To claim the credit, a taxpayer must be at least age 18, cannot be a full-time student, and cannot be claimed as a dependent on another person's return. Because the credit is not refundable, it can only offset positive tax liability; any excess credit beyond that liability is lost.

education. The new American Opportunity credit would be refundable and equal 100 percent of the first $4,000 of qualifying higher education expenses for the first two years of college. The credit would be computed using prior-year tax data and delivered directly to the higher education institution when a student enrolls. The new credit would retain all other features of the current Hope credit including the phaseout thresholds and indexation of the maximum qualifying expenses.[8] The credit would extend educational assistance to low-income students, making college more affordable and encouraging attendance. It would also virtually guarantee that no community college would charge less than $4,000 in tuition. A better option than expanding education tax credits might be to increase spending on direct aid programs such as Pell grants and subsidized student loans.

- **Expand the child and dependent care credit.** The child and dependent care credit is a nonrefundable tax credit available to individuals paying for child care needed so they can either work or look for work.[9] Obama would make the credit refundable and increase the maximum rate to 50 percent from the current 35 percent. The credit rate would phase down by 2 percentage points for each $2,000 or fraction thereof above $30,000 until it reaches a minimum of 20 percent for taxpayers with income above $58,000.[10] The changes would provide significantly more assistance to low-income families who need childcare to work or attend school. Further, the credit's impact on wages net of work costs could significantly increase the work effort of second earners in a family, who are more responsive than primary earners to changes in the after-tax wage.
- **Expand the earned income tax credit.** President-elect Obama would expand the earned income tax credit in three ways, all of which would change work incentives. In general, increased credits would encourage low-income people to work more while the phaseouts could reduce work effort. Research suggests, however, that the effects would only be large for single parents, except for the fact that they already receive sizeable credit from the EITC. The main impact of all three proposed EITC expansions would be to increase after-tax incomes of eligible workers and make the income tax more progressive.
    - For childless workers, Obama would increase both the maximum income used to calculate the credit and the income at which the credit would phase down and double the phase-in and phaseout rates from 7.65 percent to 15.3 percent.[11] Those changes would more than double the maximum credit from the current estimated $452 in 2009 to $1,110 in 2012.[12] After-tax wages would increase for those with earnings below the threshold,

[8] Students claiming the credit would have to perform 100 hours of community service upon completing their education. The lifetime learning credit would not change and the current tuition and fees deduction would expire as scheduled under current law.
[9] In the case of married couples, both spouses must work or be looking for work to qualify except in the case where one spouse is a full-time student and the other works.
[10] The credit rate currently phases down at a rate of 1 percentage point for each $2,000 of income (or fraction thereof) above $15,000 until it reaches a minimum of 20 percent for taxpayers with income above $58,000, the same income level at which the rate would reach that minimum under Obama's proposal.
[11] The maximum amount of earned income used to calculate the credit for childless workers would rise in increments from $5,910 to $6,300 in 2009, $6,800 in 2010, $7,100 in 2011, and $7,250 in 2012. The threshold at which the phaseout begins would be increased from its current 2009 level of $7,390 to $9,825 in 2009, $10,875 in 2010, $12,325 in 2011, and $14,500 in 2012. Both thresholds would be indexed for inflation after 2012.
[12] TPC did not model the doubled EITC for childless workers who are noncustodial parents paying child support due to data limitations that limit the quality of the estimate. The cost of the provision is small relative to the others.

encouraging them to work more. At the same time, extending the phaseout range further up the income scale means that more childless workers would qualify for a subsidy and more would face higher marginal effective tax rates, with mixed effects on work incentives.

- For taxpayers with three or more children, Obama would increase the credit rate from 40 to 45 percent, but maintain the current 21.06 percent phaseout rate. Again, the higher credit percentage would encourage more work by lower earners, but the extended phaseout range might depress work hours higher up the income scale.
- For married couples filing jointly, Obama would set the phaseout threshold $5,000 above that for heads of household (up from $3,100 under current law) and index that amount for inflation after 2009. That would shift the income range over which the credit phases out, thus increasing the number of couples who qualify for the EITC and raising the income level at which higher marginal tax rates apply. The increase would also help to offset the significant marriage penalty created by the EITC.

Exempt seniors with income below $50,000 from income taxation. President-elect Obama would eliminate income tax liability for taxpayers age 65 or older[13] with adjusted gross income, untaxed Social Security benefits, and tax-exempt interest totaling less than $50,000. Tax units entitled to a net refund from the government would remain entitled to that refund. The threshold would be the same for both single and married households and would not be indexed for inflation (so its value would erode over time). To avoid a "cliff" effect, TPC assumed that the exemption from income taxes would phase out over a $10,000 income range between $50,000 and $60,000.[14]

The proposal would exacerbate the current inequity between older and younger taxpayers with the same income. Most senior citizens already pay no income tax because they may claim an additional standard deduction and because most Social Security benefits are not subject to tax; nobody age 65 and over whose income comes entirely or almost entirely from Social Security pays income tax. Obama's proposal would remove even more elderly from the tax rolls while maintaining taxes on working families with similar income but greater need. With federal spending on programs for the elderly projected to soar as the baby boomers retire, targeting special tax breaks on the elderly seems inappropriate. Furthermore, the proposal only helps seniors who currently pay income taxes; those too poor to owe any tax—arguably those most in need—would get no benefit.

Extend and index the 2007 AMT patch. As a candidate, President-elect Obama called for "fiscally responsible" reform of the alternative minimum tax (AMT). Absent further detail, TPC interprets that to mean simply extending recent policy: index the 2007 AMT exemption amounts for inflation and permanently allow individuals to claim personal tax credits against the AMT. The patch protects more than 20 million taxpayers from additional tax each year but

[13] In the case of married couples, both spouses would have to be age 65 or older.
[14] Qualifying units with income between $50,000 and $60,000 would pay a fraction of their current-law tax liability equal to the ratio of their total income over $50,000 to $10,000. Thus, for example, an elderly taxpayer with total income of $57,500 would owe 75 percent of their current-law tax liability (= [$57,500 - $50,000] / $10,000). The phaseout would extend the benefit of the exemption to taxpayers at higher income levels and thus raise the revenue cost. The phaseout would also increase effective marginal tax rates on affected taxpayers and could therefore reduce their willingness to earn more income.

does not change the fact that the AMT complicates the tax code and imposes an additional—and seemingly irrational—burden on those affected. Repealing the AMT entirely would be a better solution but doing so would lose even more revenue than the patch.

Freeze 2009 estate tax law. The tax plan would permanently fix the estate tax law in its 2009 form: an exemption of $3.5 million and a top rate of 45 percent.[15] This provision would prevent the scheduled one-year repeal of the tax in 2010 and liberalize the tax relative to its pre-2001 status, to which it is scheduled to revert in 2011. Under the proposal, about 8,000 estates would be taxable in 2011, or about 0.3 percent of decedents. The proposal would cut the number of estate taxpayers in 2011 by nearly 90 percent and the amount of tax paid by half. The estate tax has ambiguous effects on working and saving. It may discourage some wealthy people who care about their heirs from saving or working by reducing the size of after-tax bequests. The tax could, however, induce people who have a target amount of wealth they want to transfer to save more in order to offset their expected tax liability. Further, the tax may encourage some potential heirs to work and save more because they expect to inherit less because of the tax.[16] On balance, the proposal is likely to have very small effects on work effort, saving, or overall economic performance. It would, however, reduce the progressivity of the tax system starting in 2011 because the estate tax only affects wealthy decedents.

New incentives for saving. President-elect Obama has proposed two changes in the structure of tax-favored retirement accounts that could increase worker participation. These proposals apply the findings of recent research that shows people are much more likely to contribute to retirement saving plans if they are automatically enrolled—with an option to opt out—than if they have to make an active decision to participate. The approach promises to be more effective than existing saving incentives, which largely benefit people who would save in any case.

- **Mandate automatic 401(k) plans.** This provision would require employers offering retirement plans to enroll employees automatically unless they opt out.
- **Require provision of automatic IRAs**. President-elect Obama would require employers who do not sponsor other retirement plans to offer access to automatic individual retirement accounts (IRAs). Workers could contribute to those IRAs via payroll deduction. IRA accounts would be created for employees who do not have their own accounts, unless they opt out. The employer would automatically contribute a share of earnings to the IRA for each participating employee.

Simplified Tax Filing. The Obama plan proposes that the Internal Revenue Service (IRS) prepare tax returns for most taxpayers using information from employers and financial institutions. This would simplify tax filing for taxpayers with relatively simple returns, for whom compliance costs are already low. However, the proposal would also require the Social Security Administration and financial institutions to provide data to the IRS faster than they do now and would raise IRS administrative costs. Further, Obama's proposed new tax credits would reduce the number of taxpayers who could benefit from this option.

[15] The exemption would remain fixed in nominal terms (as under current law) and state estate taxes would remain deductible and not revert to a credit. Obama proposed no change in the gift tax.
[16] For discussion of estate tax issues, see Burman, Gale, and Rohaly (2005).

Permanently extend temporary tax credits. Obama would make permanent both the research and development (R&D) credit and the renewable energy production credit. Both credits encourage firms to invest in R&D and develop more renewable energy sources. Most economists believe, however, that raising the price of fossil fuels—as Obama's cap-and-trade proposal would do—would allow private markets to select the least costly ways of reducing use of fossil fuels.

Revenue-raisers. President-elect Obama has proposed a variety of tax changes that would raise taxes on corporations and individuals engaging in particular activities and thus might cause them to change their behavior. The provisions could lead to more efficient use of resources if they discourage tax sheltering and reduce the extent to which the tax code favors particular industries or forms of business organization over others. However, tax shelters are notoriously hard to police and the proposals would likely raise less revenue than Obama has projected.[17]

- Tax carried interest as ordinary income
- Eliminate all oil and gas loopholes
- Codify the economic substance doctrine (requiring that transactions qualifying for tax benefits have economic justification beyond those benefits)
- Require publicly traded financial partnerships to pay the corporate income tax
- Create an international tax haven watch list of countries that do not share information returns with the United States (and potentially enacting sanctions against those countries)
- Impose a windfall profits tax on oil and gas companies
- Require information reporting of basis for capital gains
- Reallocate multinational tax deductions
- Close loopholes in the corporate tax deductibility of CEO pay

Health Care. As part of his plan to expand health insurance coverage, President-elect Obama would provide low-income families who lack access to both employer-sponsored insurance and public health insurance with refundable tax credits if they buy insurance in a new insurance exchange.[18]

Other policies. During his election campaign, President-elect Obama supported various other tax proposals without providing much detail.[19]

- Permanently extend the adoption credit
- Create new incentives for first-time farmers
- Eliminate capital gains taxes affecting start-up businesses

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[17] The Obama campaign claimed that these provisions would raise $76 billion in revenue in 2009. Because not all provisions are fully specified, TPC cannot verify that revenue estimate. TPC revenue projections accept the estimate, however, and assume it would grow at the same rate as GDP throughout the 10-year budget window.

[18] Because this provision is an integral part of Obama's larger plan to expand health insurance coverage, I do not consider it in detail in this paper. For detailed discussion of Obama's health plan, see Burman et al. (2008) "An Updated Analysis of the 2008 Presidential Candidates' Tax Plans" and Holahan and Blumberg (2008).

[19] In general, the revenue effects of these policies would be small relative to the other policies discussed. The exception is the proposal to raise Social Security taxes on the wealthy. The Obama campaign said that provision would impose additional taxes "in the range of 2 to 4 percentage points more in total (combined employer and employee)" starting "a decade or more from now" but provided no additional detail. A 2 percent income tax surtax on adjusted gross incomes and a 2 percent payroll tax paid by employers on employees' earnings over $250,000, imposed in 2009, would raise nearly $400 billion in additional revenue over the subsequent decade. For further discussion, see Burman et al. (2008).

- Create new incentives for small business investment
- Create an automated filing system for most taxpayers
- Impose additional Social Security taxes on high-income taxpayers

II. Budgetary Effects

Under current law (assuming the tax cuts expire on schedule and the AMT is not patched) the Congressional Budget Office (CBO) projects that debt held by the public will climb rapidly over the next 10 years, growing from $5.0 trillion in 2007 to $7.9 trillion in 2018. Because of the expiration of the Bush tax cuts and the explosive growth of the AMT, tax revenues are projected to increase from 18.9 percent of GDP in 2009 to 20.3 percent in 2018 while spending is expected to stay roughly constant at around 21 percent of GDP (see table 2), despite significant increases in mandatory spending (for Social Security, Medicare, and Medicaid).[20] CBO projects discretionary spending (including war spending) and interest on the debt to decline.

Table 2. Revenue Effects President-Elect Obama's Tax Proposals, 2009-2018

	Fiscal Year										Total
	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2009-18
Change in Tax Revenue Against Current Law (billions of dollars)	-10	-84	-230	-309	-333	-352	-372	-394	-418	-445	-2,948
Change in Tax Revenue Against Current Policy (billions of dollars)	18	-9	38	65	68	75	82	89	97	104	627
Revenues Collected (percent of GDI	18.8	18.2	18.0	18.2	18.1	18.1	18.1	18.2	18.3	18.4	18.2
Baseline Revenues and Outlays (percent of GDP)											
Current Law Revenues	18.9	18.7	19.4	20.0	19.9	20.0	20.0	20.1	20.2	20.3	19.8
Current Policy Revenues	18.8	18.3	18.1	18.2	18.0	18.1	18.1	18.1	18.2	18.3	18.2
CBO Baseline Outlays	21.5	21.4	21.4	20.7	20.9	20.9	21.0	21.3	21.2	21.0	21.1

Sources: Urban-Brookings Tax Policy Center Microsimulation Model (version 0308-6), various JCT scores, CBO's 2007 Budget Options, the fiscal year 2009 Treasury blue book, and CBO's September 2008 budget projections.

Under President-elect Obama's plan, however, the debt would likely continue to rise as it has over the past eight years, even under the CBO's relatively optimistic assumptions about spending. Obama's plan would add an additional $3.6 trillion to the national debt (including additional interest costs but excluding the cost of expanding health insurance coverage). That number would be larger if optimistic revenue offsets fail to materialize.

An alternative view of the budgetary situation compares spending and taxes measured relative to GDP. President-elect Obama's plan would collect revenues totaling 18.2 percent of GDP over the coming decade, about the average revenue collected by the federal government since World War II. CBO projects spending at 21.1 percent of GDP over the decade, implying that balancing the budget would require substantial spending cuts to offset proposed tax reductions.

[20] Revenue estimate from TPC; spending estimate from Congressional Budget Office (2008).

III. Distributional Effects

The distributional effects of the Obama tax plan would vary over time because it interacts with the Bush tax cuts that are scheduled to expire in 2011. This analysis therefore shows the distribution of tax changes both before and after that expiration—in 2009 and in 2012—and, for 2012, compared separately against baselines that do and do not assume extension of current law beyond 2010.

Effects in 2009. In 2009, President-elect Obama's tax plan would, on average, provide a modest tax cut equal to 0.6 percent of after-tax income, or $331 (see figure 1).[21] But it would drastically alter the distribution of tax burdens and make the tax system significantly more progressive. Households in the bottom quintile of the cash income distribution (the 20 percent of the population with the lowest incomes) would receive an average tax cut of 5.5 percent of income ($567) and those in the middle fifth would get an average cut equal to 2.6 percent of income ($1,118). In contrast, taxes would rise by an average of 1.5 percent of income ($3,017) for households in the top quintile. And the increases would be even more dramatic within the top quintile. Taxpayers in the top 1 percent would see their taxes rise by an average of 7.0 percent of income or about $94,000. The top 0.1 percent—the richest 1 in 1,000—would face an average tax increase of nearly $550,000, or 8.9 percent of income.

Households in the lower quintiles benefit from Obama's new refundable credits for working, mortgage interest, and education expenses; the expansion and full refundability of both the child and dependent care credit and the saver's credit; and the expansion of the EITC. Taxpayers at the very top of the income distribution would be hit hard by the increase in the top two tax rates from 33 and 35 percent to 36 and 39.6 percent; the increase in the top tax rate on capital gains and qualified dividends to 20 per cent; reinstatement of the limitations on personal exemptions and itemized deductions; and the corporate tax increase, which would be borne primarily by households in the top quintile.[22] However, taxpayers in the 80th through 95th percentiles, many of whom would benefit from President-elect Obama's extension of the AMT "patch," would receive average tax cuts equal to about 2 percent of income.

Overall, about 80 percent of households would owe less tax while about 10 percent would owe more. Again, outcomes would differ significantly by income. Only 6 percent of households in the middle of the income spectrum would face a tax increase. In contrast, 22 percent of those in the top quintile would pay higher taxes. Within the top quintile, more than 90 percent of those in the top 1 percent would pay more, including virtually all households in the top 0.1 percent.

Effects in 2012. Under current law, virtually all of the provisions of the 2001–06 tax cuts will expire at the end of 2010.[23] Because President-elect Obama's plan would extend most of the provisions affecting lower- and middle-income households and create the new refundable credits discussed above, it would—measured against current law—provide much larger tax cuts for those households in 2012 than in 2009. Households in the bottom quintile would see an average

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[21] Appendix tables provide more detail on the distributional effects of Obama's tax plan.

[22] TPC follows CBO in assuming that the corporate income tax is fully borne by all capital. Thus, we distribute corporate tax changes to individual households based on their share of capital income (interest, dividends, capital gains, and rents). For more details, including information on the current-law distribution of the corporate income tax and other federal taxes, see Rohaly (2008).

[23] The Pension Protection Act of 2006 (P.L. 109-280) made permanent provisions relating to select retirement savings incentives.

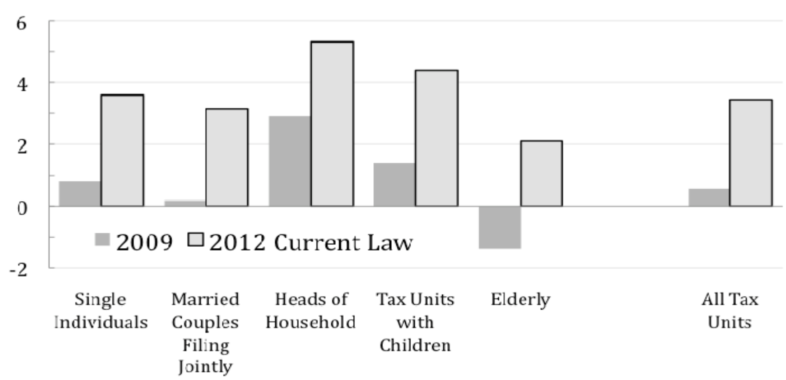
tax cut of 6.2 percent of after-tax income or $698 (see figure 1). Households in the middle of the income distribution would receive an average tax cut equal to 4.7 percent of income or $2,197.

Since some of Obama's proposals affecting upper-income households, such as the individual income tax rate increases to 36 and 39.6 percent, are already scheduled to occur after 2010 under current law, his plan appears to raise taxes less on upper-income households in 2012 than in 2009 when measured against a current-law baseline. In fact, in 2012, the Obama plan would provide an average tax cut to the top quintile of 2.0 percent of income or $4,285. Only about two-fifths of taxpayers in the top 1 percent of the population would face a tax hike. For them, the increase in the tax rate on capital gains and the corporate tax increase outweigh the other elements of Obama's plan. Overall, less than 6 percent of all households would experience a tax increase in 2012 compared to current law. Almost 9 in 10 households would receive a tax cut, including three-fifths of those in the top 1 percent of the income distribution.

Measuring Obama's plan against an alternative baseline in which the 2001–06 tax cuts are made permanent and the 2007 AMT patch is extended and indexed for inflation markedly alters its projected effects. Households at the top of the income scale would face much larger tax increases and those lower in the income distribution would gain less (see figure 1). Measured against this alternative baseline, middle-income households would receive an average tax cut of 2.2 percent of income or $1,035. The top fifth would face an average tax increase of 3.0 percent of income, or $6,770 and taxes for the top 1 percent would jump an average of 8 percent of income—more than $110,000.

Impact on various demographic groups. The impact of President-elect Obama's tax proposal differs by filing status (see figure 2) because it contains tax breaks targeted to certain segments of the population and because the demographic groups have quite different incomes. Heads of household would receive the largest average tax cut in 2009—2.9 percent of income—because, on average, they have the lowest incomes ($40,351 in 2009) and because they benefit most from the EITC expansion, the refundability of the child and dependent care credit, and the Making Work Pay credit. In contrast, married couples would get the smallest tax cut—just 0.2 percent of income. They have much higher average incomes ($125,155 in 2009) and are thus more likely to be hit by provisions that raise taxes on upper-income earners, such as the higher statutory tax rates and the increases in the rates on capital gains and dividends. Single filers would receive a tax cut equal to 0.8 percent of income. All three groups would get larger tax savings in 2012 because Obama's plan would extend the Bush tax cuts for most households.

Figure 2. Percentage Change in After-Tax Income by Demographic Group, 2009 and 2012



Source: Urban-Brookings Tax Policy Center Microsimulation Model (version 0308-6).

Households with children would fare better than the population as a whole: they receive an average increase in after-tax income of 1.4 percent, more than double the figure for all households. In contrast, elderly taxpayers would, on average, pay more in 2009, despite the plan's elimination of income taxes for seniors with incomes less than $50,000. Elderly households would generally not benefit from Obama's new tax credits. They would be affected by the higher tax rate on capital gains and dividends and corporate tax increases. Both tax units with children and the elderly would get tax cuts in 2012 because of Obama's partial extension of the 2001–06 tax reductions.

IV. Campaign Stimulus Proposals

Toward the end of his presidential campaign, the president-elect offered new tax proposals addressing the deterioration of the economy and the decline in asset values.

- *Impose a windfall profits tax to fund emergency energy rebates.* Obama proposed taxing "excessive oil company profits" to pay for "immediate $1,000 emergency energy rebate[s] to help families pay rising bills." The campaign described the rebates as "a down payment on the Obama-Biden long-term plan to provide middle-class families with at least $1,000 per year in permanent tax relief." Windfall profits taxes have failed in the past and would be unlikely to succeed now. Furthermore, in the face of rapidly falling energy prices, they are probably less salient now. The rebates would provide only a modest boost to the economy: recipients have used as much as half of previous credits to pay off credit card debt or add to savings and they may be even more likely to do so when the economy is doing poorly. Unless the rebates are spent, they would have little positive stimulative effect.

- *Eliminate the taxation of unemployment insurance for 2008 and 2009*. This proposal effectively increases unemployment benefits for all recipients who pay income tax, depending on their tax rate: the higher the tax rate, the greater the benefit. For example, a person who gets $1,000 of unemployment compensation would effectively receive a $100 benefit increase if he is in the 10 percent tax bracket but a $250 benefit if his tax rate is 25 percent. Those with the lowest incomes receive no benefit at all from the proposal. Extending eligibility for unemployment benefits or increasing benefits across the board could provide a larger share of assistance to those most in need of help at the same cost to the federal government.

- *Suspend rules requiring distributions from IRAs at age 70½ and taxes on such distributions*. Owners of traditional individual retirement accounts (IRAs) must withdraw specified percentages of account assets starting at age 70½. The required distribution is a fraction of the account's value as of the end of the previous year; the fraction rises with age. The requirement is intended to prevent account owners who made their deposits out of pre-tax earnings from continuing to defer tax on those earnings until they die and the accounts go to their heirs. Roth IRAs (purchased with after-tax dollars) are not subject to this requirement.

  Not taxing required withdrawals would again provide larger benefits for wealthier taxpayers who face higher tax rates. Low-income retirees who pay no income tax would not benefit while those in the top tax bracket would save 35 percent of the amount withdrawn. The largest benefit goes to those least in need.

  This year's sharp decline in asset values and the link of required distributions to last year's account value mean that an account owner who did not withdraw required amounts early in the year must take out a larger percentage of her account's current value than the mandated percentage. Although people may reinvest some of the proceeds of these withdrawals in equities or other assets—and therefore need not spend down their wealth faster or change the overall composition of their holdings—they do lose any future tax deferral on the withdrawn funds. Temporarily suspending the distribution requirement would let retirees conserve their retirement account assets and withdraw them after asset values have recovered. Again, however, benefits would go disproportionately to wealthier retirees, both because they gain more from tax deferral (since they are in higher tax brackets) and because they are more likely to have other assets available and thus not need to draw on retirement accounts to pay for current consumption.

The Worker, Retiree, and Employer Recovery Act of 2008, enacted in December 2008, eliminated the mandatory distribution for 2009 for IRAs, 401(k)s, 403(b)s, and other retirement savings programs. The act neither changed the requirement for 2008 or years after 2009 nor made 2009 withdrawals free of federal income tax. The act left the requirement in place for 2008 because Congress expected the Treasury Department to suspend mandatory distributions by regulation. Treasury did not act, however, and account owners had to make mandatory withdrawals for 2008 under existing rules.

- *Allow penalty-free withdrawals of up to 15 percent (but no more than $10,000) from retirement accounts*. Withdrawals from retirement accounts by people under age 59½ are generally subject to a 10 percent penalty as well as federal income tax.[24] The president-elect would allow anyone to withdraw as much as $10,000 or 15 percent of the account's value without incurring the penalty. Withdrawals would still be subject to income tax. This proposal aims to make funds available without penalty for people who face economic hardship and could thus provide much needed resources at a critical time. However, its use is not limited to people in financial difficulty. Policymakers already worry that people raid their retirement assets to pay for current consumption, particularly when they move between jobs, even in the face of current penalties. As traditional retirement pensions become increasingly rare, retirees now have to rely more on their own savings than in the past. Any relaxation of rules that enables people to use retirement funds during their working years jeopardizes the availability of those resources in retirement. It is also not entirely clear why policymakers should encourage people to sell assets when the market may be temporarily depressed.
- *Provide a refundable $3,000 per employee credit for increases in employment for firms with growing employment*. Obama would provide a refundable tax credit for each additional worker hired in 2009 or 2010 by firms that increase their employment. The proposal is similar to a proposal enacted under the Carter Administration in 1977 and then converted to a much more limited credit for disadvantaged workers in 1978. (The Carter credit was non-refundable and applied to changes in payroll costs, not number of employees.) Obama's proposal aims to subsidize increases in employment without paying firms a credit for workers they already employ. The basic problem is that the base number of workers who would otherwise be employed by a firm is unobservable and the previous year's employment is a poor proxy for what firms would otherwise do. The new credit would favor firms in expanding industries over those experiencing a reduction in demand and only provide an incentive for expanding firms, without discouraging other firms from laying off more

[24] The penalty does not apply to withdrawals made in specific circumstances such as to pay certain medical or educational expenses or purchase a first home.

workers. That is, it would help the firms that least need assistance while doing nothing for those that are in distress.

In addition to numerous equity issues, designing such a proposal would pose many practical and administrative issues. Legislation would have to specify how long a worker has to remain employed to count because without a minimum employment period, firms could churn workers to collect multiple credits. There would be demands to adjust baseline payroll for distressed industries and Congress would need to weigh those claims against revenue costs and enforcement issues. In general, the more stringent the definition of additional workers, the fewer firms would qualify for the credit, but easing requirements would allow more firms to game the system to maximize their tax gains without raising employment.

V. Post-Election Stimulus Proposals

Since the election, President-elect Obama and his transition team have worked to formulate a comprehensive tax and stimulus proposal—the American Recovery and Reinvestment Plan—and expressed the desire that the new Congress enact the plan before the January 20 inauguration. Advisors are still working out the details of the proposal and Congress will undoubtedly make changes but major components have become clear.

The plan's major stated goal is the creation of 3 million jobs, primarily through increased federal spending on what the new administration calls "investments" in America's future.[25] The plan would cost between $675 billion and $775 billion over two years, although Obama advisors expect that Congress will increase the tab to $850 billion or more. Government funds would support infrastructure investment, aid to state and local governments, and immediate tax cuts for lower- and middle-class households.

Immediate tax cuts of $1,000 for couples and $500 for individuals would increase household disposable income by $130 billion over the next two years through reduced withholdings from paychecks. Administered in that way, the tax cuts might provide more effective stimulus than previous stimulus plans that provided large lump-sum payments. Recipients of previous tax rebates were more likely to save them or use them to pay down credit card balances than to spend them in ways that boosted the economy. The smaller and on-going increase in take-home pay provided by the new proposal could induce households to spend more of the tax cut and thus generate greater stimulus. At the same time, facing a major recession and the increased likelihood of job loss, workers could decide to save even more of the tax cut than in the past and thus reduce its effectiveness as a stimulus.

The new administration wants substantial new spending to go to investment in infrastructure development, arguing that such spending would provide the double benefit of immediate stimulus and lasting benefits—as opposed to less focused expenditures that would run up the national debt with no long-term gains. Infrastructure development would include rebuilding the nation's deteriorating roads, bridges, and public transit systems, encouraging renewable energy initiatives to reduce dependence on foreign oil, constructing classrooms, laboratories, and libraries to improve education, and modernizing healthcare systems to drive down costs. Critics

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[25] See Summers (2008) for a description of the stimulus proposal. Summers is the incoming director of the White House National Economic Council.

argue that all of those projects would take time to get started—potentially more than a year—and therefore spending on them would not provide the rapid stimulus the country needs. Others respond that states, faced with their own budget problems, have halted many projects either underway or ready to go, so start-up could occur quickly. Furthermore, economists expect that the current recession will last longer than other recent downturns so a delayed stimulus could produce significant benefit even coming a year or more from now. One other concern has been that the new administration and Congress, in their haste to enact legislation, will not vet proposed projects sufficiently to avoid choosing those that would provide little lasting benefit. Obama advisors say that they will hold all projects to high standards and that there will be no earmarks, but the history of similar efforts in the past is not reassuring. States have already created a wish list of infrastructure projects totaling $136 billion and more requests will certainly follow.

The new administration's plan would also provide funds to cash-strapped state governments, which are required to balance their budgets each year. States have lost significant revenues in the economic downturn just as demands on their social welfare programs have leaped. The Obama plan would transfer up to $200 billion over two years to finance Medicaid health coverage and help fill state budget gaps. Because states will likely disperse those funds quickly, they could generate the immediate stimulus the economy needs.

Because the details of the full proposal are not yet known—and indeed the proposal is still a work-in-progress—it is impossible to analyze either its full cost or its impact.

VI. Conclusion

President-elect Obama has proposed a broad range of permanent tax cuts and temporary stimulus actions. As a whole, the proposals would exacerbate an already worrisome fiscal situation. Even before the collapse of credit markets and the current economic downturn, the federal government was on track to increase further the national debt, which has already nearly doubled since 2000. The Bush tax cuts will expire in 2011 if Congress doesn't act. Virtually no one wants that to happen, but extending the cuts would lose substantial revenue. Yet, doing nothing is not a viable option. Economic stimulus is an imperative given the perilous state of the economy, even though the effectiveness of tax breaks to boost the economy is open to question. The president-elect's advisors have indicated that the new administration will proceed with all of the proposals discussed in this paper. The next year will reveal just how those plans play out.

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Appendix Tables

Appendix Table 1

Distribution of Federal Tax Change under Senator Obama's Tax Proposals by Cash Income Percentile, 2009 and 2012

Cash Income Percentile[1,2]	Percent of Tax Units[3]		Percent Change in After-Tax Income[4]	Average Federal Tax Change ($)	Average Federal Tax Rate[5]		Minimum Income for Category
	With Tax Cut	With Tax Increase			Change (% Points)	Under the Proposal	
2009							
Lowest Quintile	67.8	7.7	5.5	-567	-5.3	-0.7	---
Second Quintile	86.1	8.4	3.6	-892	-3.2	7.5	18,981
Middle Quintile	93.3	5.7	2.6	-1,118	-2.2	14.7	37,595
Fourth Quintile	86.4	12.1	1.8	-1,264	-1.4	18.4	66,354
Top Quintile	76.6	22.3	-1.5	3,017	1.1	27.3	111,645
All	81.3	10.4	0.6	-331	-0.4	21.3	---
80-90	83.3	14.8	2.0	-2,135	-1.6	21.1	111,645
90-95	85.6	13.9	1.9	-2,796	-1.5	23.0	160,972
95-99	66.3	33.5	-0.1	121	0.0	26.5	226,918
Top 1 Percent	7.1	92.8	-7.0	93,709	5.0	34.5	603,402
Top 0.1 Percent	1.0	99.0	-8.9	542,882	6.1	37.4	2,871,682
2012 Current Law							
Lowest Quintile	68.2	7.5	6.2	-698	-5.8	-0.4	---
Second Quintile	87.9	6.6	5.9	-1,589	-5.1	8.0	19,740
Middle Quintile	96.2	2.9	4.7	-2,197	-3.8	15.4	38,980
Fourth Quintile	97.2	2.6	4.4	-3,356	-3.4	18.9	69,490
Top Quintile	93.3	6.7	2.0	-4,285	-1.4	27.2	117,535
All	86.7	5.5	3.4	-2,170	-2.6	21.4	---
80-90	97.0	3.0	4.4	-5,016	-3.3	21.7	117,535
90-95	96.9	3.1	3.8	-6,104	-2.8	23.3	169,480
95-99	87.4	12.5	2.3	-6,151	-1.6	26.5	237,040
Top 1 Percent	62.1	37.9	-1.5	19,274	1.0	34.1	619,561
Top 0.1 Percent	33.8	66.2	-2.8	163,423	1.8	37.5	2,832,449
2012 Current Policy							
Lowest Quintile	67.8	7.7	5.4	-617	-5.2	-0.4	---
Second Quintile	85.6	8.4	3.4	-950	-3.1	8.0	19,740
Middle Quintile	91.9	6.8	2.2	-1,035	-1.8	15.4	38,980
Fourth Quintile	81.9	15.2	1.0	-757	-0.8	18.9	69,490
Top Quintile	52.6	42.7	-3.0	6,770	2.2	27.2	117,535
All	76.6	14.2	-0.5	299	0.4	21.4	---
80-90	74.7	21.3	0.4	-442	-0.3	21.7	117,535
90-95	45.2	47.4	-0.3	448	0.2	23.3	169,480
95-99	17.6	78.0	-2.0	5,686	1.5	26.5	237,040
Top 1 Percent	4.8	95.0	-8.0	114,238	5.7	34.1	619,561
Top 0.1 Percent	0.5	99.5	-10.2	650,938	7.1	37.5	2,832,449

Source: Urban-Brookings Tax Policy Center Microsimulation Model (version 0308-6).

Notes: Data are for calendar years 2009 and 2012. Assumes provisions are fully phased in.

(1) Tax units with negative cash income are excluded from the lowest income class but are included in the totals. For a description of cash income, see http://www.taxpolicycenter.org/TaxModel/income.cfm

(2) The cash income percentile classes used in this table are based on the income distribution for the entire population and contain an equal number of people, not tax units.

(3) Includes both filing and non-filing units but excludes those that are dependents of other tax units.

(4) After-tax income is cash income less: individual income tax net of refundable credits; corporate income tax; payroll taxes (Social Security and Medicare); and estate tax.

(5) Average federal tax (includes individual and corporate income tax, payroll taxes for Social Security and Medicare, and the estate tax) as a percentage of average cash income.

Appendix Table 2

Distribution of Federal Tax Change under Senator Obama's Tax Proposals by Demographic Group and Cash Income Percentile, 2009 and 2012

Cash Income Percentile[1]	All Tax Units	Single Individuals	Married Couples Filing Jointly	Heads of Household	Tax Units with Children[2]	Elderly[3]
	Percentage Change in After-Tax Income					
2009						
Lowest Quintile	6.3	6.3	5.8	6.9	7.2	0.9
Second Quintile	3.9	3.5	4.0	4.2	4.7	0.8
Middle Quintile	2.8	2.8	2.8	2.9	3.1	1.5
Fourth Quintile	2.4	2.1	2.5	2.2	3.2	1.5
Top Quintile	-1.5	-1.9	-1.3	-0.8	-0.9	-3.2
All	0.6	0.8	0.2	2.9	1.4	-1.4
80-90	1.9	0.6	2.3	1.5	3.1	0.0
90-95	1.4	-0.3	1.9	1.4	2.8	-0.4
95-99	0.0	-0.9	0.2	-0.8	-0.1	-1.3
Top 1 Percent	-6.9	-7.0	-6.8	-6.8	-7.2	-7.4
Top 0.1 Percent	-8.8	-9.4	-8.7	-8.8	-8.9	-9.1
2012 against Current Law						
Lowest Quintile	7.5	6.6	8.2	8.2	9.6	1.1
Second Quintile	6.4	4.7	7.0	7.6	9.0	1.7
Middle Quintile	5.1	4.4	5.4	5.4	6.2	3.0
Fourth Quintile	4.4	3.7	4.8	3.9	5.6	3.4
Top Quintile	2.0	2.5	1.9	1.7	2.1	1.7
All	3.4	3.6	3.1	5.3	4.4	2.1
80-90	4.0	3.5	4.2	3.0	4.4	3.6
90-95	3.6	3.5	3.7	2.8	4.0	3.7
95-99	2.5	3.8	2.3	1.4	2.0	3.1
Top 1 Percent	-1.3	-1.0	-1.3	-1.6	-1.4	-1.5
Top 0.1 Percent	-2.7	-3.4	-2.6	-3.1	-2.8	-3.1

Source: Urban-Brookings Tax Policy Center Microsimulation Model (version 0308-6).
See notes to Table 1.
(1) Quintiles are defined for the population as a whole, not the various subgroups.
(2) Children are defined as exemptions taken for children living at, or away from, home.
(3) Elderly tax units are those in which the head (or spouse, if applicable) is age 65 or older.