

A Updated Analysis of the 2008 Presidential Candidates' Tax Plans

Executive Summary of the August 15, 2008 analysis

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Both John McCain and Barack Obama have proposed tax plans that would substantially increase the national debt over the next ten years, according to a newly updated analysis by the non-partisan Tax Policy Center. Neither candidate's plan would significantly increase economic growth unless offset by spending cuts or tax increases that the campaigns have not specified.

Compared to current law, TPC estimates the Obama plan would cut taxes by \$2.9 trillion over the 2009-2018 period. McCain would reduce taxes by nearly \$4.2 trillion (see Summary Revenue Table and Tables R1 and R2). These projections assume the 2001 and 2003 tax cuts expire in 2010 and that the Alternative Minimum Tax is fully effective with 2008 exemptions.

Summary Revenue Table
Revenue Effect of Candidates' Tax Proposals
Impact on Tax Revenue, 2009-2018

	Fiscal Year										Total 2009-18
	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	
Tax Proposals as Described by Campaign Staff											
Change in Tax Revenue Against Current Law (billions of dollars)											
Obama	-10.2	-84.4	-230.2	-309.3	-332.5	-351.7	-371.9	-394.1	-418.4	-444.8	-2,947.6
McCain	-108.5	-152.4	-326.0	-438.9	-451.5	-402.9	-487.2	-547.1	-600.8	-655.1	-4,170.5
Change in Tax Revenue Against Current Policy (billions of dollars)											
Obama	18.5	-8.8	38.5	64.7	68.0	74.9	81.7	88.9	96.5	104.1	627.1
McCain	-79.9	-76.7	-57.3	-64.9	-50.9	23.6	-33.7	-64.1	-85.8	-106.1	-595.8
Revenues Collected (percent of GDP)											
Obama	18.8	18.2	18.0	18.2	18.1	18.1	18.1	18.2	18.3	18.4	18.2
McCain	18.2	17.7	17.4	17.5	17.4	17.8	17.6	17.5	17.4	17.4	17.6
Tax Proposals as Described in Stump Speeches											
Change in Tax Revenue Against Current Law (billions of dollars)											
Obama	10.8	-52.2	-194.1	-272.6	-293.4	-310.9	-329.1	-349.2	-371.3	-395.4	-2,557.4
McCain	-383.8	-429.9	-606.6	-701.7	-712.9	-743.9	-779.5	-819.3	-864.1	-911.8	-6,953.5
Change in Tax Revenue Against Current Policy (billions of dollars)											
Obama	39.5	23.4	74.6	101.4	107.1	115.7	124.5	133.8	143.7	153.6	1,017.3
McCain	-355.2	-354.2	-337.8	-327.7	-312.3	-317.3	-326.0	-336.3	-349.1	-362.9	-3,378.8
Revenues Collected (percent of GDP)											
Obama	19.0	18.4	18.2	18.5	18.3	18.3	18.4	18.4	18.5	18.6	18.4
McCain	16.3	16.0	15.7	16.0	16.0	16.0	16.1	16.1	16.2	16.3	16.1
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.

Notes

1. See text for description of provisions included in campaign advisors and stump speech versions of candidates' tax plans.
2. Estimates for stump speech versions of proposals assume all provisions are fully phased-in in 2009.

Both candidates prefer to compare their plans to the “current policy” baseline, which would extend the 2001 and 2003 tax cuts and indefinitely extend an indexed AMT “patch”—and collect nearly \$3.6 trillion less than under current law over the coming decade. Against that baseline, Obama would raise revenues by about \$600 billion over the decade, while McCain would lose \$600 billion. But choice of baseline doesn’t change how the proposals would affect the budget picture; without substantial cuts in government spending, both plans would sharply increase the national debt. Including interest costs, Obama’s tax plan would boost the debt by \$3.5 trillion by 2018. McCain’s plan would increase the debt by \$5 trillion on top of the \$2.3 trillion increase that the Congressional Budget Office forecasts for the next decade (see Summary Deficit Table).

The Obama plan would reduce taxes for low- and moderate-income families, but raise them significantly for high-bracket taxpayers (see Figure 2). By 2012, middle-income taxpayers would see their after-tax income rise by about 5 percent, or nearly \$2,200 annually. Those in the top 1 percent would face a \$19,000 average tax increase—a 1.5 percent reduction in after-tax income.

McCain would lift after-tax incomes an average of about 3 percent, or \$1,400 annually, for middle-income taxpayers by 2012. But, in sharp contrast to Obama, he would cut taxes for those in the top 1% by more than \$125,000, raising their after-tax income an average 9.5 percent.

These projections are built on descriptions of the candidates’ plans provided by senior McCain and Obama staff (see Table 1). However, TPC has also projected costs based upon what candidates have actually said on the campaign trail, and those promises paint a quite different picture (see the second panel of Summary Revenue Table, the bottom panel of Summary Deficit Table, and Figure 3).

Summary Deficit Table
Deficit Projections for Candidates' Tax Plans, 2009-2018

(billions of current dollars)

	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2009- 2018
CBO Baseline											
Baseline	-438	-431	-325	-126	-147	-170	-162	-207	-174	-135	-2,313
Tax Plans as Described by Campaign Advisors											
Obama	-448	-517	-565	-459	-520	-581	-615	-705	-722	-737	-5,867
McCain	-548	-591	-671	-604	-662	-662	-765	-901	-958	-1,014	-7,373
Tax Plans as Described in Stump Speeches											
Obama	-427	-484	-525	-417	-473	-531	-559	-645	-656	-666	-5,381
McCain	-827	-884	-983	-915	-988	-1,086	-1,160	-1,296	-1,363	-1,433	-10,934

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, CBO's September 2008 budget projections, and CBO's debt service model.

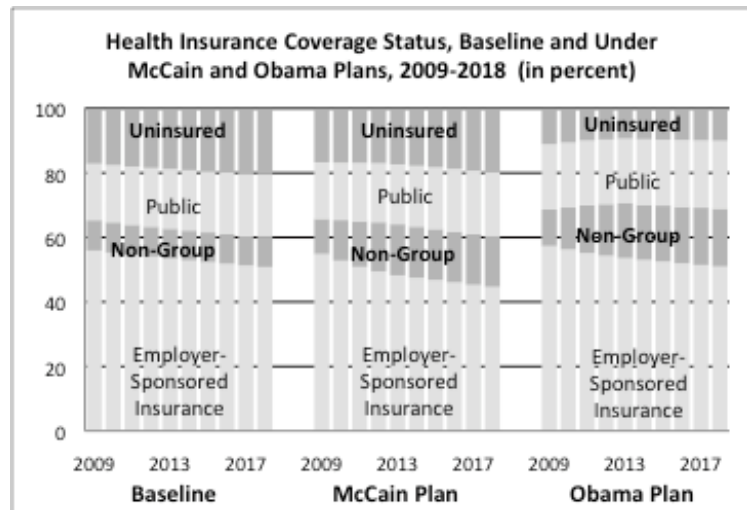
Note: Estimates combine CBO's September 2008 projections of the federal budget deficit with TPC's estimates of revenue changes that would result from the candidates' tax plans.

They do not include any spending reductions proposed by the candidates.

For instance, TPC estimates that one version of McCain's proposal to create an optional simplified individual income tax system would increase the cost of his plan by more than \$1 trillion over 10 years. McCain has provided few details for his plan, but TPC projected the costs of a similar proposal made by the Republican Study Committee.

Obama has proposed raising the payroll tax for those earning over \$250,000. Again, he has not provided details, but TPC assumes this would be a 2 percent income tax surcharge on adjusted gross income above \$250,000 for couples and \$200,000 for others and an additional 2 percent payroll tax for employers on each worker's earnings above those levels. Such a plan would increase taxes on high-income workers by nearly \$400 billion over a decade.

In the July 23 update of its analysis, TPC added a preliminary estimate of the candidates' health care proposals. Because the campaigns did not provide complete plans, TPC assumed certain details. We conclude that the McCain plan, which would replace the current exclusion for employer-paid premiums with a refundable income tax credit of up to \$5000 for anyone purchasing of health insurance and make other changes to the healthcare system, would increase the deficit by \$1.3 trillion over 10 years and modestly trim the number of uninsured. The Obama plan, which would make relatively low-cost insurance available to everyone through non-group pools and subsidize premiums for low- and moderate-income households, would cost \$1.6 trillion, but would also cover virtually all children and many currently uninsured adults.

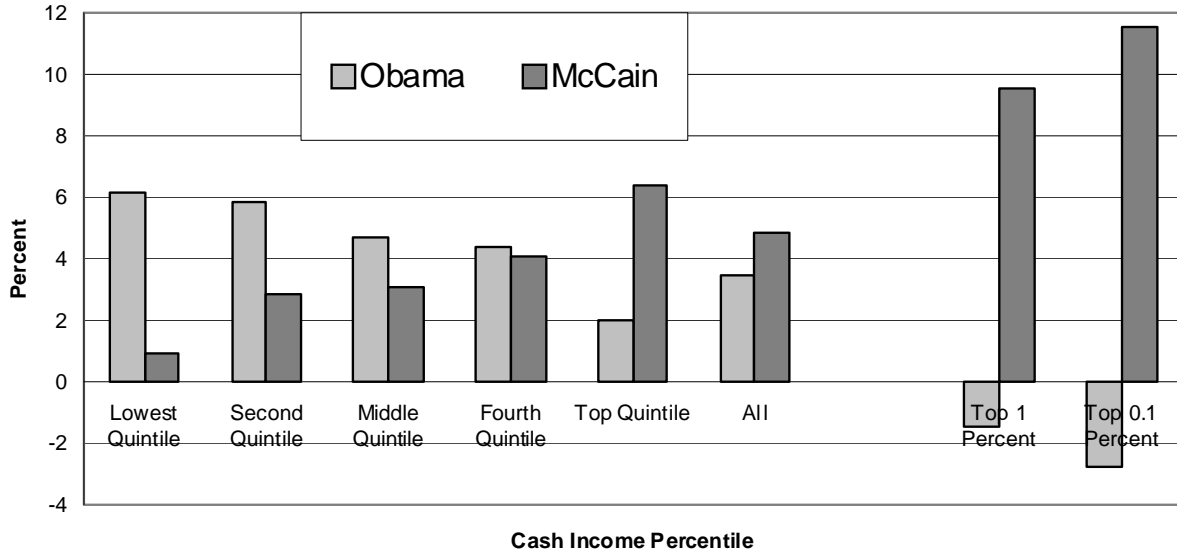


TPC projects the McCain plan would trim the uninsured by 1 million in 2009 and nearly 5 million by 2013, although their numbers would slowly rise thereafter because the tax credit would fail to keep pace with premiums (see figure). Obama would reduce the uninsured by 18 million in 2009 and 34 million by 2018. Even under the Obama plan, however, 34 million Americans would still lack insurance in 2018.

The new TPC analysis updates earlier sets of estimates released in June and July 2008. The revised estimates reflect changes in each candidate's plans, additional details released by the campaigns (particularly [that by the Obama campaign on August 14, 2008](#)), and modifications to our tax modeling procedures.

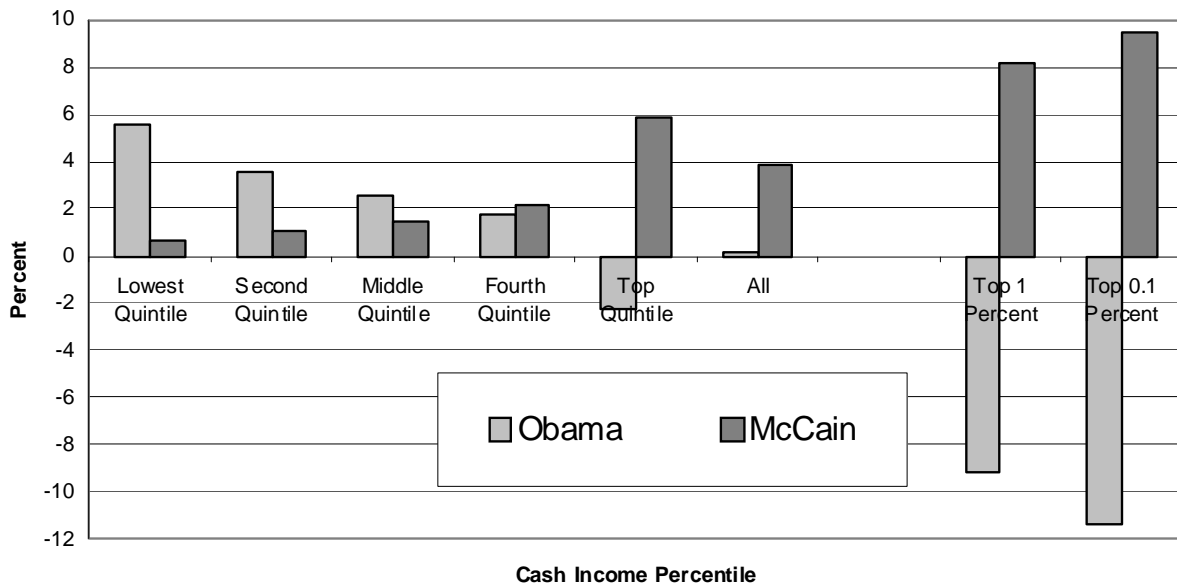
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Figure 2.
Obama and McCain Tax Proposals as Described by Campaign Staff and Economic Advisers
Average Percentage Change in After-Tax Income, 2012



Notes: All provisions are assumed to be fully phased in. Obama proposal does not include payroll surtax.

Figure 3.
Obama and McCain Tax Proposals as Described in their Stump Speeches
Average Percentage Change in After-Tax Income, 2009



Notes: All provisions are assumed to be fully phased in. The Obama proposal includes a payroll surtax.

Table 1. Summary of the Major Provisions of the McCain and Obama Tax Plans

	John McCain	Barack Obama
2001/2003 Tax Cuts	Make permanent all provisions other than estate tax repeal	Make permanent select provisions, including child credit expansions; 10, 15, 25, and 28 percent rates; changes to tax implications of marriage
Estate Tax	Make permanent estate tax with \$5 million exemption and 15 percent rate	Make permanent estate tax with \$3.5 million exemption and 45 percent rate
AMT	Permanently index 2007 AMT exemption; increase exemption by additional 5 percent per year after 2013 (temporarily)	Extend and index 2007 AMT patch
New Tax Cuts	<p>Increase the dependent exemption by two-thirds (phased in)</p> <p>Reduce the maximum corporate income tax rate from 35 to 25 percent (phased in)</p> <p>Allow first-year deduction of 3- and 5-year equipment, deny interest deduction (expires)</p> <p>Convert R&D credit to 10 percent of wages incurred for R&D, make permanent</p> <p>Suspend federal gas tax for summer 2008</p>	<p>Refundable "Making Work Pay Credit" of 6.2 percent of up to a maximum of \$8,100 of earnings</p> <p>Refundable "Universal Mortgage Credit" of 10 percent of mortgage interest for nonitemizers</p> <p>Eliminate income tax for seniors making less than \$50,000 per year</p> <p>Extend childless EITC phase-in range, increase phase-out threshold</p> <p>Increase EITC phase-in rate to 45 percent for families with three or more children</p> <p>Increase to \$5,000 the add-on to EITC phase-out threshold for married filers</p> <p>Make CDCTC refundable and increase maximum credit rate to 50 percent.</p> <p>Make saver's credit refundable and change formula to 50 percent match up to \$1,000 of contributions</p> <p>Make permanent R&D credit and renewable energy production tax credit</p> <p>Mandate automatic 401(k)s and automatic IRAs</p> <p>Increase Hope credit: 100% match rate on up to \$4,000</p>
Health	Replace income tax exclusion for employer-sponsored insurance with refundable credit of \$2,500 for individuals and \$5,000 for families	<p>Income-related subsidies for health insurance purchased through new health insurance exchange</p> <p>Pay or play for employers</p>
Tax Increases	<p>Repeal domestic production activities deduction</p> <p>Eliminate oil and gas loopholes</p> <p>Unspecified corporate base broadeners</p>	<p>Increase maximum tax rate on capital gains and qualified dividends to 20 percent</p> <p>Tax carried interest as ordinary income</p> <p>Eliminate oil and gas loopholes</p> <p>Tax publicly traded financial parts. as C corps.</p> <p>Codify economic substance doctrine</p> <p>Reallocate multinational tax deductions</p> <p>Require information reporting of basis for gains</p>
Simplification	Create optional alternative tax with two rates and larger standard deduction and personal exemption	Provide taxpayers with simple returns the option of pre-filled tax forms to verify and sign.

Table R1
Senator John McCain's Tax Proposals
As Described by Campaign Staff
Impact on Tax Revenue, 2009-18

	2009-13	2009-18
(1) Make permanent all provisions of the 2001 and 2003 tax cuts other than estate tax repeal, including the reduced marginal tax rates, the marriage penalty relief, and the expanded child credit.	-584.6	-1,729.8
(2) Index AMT exemption for inflation permanently, increase by inflation plus 5% annually beginning in 2014 until the joint exemption surpasses \$143,000, and allow personal nonrefundable credits against the AMT.	-382.5	-1,232.8
(3) Increase estate tax exemption to \$5 million (unindexed), cut rate to 15%.	-156.2	-579.6
(4) Increase dependent exemption by \$500 annually between 2010 and 2016 and index for inflation thereafter. Accelerate increase for joint tax units.	-41.7	-177.9
(5) Reduce corporate income tax rate to 30% in 2010-11, 28% in 2012-13, 26% in 2014, and 25% thereafter.	-231.0	-734.7
(6) Repeal domestic production activities deduction.	43.8	97.6
(7) Allow expensing of all 3-year and 5-year business equipment. Deny interest deductions for expensed equipment. Sunset after 2013.	-231.4	-45.0
(8) Permanently extend and modify the R&D credit.	-51.5	-133.1
(9) Eliminate corporate welfare. Unverifiable campaign-provided revenue estimate	157.8	364.8
Total of all provisions	-1,477.3	-4,170.5
Addenda:		
Net revenue impact against tax cuts extended, AMT-patched baseline	-329.7	-595.8
Federal tax revenue as a share of GDP	17.6	17.6

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

Table R2
Senator Obama's Tax Proposals of August 14, 2008:
Economic Advisers' Version (No Payroll Surtax)
Impact on Tax Revenue, 2009-18

	2009-13	2009-18
(1) Make permanent the EGTRRA child credit expansions, marriage penalty relief, 10/15/25/28% rates; increase Pease and PEP thresholds to \$250,000 (\$200,000 for unmarried individuals).	-307.5	-853.5
(2) Make permanent the 0%/15% tax rates on capital gains and qualified dividends for taxpayers with AGI under \$250,000 (\$200,000 unmarried). Impose 20% rate on gains and dividends for taxpayers above those thresholds, effective 01/01/09.	-24.0	-166.8
(3) Restore PEP/Pease with the increased thresholds in 2009-10; restore the 36/39.6% rates	71.7	71.7
(4) Extend and index the 2007 AMT patch	-379.9	-1,167.1
(5) Freeze 2009 estate tax law (exemption not indexed)	-76.6	-284.1
(6) Create "Making Work Pay Credit"	-323.7	-709.5
(7) Create "Universal Mortgage Credit"	-54.0	-125.7
(8) Mandate automatic 401(k)s and automatic IRAs, expand saver's credit	-92.3	-203.5
(9) Create "American Opportunity Tax Credit"	-58.2	-138.9
(10) Phased-in expansion of earned income tax credit	-19.3	-46.5
(11) Expand child and dependent care tax credit	-10.6	-22.8
(12) Exempt seniors earning less than \$50,000 from income taxation with phase-in of tax for those with income between \$50,000 and \$60,000.	-35.4	-69.9
(13) Make permanent the R&D and renewable energy production credits	-56.6	-155.1
(14) 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 ¹	18.3	18.2

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

(1) In official budget estimates the expansion of refundable credits would increase outlays rather than reduce revenues. Since we do not score outlays, we include the effect as a reduction in revenue in these tables.