

# Tax Policy Briefing for the First 2012 Presidential Debate



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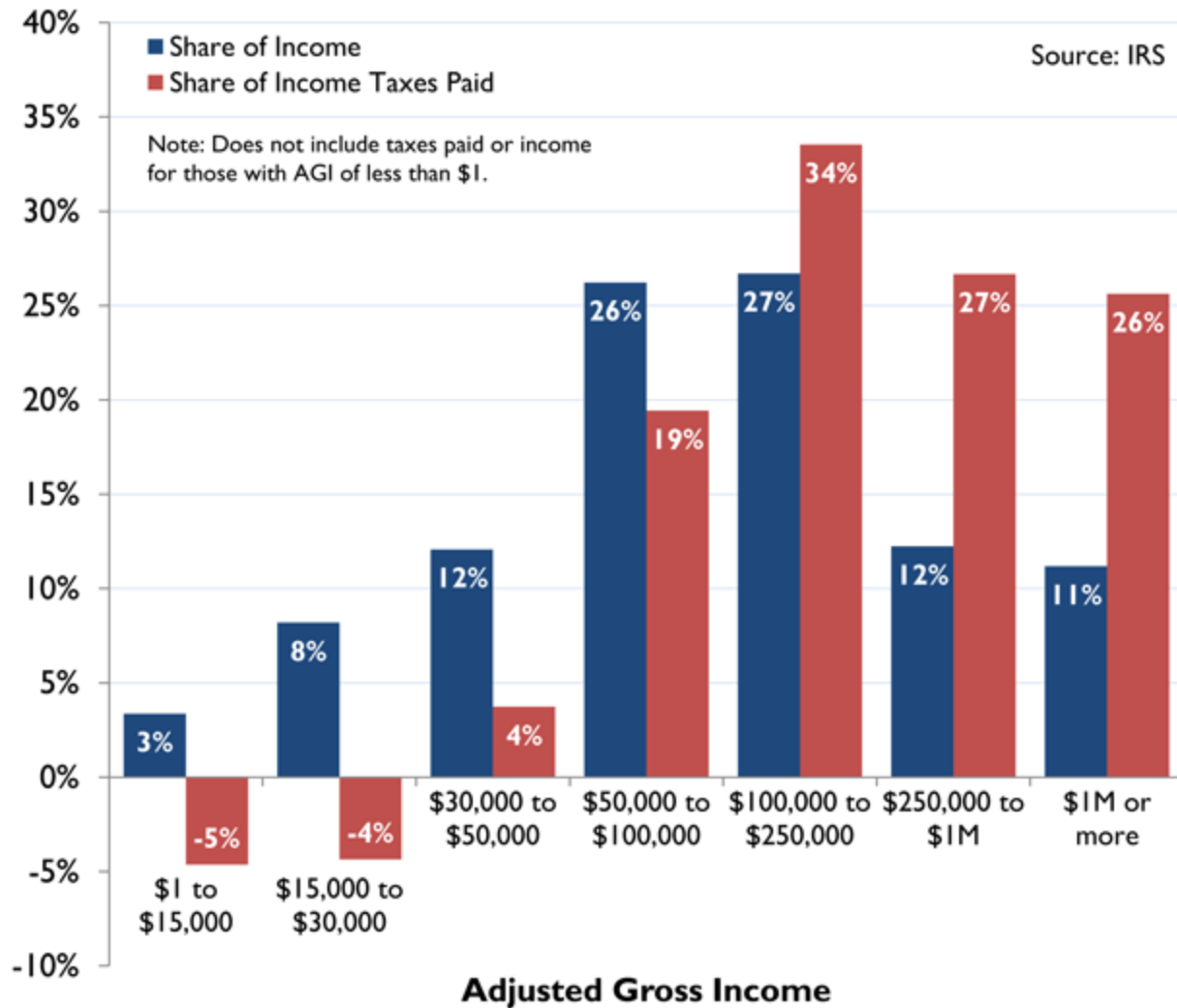
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# Five Commonly Misunderstood Issues

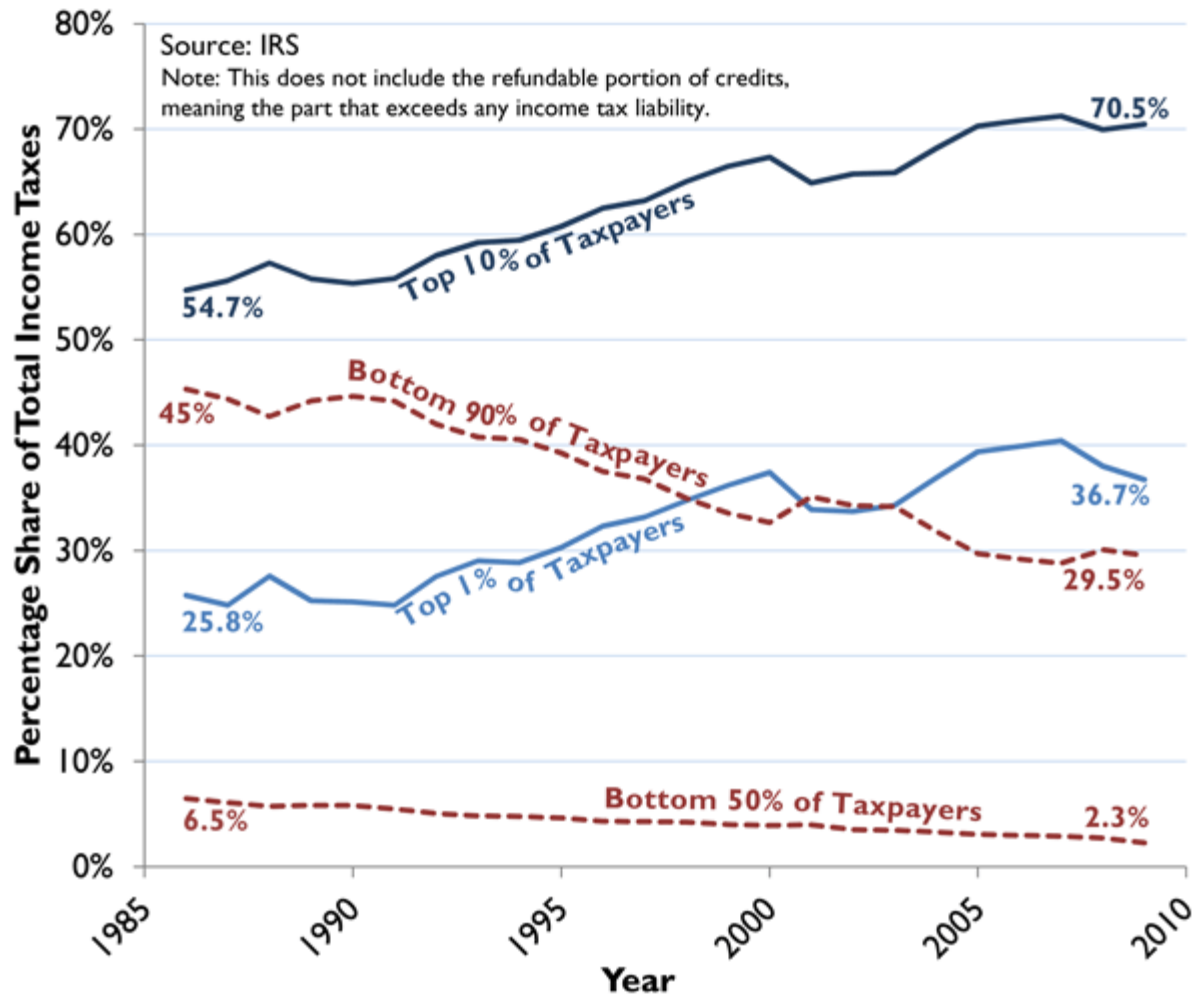
- How much the rich actually pay – the “fair share” issue
- At what rate they pay – effective tax rates
- How many people don't pay – the nonpayers
- Millionaires and Billionaires
- Causes of inequality – issues beyond the reach of tax policy

## The Income Tax Burden Is Very Progressive The Rich Pay More than Half of All Income Taxes

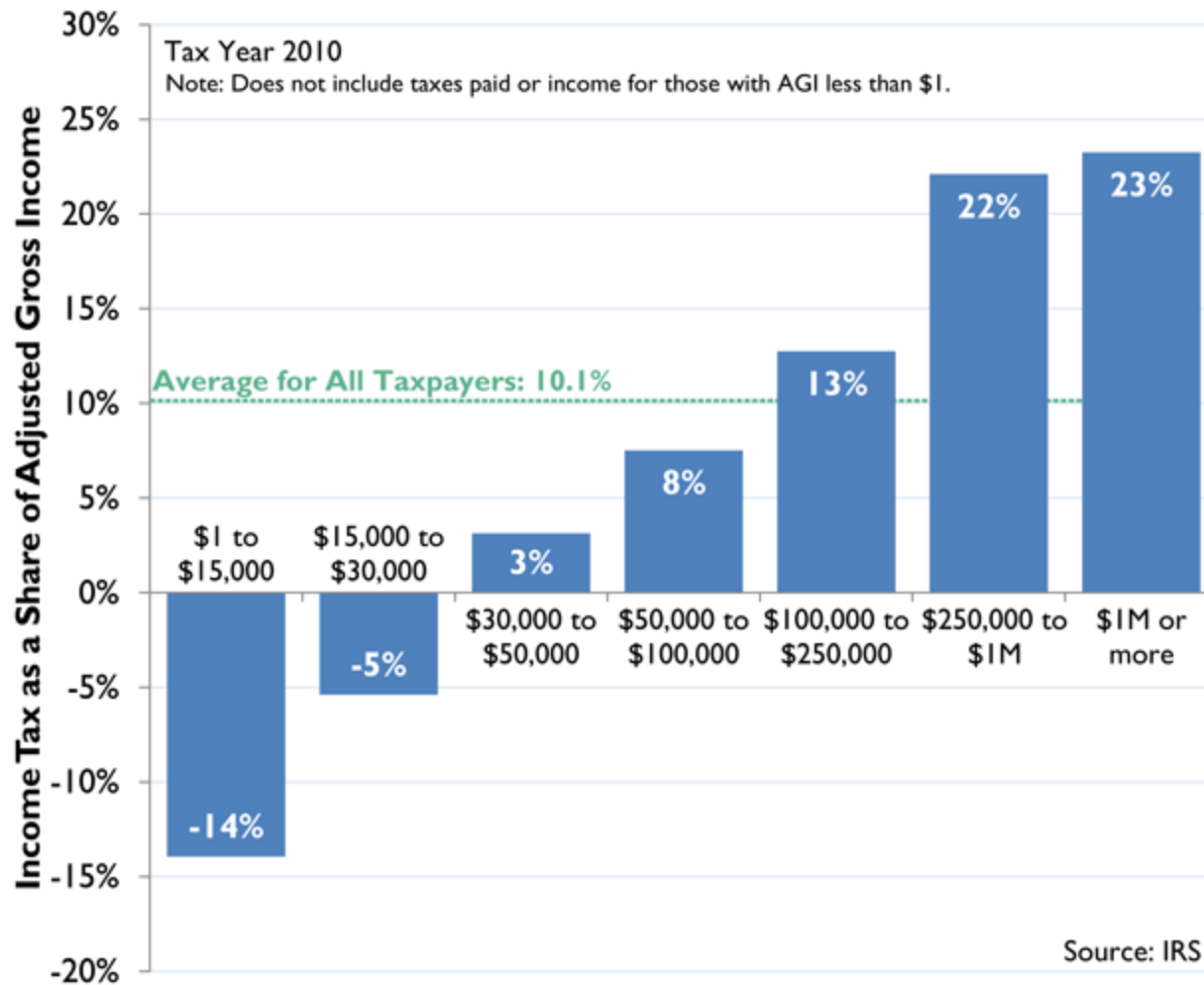


# The Tax Burden Has Grown More Progressive Over Time

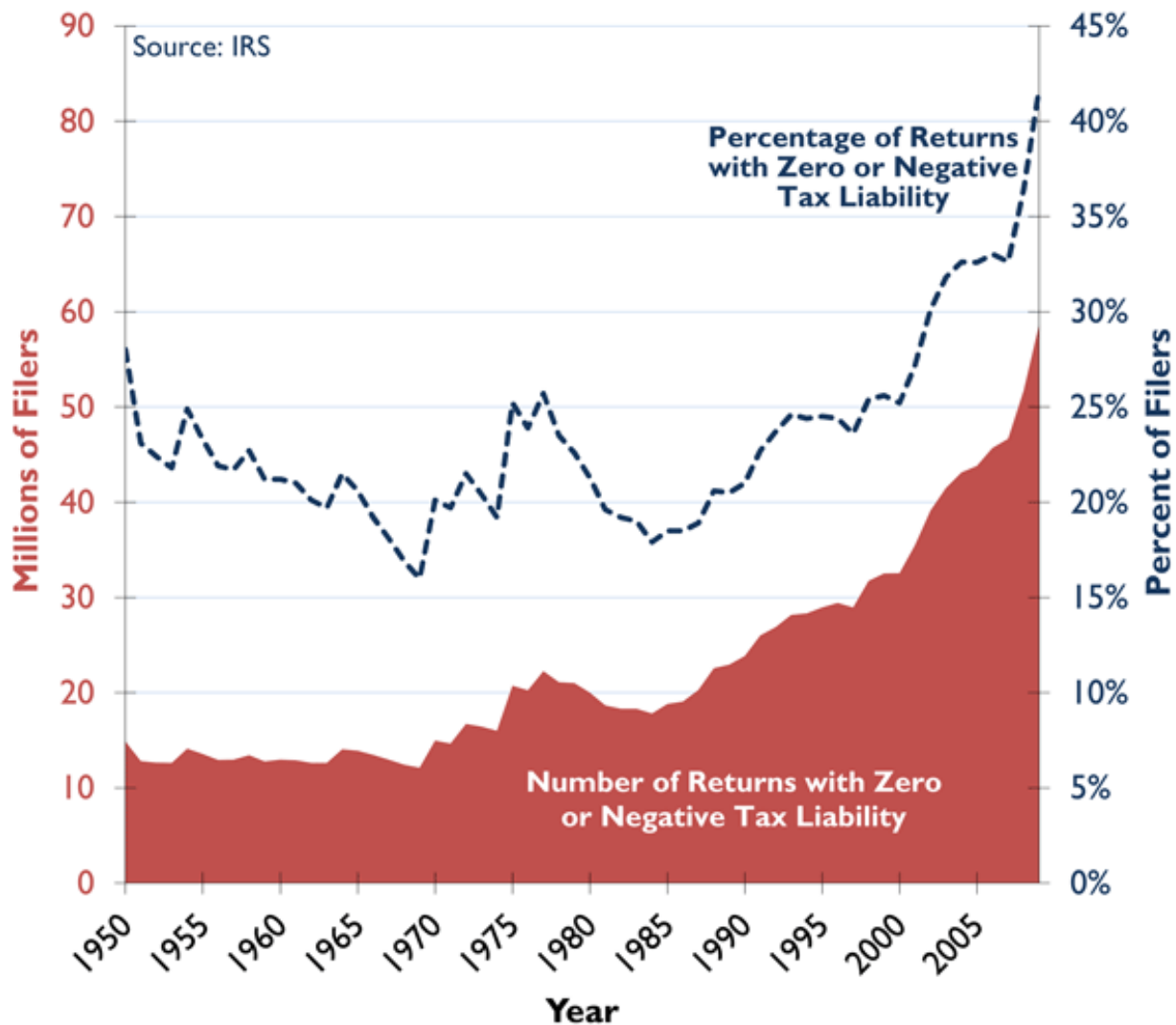
## The Top 1% of Taxpayers Pay a Greater Share of the Tax Burden than the Bottom 90% Combined



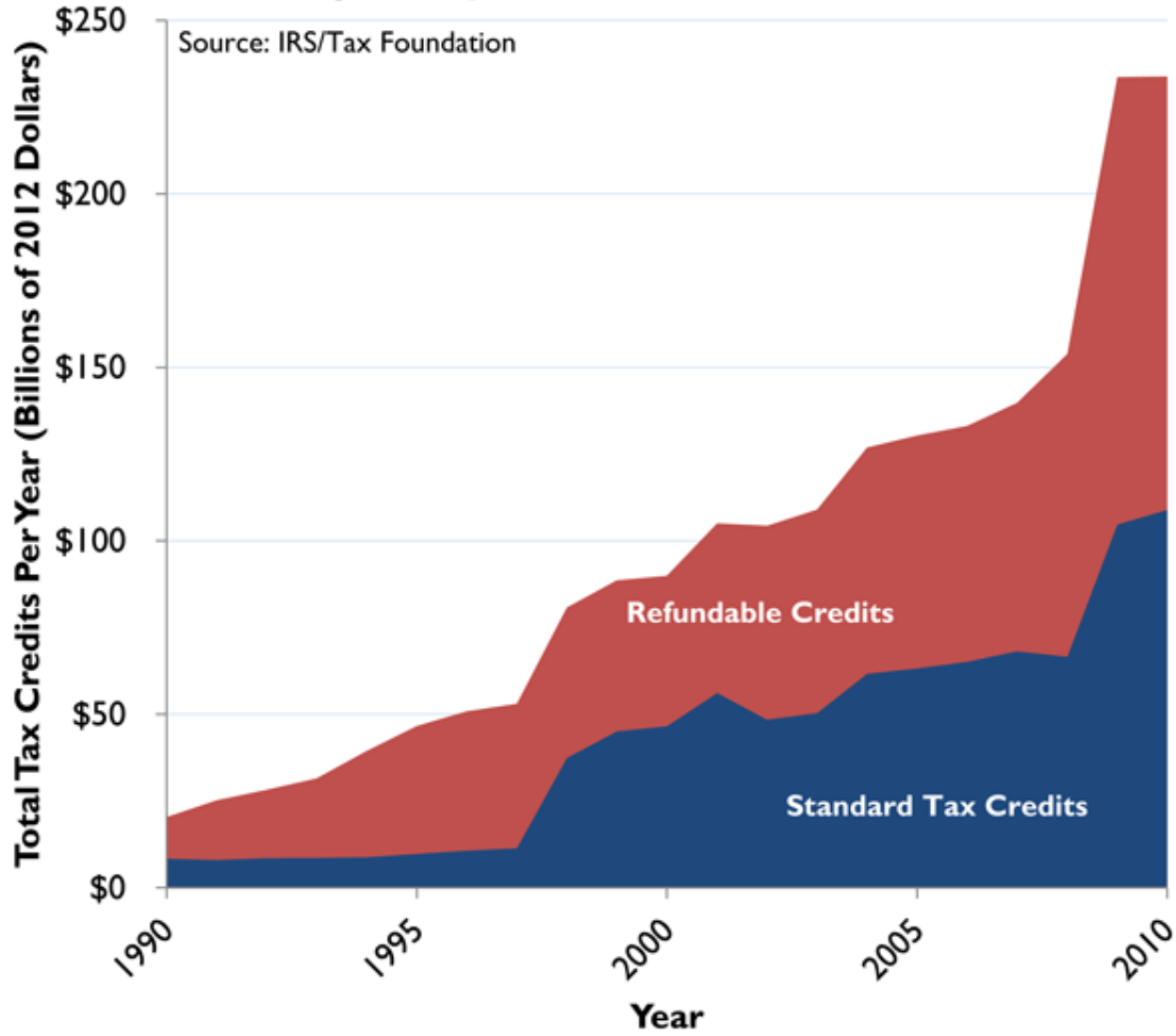
## Even After Credits and Deductions, the Tax System Is Progressive: Effective Tax Rates Rise as Incomes Rise



## The Number and Percentage of Filers Who Pay No Income Taxes Has Reached Record Levels

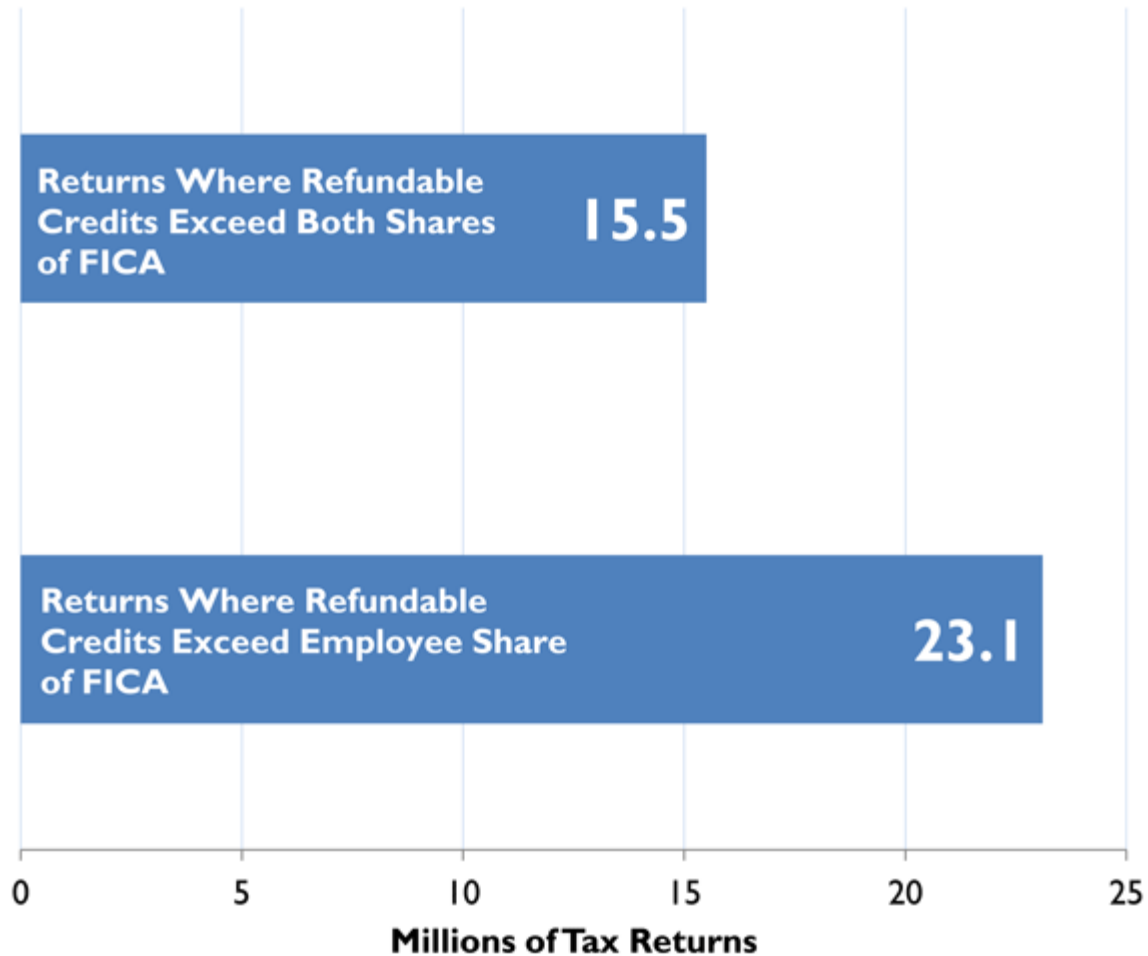


## The Proliferation of Tax Credits is the Major Factor in the Growth in Nonpayers – Especially Refundable Credits



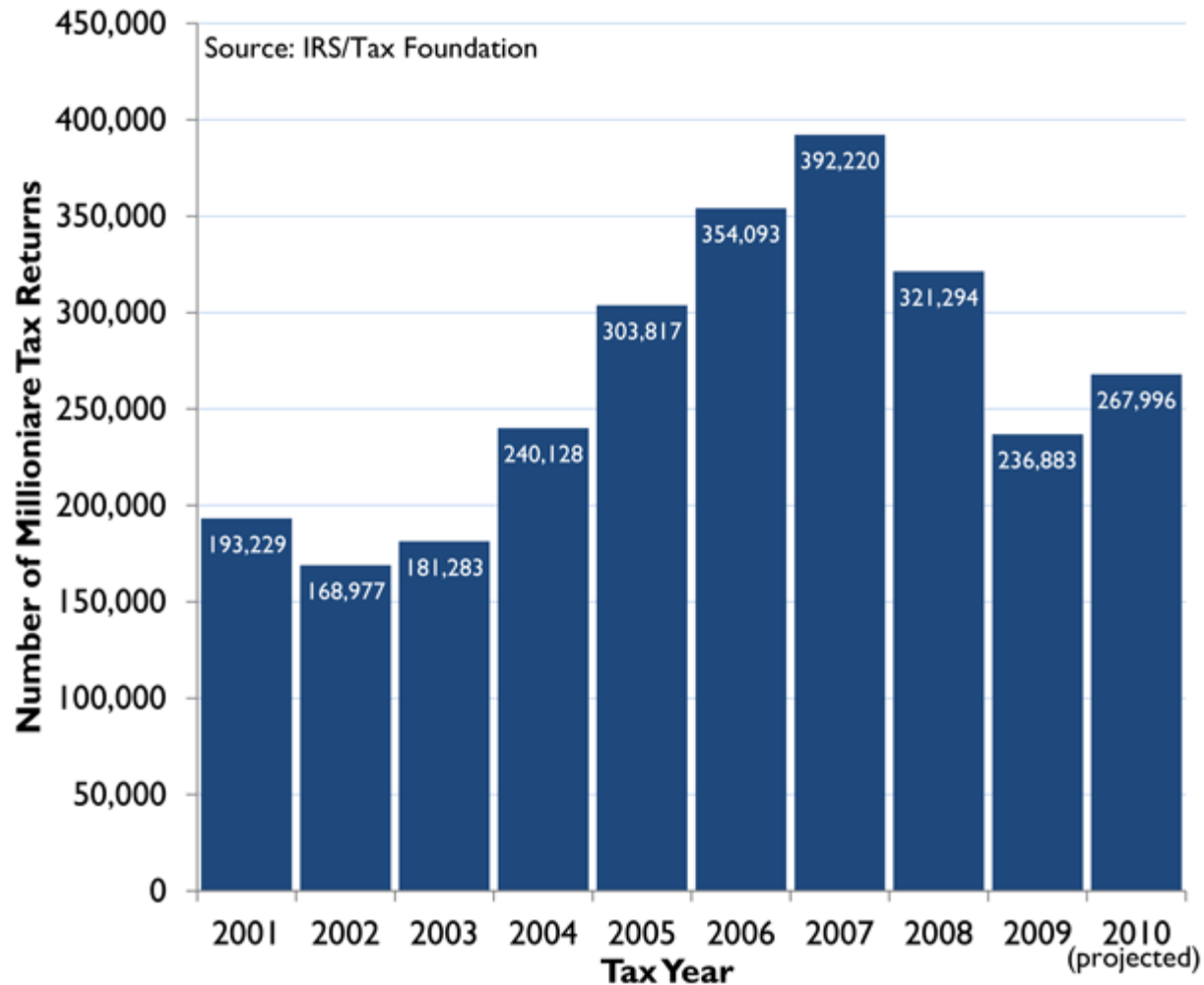
## Refundable Tax Credits Exceed the Payroll Taxes Paid by Millions of Workers

Source: Joint Committee on Taxation estimation for 2010

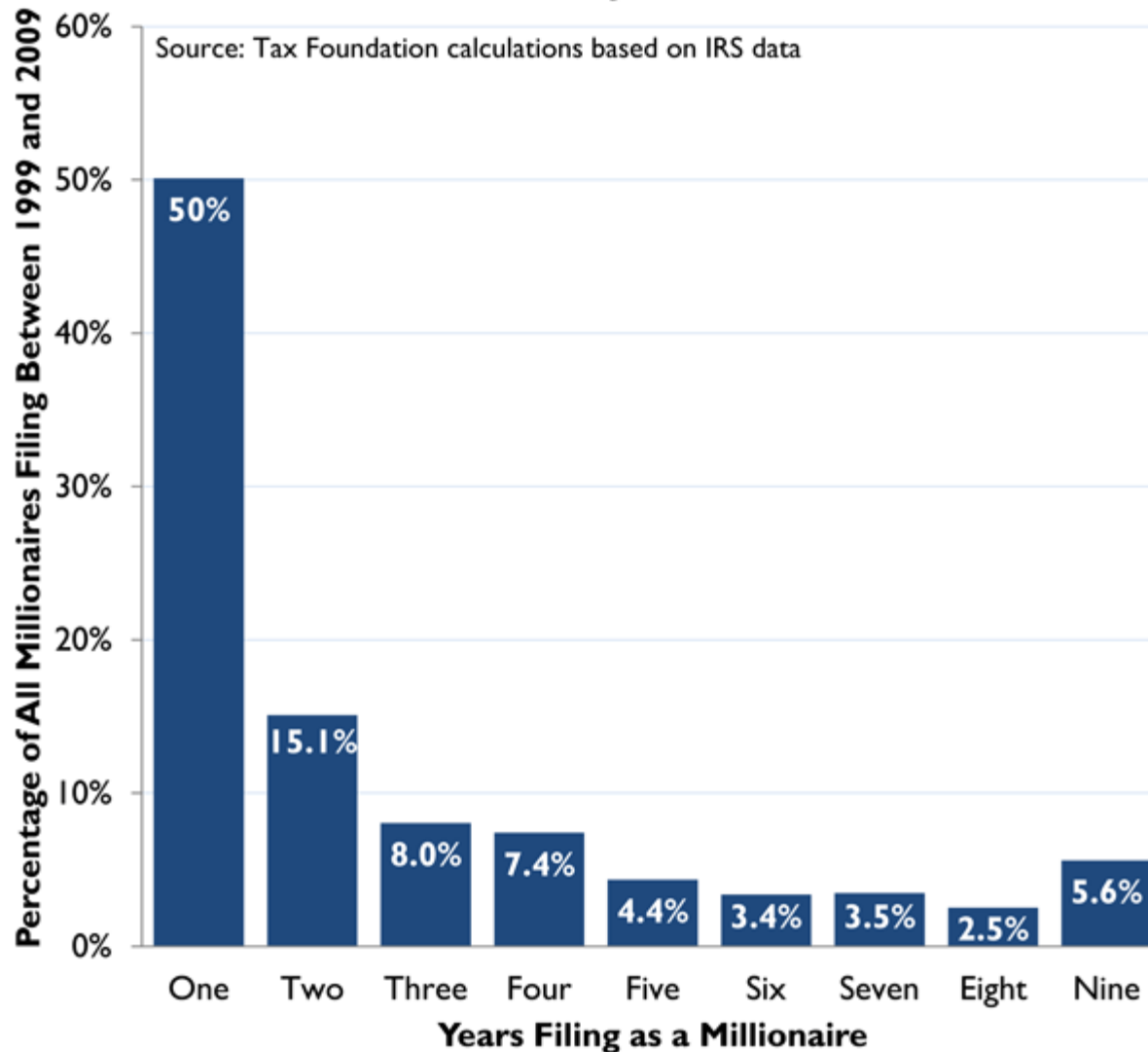




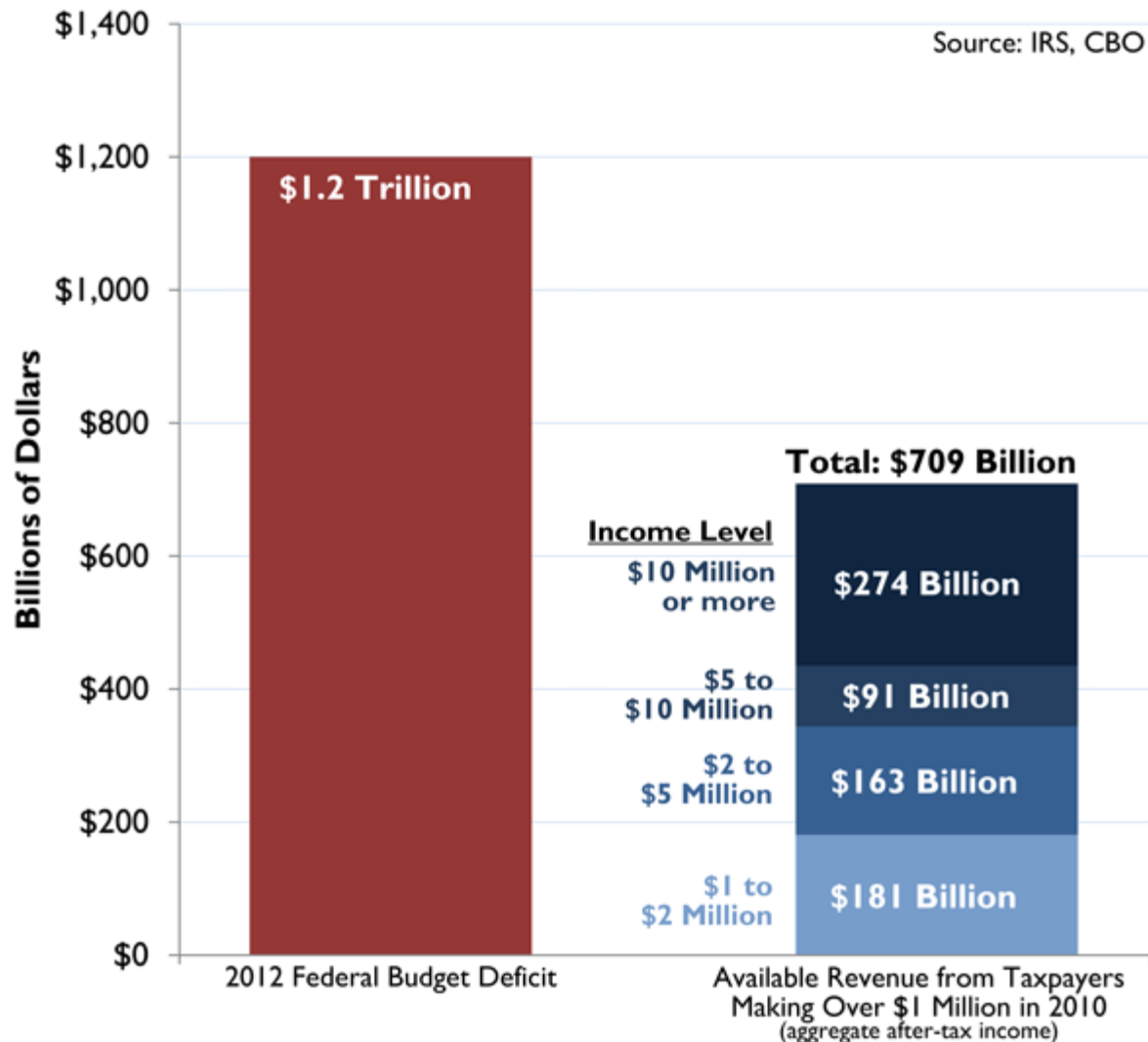
## The Business Cycle Causes the Number of Millionaire Tax Returns to Fluctuate Considerably Each Year



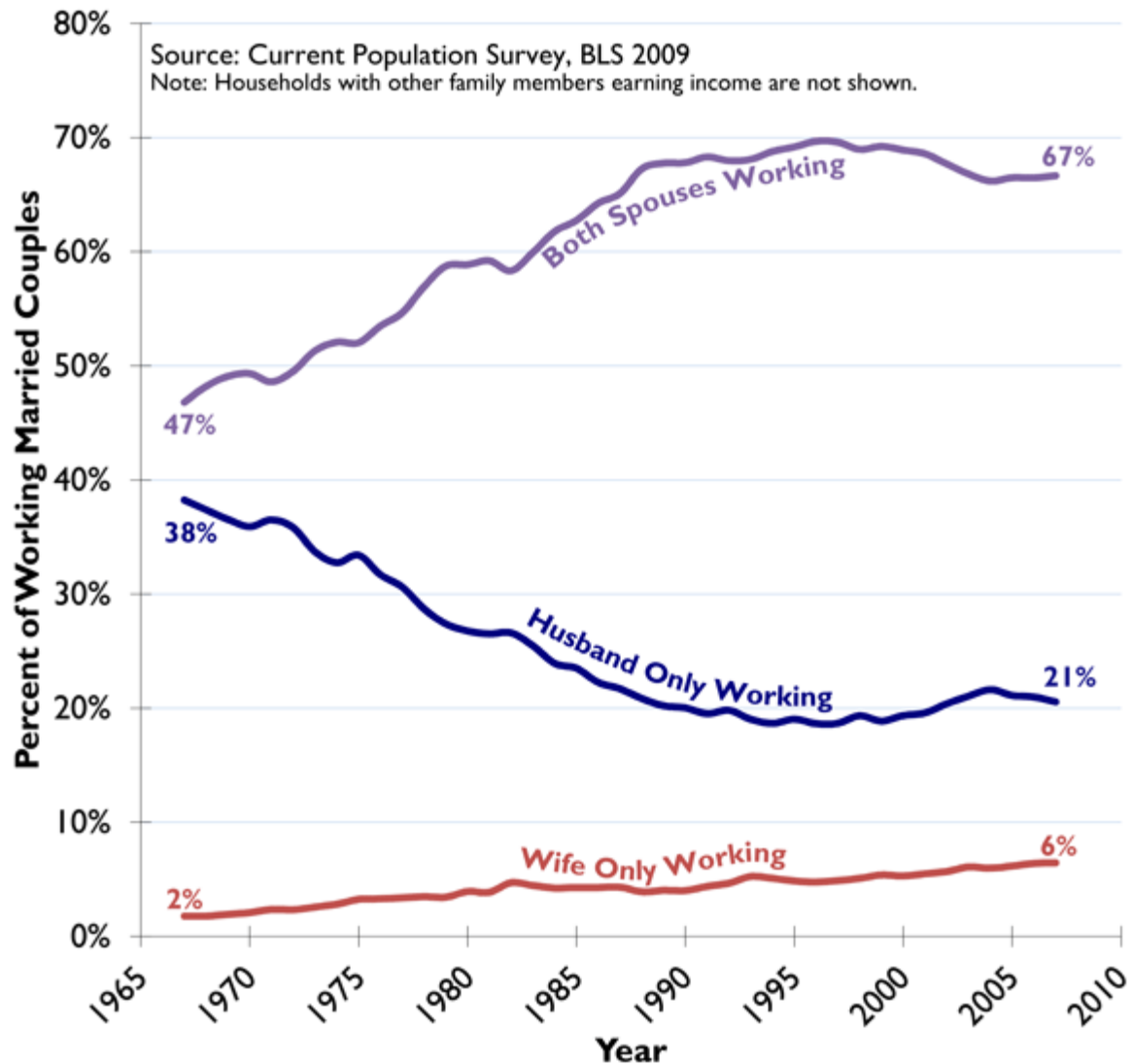
## Millionaire Status is Fleeting: Half Are Millionaires Just Once



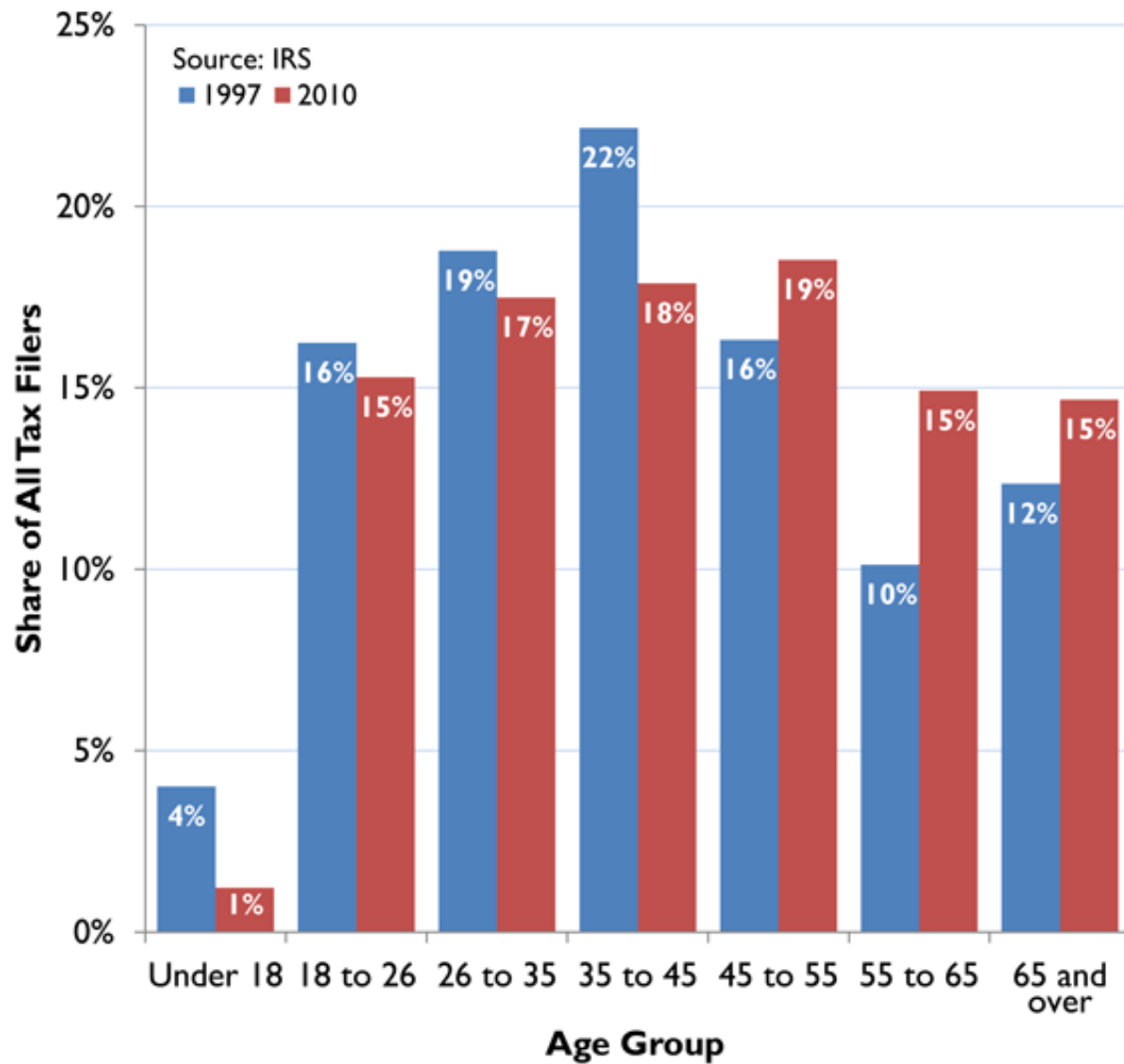
## Taxing the Incomes of Those Earning Over \$1 Million at 100% Won't Erase the Deficit



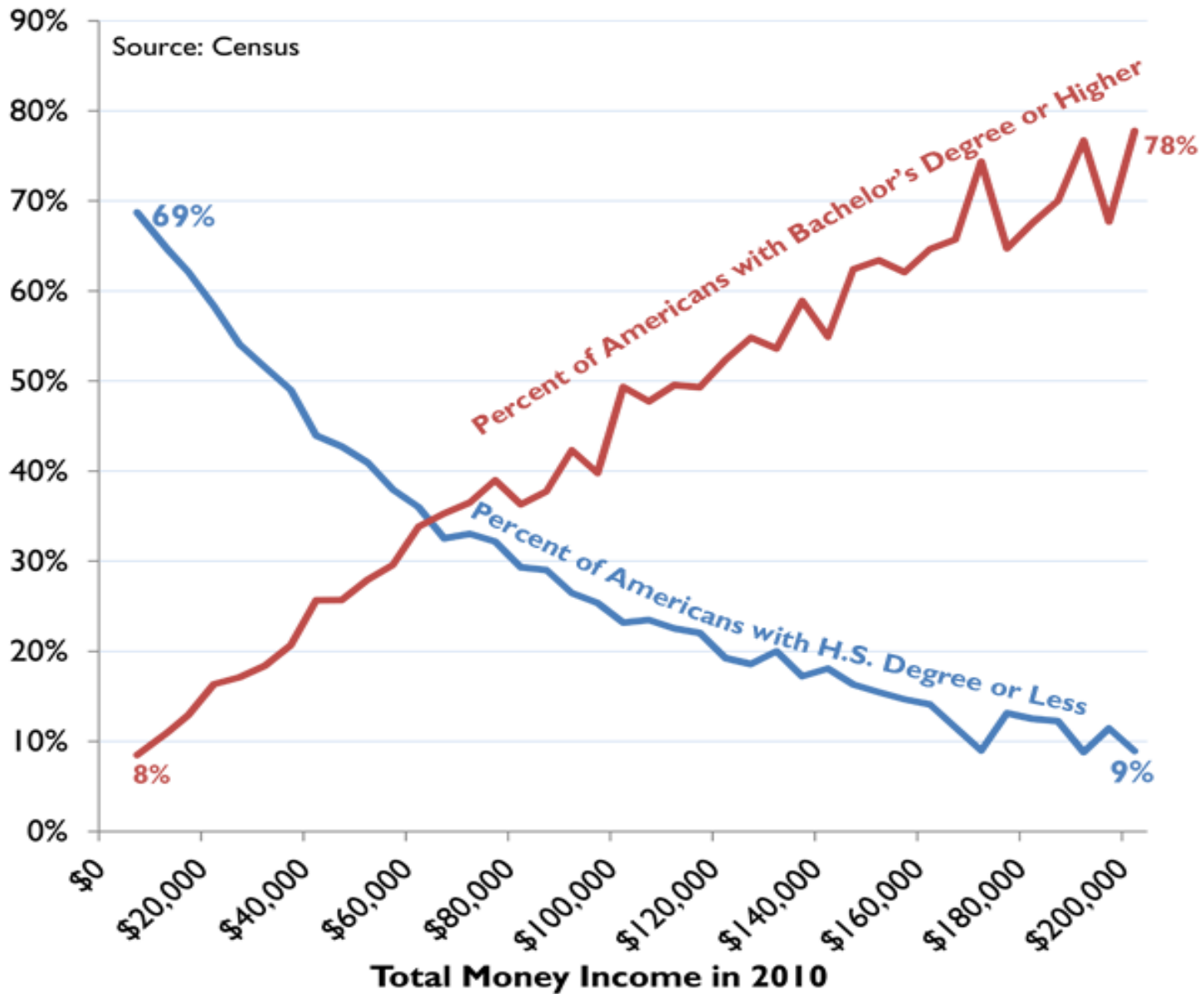
## America Has Become a Nation of Dual-Income Working Couples



## Nearly Half of All Taxpayers are Over 45 Today Compared to 39% in 1997



# America's Income Gap Is Really an Education Gap



# Congressional Research Service's Flawed Analysis Of Taxes and Economic Growth

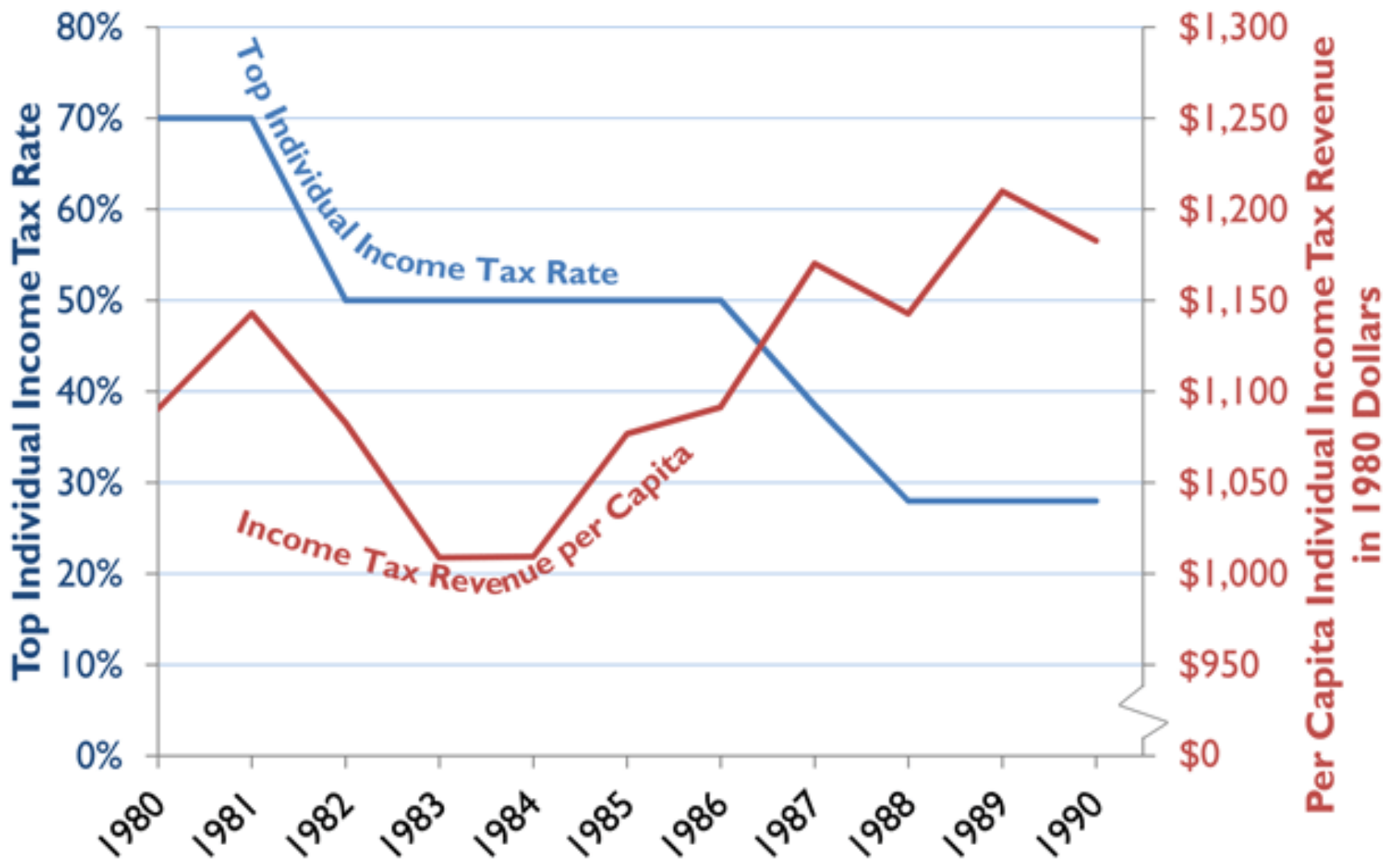
- I. CRS looks at just one country, when excellent data is available from 34 OECD countries.
  - I. Researchers that do such cross-country panel studies, such as the OECD, find that personal income taxes are second only to corporate income taxes in their harm to the economy.
- II. CRS looks only at tax rates on personal income and capital gains, and relates that to investment, productivity, and growth.
  - I. The biggest tax on investment is the corporate income tax, which CRS ignores. The capital gains tax, and the dividend tax, is just one additional layer, along with the estate tax.
- III. CRS takes no account of the long term effects of tax policy.
  - I. Their regressions relate one year tax changes to one year growth changes, when in fact saving and investment often takes years and even decades to come to fruition.

# Tax Policy Center Claims Romney's Plan Would Raise Taxes on Middle Class, but Assumes Zero Economic Growth

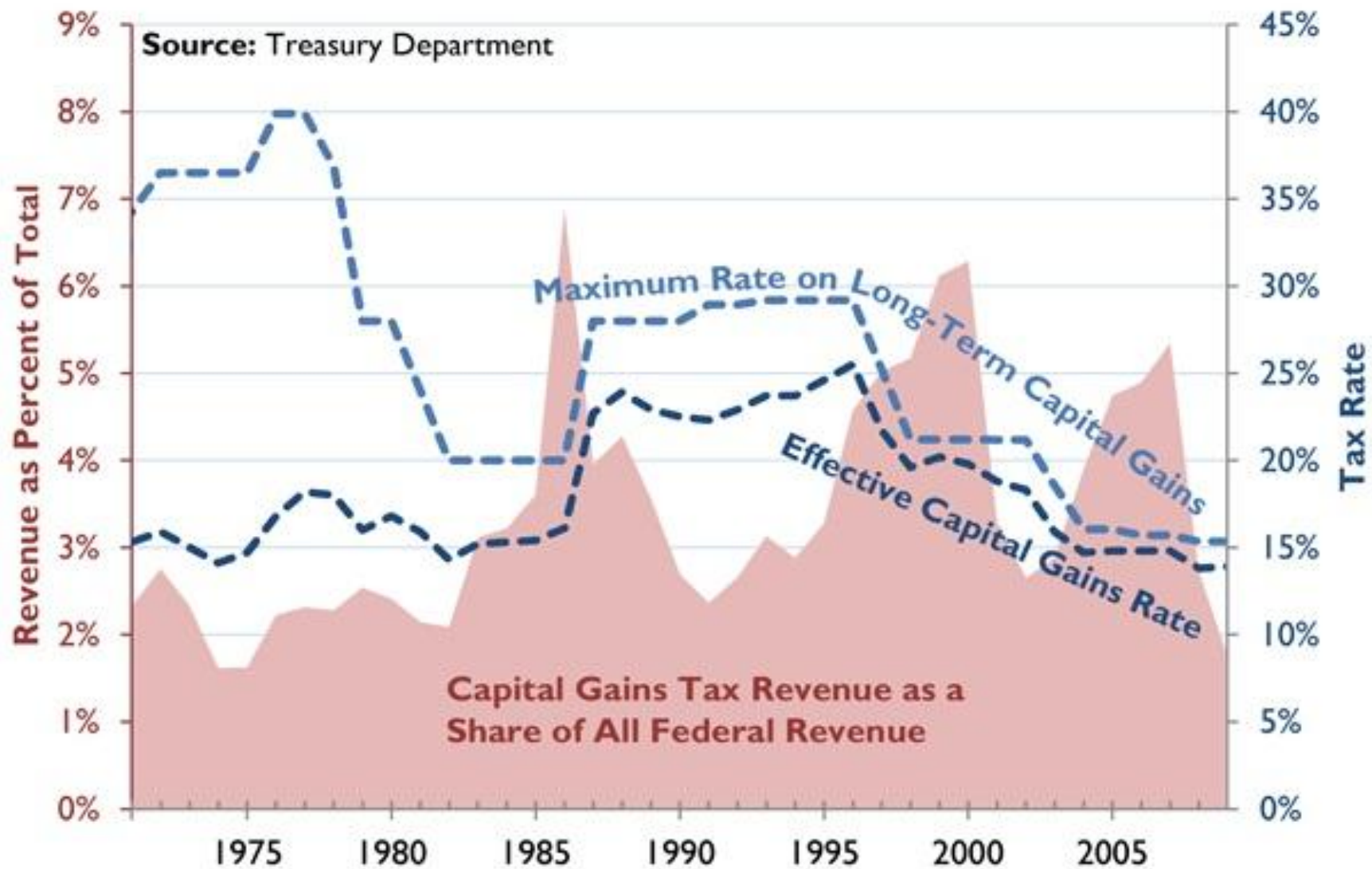
Cash Income Group	Average Change in After-tax Income from Romney Revenue-Neutral Tax Reform Plan (\$ per tax unit)				
	Static TPC Estimate (0%)	0.5% Increase in Pre-Tax Incomes	1.0% Increase in Pre-Tax Incomes	1.5% Increase in Pre-Tax Incomes	2.0% Increase in Pre-Tax Incomes
\$0-\$30,000	-183	-82	20	121	223
\$30,000-\$50,000	-431	-198	35	269	502
\$50,000-\$75,000	-641	-302	36	375	714
\$75,000-\$100,000	-884	-418	48	514	979
\$100,000-\$200,000	-1,339	-624	91	806	1,521
\$200,000-\$500,000	1,808	3,274	4,740	6,206	7,672
\$500,000-\$1,000,000	17,136	20,517	23,898	27,279	30,660
\$1,000,000 +	87,117	100,454	113,792	127,129	140,466
All Tax Units	0	404	808	1,213	1,617



# Reagan Lowered the Top Rate to 28%, Raised Revenue



# Periods of High Capital Gains Tax Rates Produce Less Revenue



# Effects of the Romney Tax Plan on the Economy and Budget

	All Tax Provisions	Corporate Income Tax Cut	Individual Income Tax Cut	End AMT	Capital Gains and Dividends Tax Cut	End Estate Tax
GDP	7.4%	2.3%	1.8%	0.1%	1.6%	0.9%
Private business GDP	7.8%	2.3%	2.0%	0.1%	1.6%	0.9%
Capital stock	18.6%	6.3%	3.2%	0.3%	4.4%	2.5%
Wage rate	4.7%	1.9%	0.5%	0.1%	1.3%	0.8%
Hours worked	2.9%	0.4%	1.5%	0.1%	0.3%	0.2%
Federal revenue	-\$136.0	\$19.1	-\$113.7	-\$18.1	\$15.3	\$1.9
Federal expenditure	\$34.0	\$12.2	\$5.9	\$0.5	\$8.5	\$4.8
Federal deficit	-\$170.0	\$6.9	-\$119.6	-\$18.6	\$6.8	-\$2.9
Static revenue	-\$336.5	-\$51.6	-\$168.0	-\$22.4	-\$33.6	-\$25.4
Dynamic revenue	-\$136.0	\$19.1	-\$113.7	-\$18.1	\$15.3	\$1.9
% Revenue Reflow	59.6%	136.9%	32.3%	19.4%	145.6%	107.4%
\$GDP	\$1,063.7	\$325.6	\$266.7	\$19.7	\$228.4	\$128.2
\$GDP/\$tax reduction.*	\$7.82	N.A.	\$2.35	\$1.09	N.A.	N.A.

Note: All dollar figures are in billions. The simulation was run separately for each provision, and because of interactions the separate effects do not necessarily add up to the total effect of all provisions.

\* Positive numbers indicate that the government would lose revenue with this tax cut, but that economic output (GDP) and people's pretax incomes would rise by the indicated amount for each dollar of revenue lost. N.A. indicates that the tax cut would actually raise revenue due to the economic benefit it provides, and that GDP and people's pre-tax incomes would rise with no cost (and some benefit) to the federal budget.

# Comparison of Candidates' Tax and Budget Plans

	Obama	Romney
Top Marginal Rate on Personal Income	39.6%	28%
Top Marginal Rate on Long Term Capital Gains	30%*	15%
Top Marginal Rate on Dividends	43.4%**	15%
Top Marginal Rate on Corporate Income	28%	25%
Top Marginal Rate on Corporate Income from Foreign Sources	28%	0%
Tax Expenditures (Some 250 credits, deductions, etc., amounting to more than \$1 trillion a year)	Adds more than are taken away and complicates many existing ones, but limits benefits for high-income earners	Eliminates most, except middle-class preferences for mortgage, health, retirement, and charity
Alternative Minimum Tax, PEP and Pease (Limits high-income tax benefits)	Maintains PEP and Pease; replaces AMT with "Buffett Rule" 30% tax	Eliminates
Payroll Tax	Increases top rate from 2.9% to 3.8%	Maintains
Other Taxes in Affordable Care Act	Maintains	Eliminates
Estate Tax	Maintains	Eliminates
Gas Tax	Maintains	Maintains
Tax Revenue as a Share of GDP in 2015	19.4%	18.0%
Spending as a Share of GDP in 2015	22.4%	20.0%
Deficit as a Share of GDP in 2015	3.1%	2.0%
Publicly Held Debt/GDP in 2015	79.4%	Not Scored
Balanced Budget	Never	2020

\* Based on the "Buffett Rule" minimum tax of 30%.

\*\* Includes the 3.8% investment tax under the Affordable Care Act.

Sources: Candidate statements, CBO