



Senator McCain's and Senator Obama's Tax Plans: Different Roads Taken

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Both candidates purport to address some key areas of economic insecurity to the average American: health care, energy costs, college costs, housing devaluation, and low and/or stagnant wages, to name a few. But the candidates differ dramatically in their use of tax policy to address these issues. Senator Obama has included a set of carefully targeted tax proposals that narrowly aim benefits to specific types of taxpayers, while Senator McCain provides broad tax relief with benefits that are indirect. In both cases, tax relief is provided to the vast majority of the electorate.

Table 1 below lists the major individual tax provisions put forward by the two candidates along with the price tag of each as estimated by the Urban-Brookings Tax Policy Center. What is striking about this list is that Senator McCain has only two major proposals that affect individuals directly: (1) the expansion of the dependent exemption, and (2) a new health care tax credit. In contrast, Senator Obama has at least seven major provisions that focus on a variety of issues, such as housing, education, child care, and low-income work. Both candidates also extend the major provisions included in the Bush tax cuts enacted in 2001 and 2003, although Senator Obama limits the extension to those with incomes below \$250,000.

Table 1
Tax Relief for Individuals

Senator McCain	Senator Obama
<ul style="list-style-type: none"> • Extend most of the 2001/2003 tax relief. Tax relief includes the higher child tax credit, marriage penalty relief, new 10% tax rate, lower tax rates on dividends and capital gains, lower tax rates generally. (-\$1,729.8 billion) • Increase the dependent exemption (the 2013 level would be twice the level in 2009). (-\$177.9 billion) • New refundable health care tax credit (\$5,000 for family coverage, \$2,500 for individual coverage). Replaces the current exclusion for employer-based health insurance premiums. (budget neutral) 	<ul style="list-style-type: none"> • Extend the 2001/2003 tax relief, but only for taxpayers with less than \$250,000 in income. Tax relief includes the higher child tax credit, marriage penalty relief, new 10% tax rate, lower tax rates on dividends and capital gains, lower tax rates generally. (-\$1,020.3 billion) • Refundable "Making Work Pay Credit" of 6.2 percent of earnings, up to a maximum of \$8,100. (-\$709.5 billion) • Refundable "Universal Mortgage Credit" of 10 percent of mortgage interest for non-itemizers. (-\$125.7 billion) • Eliminate income tax for seniors making less than \$50,000 per year. (-\$69.9 billion) • Extend childless EITC phase-in range, increase phase-out threshold. Increase EITC phase-in rate to 45 percent for families with three or more children. (-\$49.4 billion) • Make the child and dependent care tax credit refundable and increase the maximum credit rate to 50 percent. (-\$22.8 billion) • Make the saver's credit refundable and allow 50 percent match up to \$1,000 of contributions. (-\$203.5 billion) • Increase the Hope education credit (100% match rate on up to \$4,000). (-\$138.9 billion)

Source: Estimates are from the Urban-Brookings Tax Policy Center, Tables T08-167, T08-0192 and T08-0193, August 14, 2008.

Both candidates also propose changes in how businesses are taxed. Again, there is a stark contrast between the approaches. Senator Obama has put forward a few modest business tax provisions to expand, for example, the research and experimentation credit and a new refundable health tax credit for small business to cover the cost of health insurance premiums. But Senator McCain has a set of expansive proposals that fundamentally reshape the tax system.

As shown in Table 2, Senator McCain would lower the top corporate tax rate from 35 percent to 25 percent and allow businesses to write off all investment in equipment immediately. The lower corporate tax rate is a nod to the notion that the United States, with the second-highest corporate tax rate among industrialized nations, may be falling behind globally. The faster write-off of business investment, although temporary, is aimed at encouraging more investment. In economic terms, these proposals dramatically reduce the tax on the return to investment, thereby reducing one of the more harmful aspects of the U.S. income tax, the tax penalty on saving and investment. These proposals are intended to increase labor productivity by attracting and encouraging more investment, with the idea that higher labor productivity is one of the drivers of higher real wages and living standards.

Table 2 Tax Relief for Businesses	
Senator McCain	Senator Obama
<ul style="list-style-type: none"> • Lower the top corporate tax rate from 35 percent to 25 percent. (-\$734.7 billion) • Allow investment in equipment to be written off immediately. (-\$45.0 billion) • Expand and permanently extend the research and experimentation credit. (-\$133.1 billion) 	<ul style="list-style-type: none"> • Expand and permanently extend the research and experimentation credit. (-\$155.1 billion) • Small Business Health Tax Credit. New refundable tax credit of up to 50% on premiums paid by small businesses. (NA)
Source: Estimates are from the Urban-Brookings Tax Policy Center, Tables T08-167, T08-0192 and T08-0193, August 14, 2008.	

From a tax policy perspective, the approaches of the two candidates are vastly different. Senator Obama emphasizes who gets what, and Senator McCain focuses on economic growth and broadly reshaping how the tax system affects household and business decisions. To put it differently, one focuses on redistribution and the other focuses on improving economic incentives. Also, focusing on who gets what is, by its very nature, more near-term, while promoting economic growth is more long-term.

One cannot get a good picture of what the candidates are trying to achieve by considering only the individual tax or the business tax provisions. One needs to apply a more holistic approach and consider the full set of proposals. Senator Obama provides tax relief directly to individuals, without major changes in how the tax system interacts with or affects individual and business decision making. Senator McCain provides broad tax relief and channels most of it to businesses, with the notion that the best way to help workers is to encourage investment and ensure that the

U.S. remains competitive in the global marketplace. The policies present very different choices: redistribution versus economic growth, and short run versus long term.

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