

## MEMORANDUM

To: Interested parties

Fr: Jason Furman, Economic Policy Director, Obama Campaign

Re: John McCain's tax plan is \$2.8 trillion more expensive than his advisors previously admitted

Dt: July 23, 2008

In recent months, Senator McCain and his campaign staff have offered several different, and often conflicting, descriptions of the McCain tax plan. As the *New York Times* concluded, "Mr. McCain is having it both ways. On the campaign trail, he has sounded like a bold tax cutter. To budget wonks, though, his campaign has gingerly inched away from those plans, saying details will be forthcoming. In the meantime, the most-cited analysis of his proposed budget doesn't square with what he is saying on the stump."<sup>1</sup>

To take just one example, on the McCain website, it states that "John McCain will permanently repeal the AMT" and the McCain campaign touts this as a \$2,700 tax cut for 25 million families.<sup>2</sup> Yet in July when the Tax Policy Center undertook an analysis that threatened to show the true fiscal cost and the full extent of the regressivity of Senator McCain's tax plans, his aides apparently told the Tax Policy Center that this was not his plan and their analysis accordingly stated "Senator McCain does not plan to repeal the individual AMT."<sup>3</sup> According to the McCain campaign's own estimates, the difference between these two positions is \$60 billion per year.

Today, the Tax Policy Center released a new analysis of the McCain and Obama tax plans, which provides a comparison between what each of the candidates says on taxes (their actual plans) and what their campaign advisors claim. It finds that the true cost of Senator McCain's tax proposals is \$2.8 trillion larger than what his advisors have acknowledged. And most of that \$2.8 trillion is the cost of yet more tax cuts for corporations and the wealthy. The plan still offers very little for ordinary Americans.

While the Tax Policy Center analysis has some flaws, it confirms a number of important points about the candidates' tax plans:

1. **John McCain's actual tax policies are \$2.8 trillion more expensive than his advisors previously admitted.**
2. **Even the extra \$2.8 trillion in tax cuts does not change the fact that, as the *National Review* editorialized, "the McCain plan... offers very little in the way of direct benefits to Americans in the middle of the income scale."<sup>4</sup> McCain's true, expensive tax cut offers only half as much to the middle class as the Obama tax plan. (The original plan described by advisers offered one-third as much to the middle class as the Obama plan.)**

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<sup>1</sup> New York Times, 6/18/08

<sup>2</sup> <http://www.johnmccain.com/Informing/Issues/4dbd2cc7-890e-47f1-882f-b8fc4cfec78.htm>, last visited July 23, 2008

<sup>3</sup> Tax Policy Center, "A Preliminary Analysis of the 2008 Presidential Candidates' Tax Plans," 6/20/08, p. 4. [http://www.taxpolicycenter.org/UploadedPDF/411693\\_CandidateTaxPlans.pdf](http://www.taxpolicycenter.org/UploadedPDF/411693_CandidateTaxPlans.pdf)

<sup>4</sup> National review, 7/8/08,

<http://article.nationalreview.com/?q=NTYzZTdmOTNjN2I4OWI0MGExZjYwNjBIMWIXZTkWNGY=>

3. **McCain's true tax policies are even more stacked against typical families than his campaign previously admitted** – giving a total of \$1.8 trillion in tax cuts to corporations and more than a half-million dollars (\$577,000) per year to the 0.1 percent of taxpayers who make more than \$2.8 million per year. A different analysis shows that the oil companies would get \$4 billion of these tax cuts, including \$1.2 billion for Exxon-Mobil alone.<sup>5</sup>
4. **IRS data shows that McCain's only middle class tax cut provides \$0 in direct relief to 101 million households.** Ninety seven percent of seniors would get nothing from McCain's middle class tax cut.<sup>6</sup>
5. **Obama's numbers add up – while McCain's plan would add \$3.4 trillion to the deficit over the next decade and would require cutting Social Security and Medicare by 56 percent to meet McCain's goal of balancing the budget in 2013.**

Below is more detail on each of these points:

**1. John McCain's tax proposals are \$2.8 trillion more expensive than his advisors are willing to admit.**

- In its revised analysis, the Tax Policy Center assessed not only what campaign advisors said privately about the candidates' tax plans, but what the candidates say in their speeches and list on their websites. It found a staggering \$2.8 trillion difference between Senator McCain's true plans and what his advisors have claimed. The table on p. 42 of the new report (and included at the end of this memo) documents each of these discrepancies. Highlights include:
  - Senator McCain has proposed to create a new alternative tax system that would cost \$1.15 trillion more than previously thought.
  - Senator McCain's proposal to completely eliminate the AMT, rather than simply patch the AMT and index it to inflation as his campaign has suggested, would cost an additional \$391 billion over ten years.
- In contrast, the Tax Policy Center found little difference between what they described as Obama's stated positions and his campaign advisors description of his tax plan. The only substantive change the Tax Policy Center made was to add a specific payroll tax increase that neither Senator Obama nor his campaign have ever endorsed in speeches, on the web, or in consultations with the Tax Policy Center.

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<sup>5</sup> [http://www.americanprogressaction.org/issues/2008/pdf/oil\\_tax.pdf](http://www.americanprogressaction.org/issues/2008/pdf/oil_tax.pdf)

<sup>6</sup> Note, these facts are consistent with the tax plans reported by the Tax Policy but these numbers are not in the report itself.

**2. Even the extra \$2.8 trillion in tax cuts does not change the fact that, as the *National Review* editorialized, “the McCain plan... offers very little in the way of direct benefits to Americans in the middle of the income scale.” The true, expensive McCain tax cut offers half as much to the middle class as the Obama plan. (The original plan described by advisers offered one-third as much to the middle class as the Obama plan.)**

- When comparing the candidates’ actual plans, including the additional \$2.8 trillion in McCain tax cuts, the Tax Policy Center found that Obama’s middle class tax cuts are nearly twice as big – \$1,118 for a middleclass household in 2009 compared to \$608 from McCain.
- The Tax Policy Center’s revised report confirms that under the plan the McCain advisers originally put forth, the typical middle class household fares three times better under Obama – in 2009, a middle class household would get a cut of \$1,041 from Obama’s and \$325 from McCain.

**3. McCain’s true tax policies are even more stacked against typical families than previously thought.**

- The Tax Policy Center estimates that Senator McCain’s tax plan would give \$1.8 trillion in tax cuts to corporations. This includes Senator McCain’s campaign commitment to immediately cut the corporate rate from 35 percent to 25 percent and to allow immediate expensing of all business investment. The new estimate is \$1 trillion more than the estimate based on the description provided privately by McCain campaign advisors.<sup>7</sup>
- McCain’s plan would provide a \$577,000 tax cut to the top 0.1 percent of taxpayers who make more than \$2.8 million per year.
- A separate analysis by the Center for American Progress Action Fund found that oil companies alone would get \$4 billion in tax cuts *annually* from the plan – including \$1.2 billion for Exxon-Mobil alone.<sup>8</sup>

**4. IRS data shows that McCain’s only middle class tax cut provides \$0 in direct relief to 101 million households.**

- Senator McCain has proposed only one direct tax cut for the middle class: an increase in the dependent exemption that provides a small benefit to households with children, provided they have sufficient income.

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<sup>7</sup> Even the updated Tax Policy Center estimate likely understates the true cost of McCain’s proposals. Tax Policy Center estimates the cost of expensing for *all* business investment at about \$780 billion over a decade, while in a recent report, Treasury outlined a *partial* expensing proposal under which businesses would be able to expense only 35 percent of new investment, at a cost to the government of \$1.3 trillion over ten years. U.S. Department of the Treasury, “Approaches to Improve the Competitiveness of the U.S. Business Tax System for the 21st Century,” December 20, 2007, p. 50, available at [http://www.ustreas.gov/press/releases/reports/hp749\\_approachesstudy.pdf](http://www.ustreas.gov/press/releases/reports/hp749_approachesstudy.pdf).

<sup>8</sup> [http://www.americanprogressaction.org/issues/2008/pdf/oil\\_tax.pdf](http://www.americanprogressaction.org/issues/2008/pdf/oil_tax.pdf)

- Yet according to IRS data, most households without children would see nothing under the plan. In 2009 a total of 101 million households would not benefit from McCain's plan: this includes 67 million households currently paying income taxes but who would not benefit because they have no dependents, and 34 million low-income households with no income tax liability but generally paying payroll taxes.<sup>9</sup>
- Ninety seven percent of seniors (37 million out of 38 million) would be left out under the McCain dependent exemption increase.
- The Obama plan offers more generous tax relief for middle class families, including a "Making Work Pay Credit" that would benefit 95 percent of workers and their families, providing \$1,000 for a typical working family. Obama's plan would also expand tax credits to help families save, send a child to college, pay for childcare, and afford their mortgage, while eliminating income taxes for all seniors making less than \$50,000.

**5. Obama's numbers add up – while McCain's plan would add \$3.4 trillion to the deficit over the next decade and require cutting Social Security and Medicare by 56 percent to meet his goal of balancing the budget in 2013.**

- Measured against the same realistic budget baseline that represents the continuation of current policies – the same baseline used by the Concord Coalition, Goldman Sachs, independent scholars and others in assessing the outlook for the deficit – the Tax Policy Center estimates that Obama's repeal of the high-income tax cuts and closing of corporate loopholes raises \$778 billion over ten years, net of his tax cuts for middle class families.
- This money, together with spending reductions like eliminating overpayments to HMOs in the Medicare Advantage program and student loan subsidies to banks, and savings from responsibly ending the war in Iraq more than pay for Obama's health plan and other key investments while reducing the deficit relative to its current levels and realistic future trajectory.
- The Tax Policy Center estimates that McCain's tax plan would add \$3.4 trillion to the deficit over ten years. In 2013 – the year that Senator McCain has promised to balance the budget – Tax Policy Center estimates that McCain's tax plans would add \$312 billion to the deficit. The Congressional Budget Office (CBO) projects that the unified budget deficit will be \$443 billion in 2013 assuming that expiring tax cuts are extended and spending on Iraq and Afghanistan is cut by more than \$100 billion from this year's levels. That means that to balance the budget in that year, Senator McCain would have to cut \$755 billion in spending above and beyond the implausible savings his campaign claims from his Iraq plans.<sup>10</sup> To put that in perspective, that is the equivalent of cutting *both* Medicare and Social Security by 56 percent.

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<sup>9</sup> These data were not analyzed in the TPC report.

<sup>10</sup> The actual deficit in 2013 would be even larger because of the increased cost of interest on the debt.



**Appendix I**  
**Comparison Table from Tax Policy Center Showing \$2.8 Trillion Discrepancy Between  
 John McCain's Stated Plans and What His Advisors Have Claimed**

reduce revenues by about \$390 billion beyond the cost of the patch proposal. Applying expensing to all machinery and equipment investments would cost about \$740 billion more than the temporary and limited proposal to allow expensing of three- and five-year property assumed in the previous section. Increasing the dependent exemption to \$7,000 immediately rather than in 2014 would cut revenues an additional \$240 billion. Reducing the corporate tax rate to 25 percent immediately would reduce revenues by \$260 billion. Finally, after all the other changes have been made, the optional alternative tax system that we model would reduce income tax revenues by almost \$1.2 trillion over ten years.

**Table R4**  
**Senator John McCain's Tax Proposals**  
**as Described in His Stump Speeches,**  
**Impact on Tax Revenue, 2009-18**

	2009-13	2009-18
(1) Proposals as described by economic advisers	-1477.3	-4,170.5
Potential additional cost of proposals compared with economic advisers version		
(2) Repeal AMT rather than patch and index	-177.1	-391.2
(3) Increase dependent exemption to \$7,000 in 2009 and index	-142.3	-243.3
(4) Reduce corporate income tax rate to 25% immediately	-249.8	-259.5
(5) Allow full expensing of all business	-317.5	-737.8
(6) Alternative individual income tax system with rates of 15%/25%	-470.9	-1,151.2
<b>Total change compared with economic advisers version</b>	<b>-1,357.5</b>	<b>-2,783.0</b>
<b>Total of all provisions</b>	<b>-2,834.9</b>	<b>-6,953.5</b>
Addenda:		
Net revenue impact against tax cuts extended, AMT-patched baseline	-1,687.3	-3,378.8
Federal tax revenue as a share of GDP under the proposal	16.0	16.1

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

In contrast, the expanded version of Senator Obama's plan would reduce the revenues by \$2.4 trillion over ten years, \$400 billion less than the \$2.8 trillion revenue loss under the plan described by his advisers (table R5). Most of this difference comes from the additional Social

## Appendix II

### **Independent Voices on the McCain Budget and Tax Plans:**

**Boston Globe: McCain's Budget Promises are "Fanciful"; He is Asking Voters to "Buy a Pig in a Poke."** "Fiction may require a willing suspension of disbelief, but presidential campaigns shouldn't. Yet here's the fanciful proposition John McCain wants us to swallow: that he can extend the Bush tax cuts, pile other tax breaks and revenue reductions atop them - and still balance the federal budget in four years. [T]hough Obama is a long way from being a deficit hawk, he deserves credit for giving voters a reasonable idea of how he'd operate. McCain is asking them to buy a pig in a poke. Caveat emptor." [[Boston Globe, 7/11/08](#)]

**Washington Post: McCain's Plant To Balance The Budget By 2013 "Is Not Credible"; Spending Claims are "Illusory."** "McCain says that President McCain would balance the federal budget by 2013. The plan is not credible. ... Mr. McCain sells American voters short -- and he does himself a disservice -- with his implausible claim... The McCain campaign says it will fill the hole with spending cuts. It would 'reclaim billions' by rooting out existing earmarks and prohibiting new ones; impose a one-year freeze on discretionary spending other than for defense and veterans; and 'reserve all savings from victory in the Iraq and Afghanistan operations' to use toward deficit reduction. These claimed savings are illusory." [[Editorial, Washington Post, 7/14/08](#)]

**Concord Coalition' Robert Bixby: "Hypothetically It's Possible To Get A Balanced Budget By 2013, But Not Under The Policies That McCain Has Proposed."** "I think both candidates need to put some numbers on these things so we can get a sense of how realistic they are," said Robert Bixby of the Concord Coalition, a budget watchdog group. Obama's criticism of McCain's pledge as "overly ambitious" is backed up by fiscal experts. "Hypothetically it's possible to get to a balanced budget by 2013, but not under the policies that McCain has proposed," Bixby said. "The policies he would propose would actually add to the deficit when you take them all together." [[Associated Press, 7/8/08](#)]

**USA Today: McCain "Offers Few Practical Specifics On How To Bring The Deficit... To Zero By The End Of His Term."** "Sen. John McCain earned a reputation for fiscal responsibility by challenging colleagues' pork-barrel spending and opposing the Bush tax cuts in 2001. Then he reversed himself, endorsing the Bush tax cuts and vowing to veto any tax increases. Now, in a plan unveiled Monday, he has returned to the cause of balancing the federal budget, promising to do so by 2013... But he offers few practical specifics on how to bring the deficit from a projected \$410 billion this year to zero by the end of his first term." [[Editorial, USA Today, 7/8/08](#)]

**McCain Is Pledging To Balance The Budget But Fiscal Analysts Say His Economic Plans Would "Likely Increase The Deficit."** "McCain is pledging once again to balance the budget by the end of his first term in 2013, his advisers said Monday, reverting to an earlier pledge he had abandoned in April when he proposed a series of costly tax cuts for corporations and high earners and said it might take two terms to balance the budget. It is unclear how Mr. McCain plans to balance the budget, given that fiscal analysts who have examined his economic plans say that his calls to extend the Bush tax cuts while cutting corporate and other taxes would likely increase the deficit." [[New York Times, 7/7/08](#)]

**Analysts Say McCain’s Plan Would Increase The Deficit More Than Obama’s.** “Experts say that both the McCain plan and the Obama plan would increase the deficit, and that neither man has adequately explained how his proposals would be paid for. But several analysts have said they believe that Mr. McCain’s plan would increase the deficit more, because of the size of the tax cuts he is seeking.” [\[NYT, 6/11/08\]](#)

**McCain’s Budget Will Add \$200 Or \$300 Billion To The Deficit Per Year.** “The Obama campaign claims it can pay for all this, and even reduce the deficit, through tax increases and spending cuts. I think a more skeptical look at its budget leaves you worried it may add something like \$50 billion a year to the deficit. But applying the same arched brow to Mr. McCain’s stated plans leaves you worried that he will add \$200 billion or \$300 billion or, depending on his voluntary tax system, even more.” [\[New York Times, 6/18/08\]](#)

**McCain Offers A Grab Bag Of Nonspecific Spending Cuts To Offset Lost Revenue In His Budget.** “To offset lost revenue, McCain offered a grab bag of nonspecific spending cuts. By far the most politically explosive one would make older Americans who earn more than \$164,000 a year pay more for prescription-drug coverage under Medicare. That brings up the specter of means testing for federal benefit programs, anathema to the politically powerful seniors lobby. Other proposed spending reductions include saving \$60 billion by "budget scrubbing," or ending pork-barrel projects; \$15 billion by freezing all nonmandatory government spending for one year; and \$30 billion by closing unspecified tax loopholes. All would face fierce opposition in Congress.” [\[The Wichita Eagle \(Kansas\) / McClatchy Newspapers, 4/16/08\]](#)

**Washington Post Fact Checker: McCain Proposal to Eliminate \$100 Billion a Year in Earmarks is “Largely Fantasy.”** “John McCain boasts that he can save \$100 billion a year ‘immediately’ by eliminating the so-called earmarks that legislators attach to spending bills to finance pet projects, usually in their home state. But he has refused to say exactly which projects he would cut, and his estimates of the amount of money that is being spent on earmarks have been challenged by independent experts. . . . McCain's talk about eliminating \$100 billion a year in earmarks is largely fantasy. His advisers are now promoting a more realistic plan of eliminating \$100 billion in overall spending. But it is difficult to take even that promise very seriously given the fact that the senator refuses to identify exactly which projects he will be cut. To use a phrase coined by George H.W. Bush, this is ‘voodoo economics,’ based more on wishful thinking than on hard data or carefully considered policy proposals.” [\[Washington Post, 5/23/08\]](#)

**Wall Street Journal: McCain’s Plans To Eliminate Earmarks Will Not Pay For Lost Revenue From His Tax Cuts.** “When asked Wednesday, after a town-hall meeting in Exeter, N.H., how he would balance his proposed budget, Sen. McCain responded, ‘By eliminating wasteful and pork-barrel spending, to start with.’ How much would that get him? In fiscal 2008, there were 11,737 appropriation earmarks totaling \$16.8 billion. That is down from a peak in 2005, when there were nearly 13,500 earmarks totaling almost \$19 billion. Eliminating earmarks wouldn't restore revenue lost by Sen. McCain's other propositions, including a litany of tax cuts. He plans to not raise taxes, but he also plans to increase the size of the military and institute health-care overhauls.” [\[Wall Street Journal, 3/14/08\]](#)

**FactCheck.org: McCain’s Earmark Claim is “Full of Holes.”** “McCain’s big promise is that he can balance the budget while extending Bush’s tax cuts and adding a few of his own. He likes

to leave the impression that this can be done painlessly, for example, by eliminating ‘wasteful’ spending in the form of ‘earmarks’ that lawmakers like to tuck into spending bills to finance home-state projects. We found that not only is this theory full of holes... The McCain campaign has been vague about where, exactly, the candidate will cut spending. But one theme has emerged consistently: McCain will save money by eliminating earmarks. ... Estimates of earmarked spending vary. For fiscal 2008, the budget watchdog group Taxpayers for Common Sense said there was \$18.3 billion earmarked in spending bills. Citizens Against Government Waste came in at \$17.2 billion. The Office of Management and Budget tallied earmarks at a mere \$16.9 billion. In 2006, the Congressional Research Service, which used a different definition of "earmark" for each of the 11 spending bills it studied in that year, came up with over \$67 billion.” [“The Budget According to McCain: Part I,” [FactCheck.org](http://FactCheck.org), 5/13/08]