



BARACK OBAMA: TAX FAIRNESS FOR THE MIDDLE CLASS

"...to get through these uncertain times, we have to recognize that we all have a stake in one another's success. When folks are hurting out there on Main Street, that's not good for Wall Street. When the changes in our economy are leaving too many people behind, the competitiveness of our country risks falling behind. When that dream of opportunity is denied to too many Americans, then ultimately that pain has a way of trickling up."

[Speech in Washington, D.C., 9/18/07]

OBAMA'S TAX FAIRNESS PLAN

For decades, America has been victim to an anti-tax sentiment that has led to tax cuts that favor wealth, not work. And for decades, the gaps in wealth in this country have grown wider, while the costs to working people have increased. This year alone, the average person in the wealthiest 1 percent of Americans will receive more than \$55,000 from the Bush tax cuts, while the average person in the bottom 20 percent of Americans will get about \$70.

Our tax code is riddled with loopholes and special tax breaks that benefit Washington special interests. There are corporate carve-outs that serve no national purpose; tax breaks that allow companies to stash their profits overseas; a government that's paralyzed when dealing with offshore tax haven countries; an overloaded tax code that's too complicated for ordinary folks to understand, but just complicated enough to work for someone who knows how to work the system. When big business doesn't like something in the tax code, they can hire a lobbyist to get it changed. But nobody lobbies for working people. Instead of honoring that core American value – opportunity for all – we've had a system in Washington where our laws and regulations have carved out opportunities for the few.

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Barack Obama will stand up to the special interests and restore fairness to the tax code. Obama's tax fairness plan will reward work and provided needed tax cuts to America's workers. His five-part plan will provide a tax cut to over 150 million workers and their families. Obama will:

- (1) Create a new "Making Work Pay" tax credit of up to \$1,000 for America's working families
- (2) Create a new universal mortgage interest credit that will benefit low and middle-income homeowners
- (3) Honor America's seniors by eliminating income taxes for those making less than \$50,000 per year
- (4) Simplify tax filings so millions of Americans can do their taxes in less than 5 minutes
- (5) Eliminate special interest loopholes and tax breaks and crack down on international tax havens

(1) TAX CUT FOR AMERICA'S WORKING FAMILIES

The American people work longer and harder than those in any other wealthy nation in the world. But their hours are getting longer and their wages aren't getting any higher. In addition they are being squeezed by rising health care, education and energy costs. Rather than relieving the burden on working families, the current administration has provided tax cut after tax cut to the wealthiest Americans and enacted tax breaks for the most well-connected corporations. Barack Obama will restore fairness to the tax code and provide 150 million workers the tax relief they deserve. Obama will create a new "Making Work Pay" tax credit of up to \$500 per person, or \$1,000 per working family. This refundable income tax credit will provide direct relief to American families who face the regressive payroll tax system. It will offset the payroll tax on the first \$8,100 of their earnings while still preserving the important principle of a dedicated revenue source for Social Security. The "Making Work Pay" tax credit will completely eliminate income taxes for 10 million Americans. The tax credit will also provide relief to self-employed small business owners who struggle to pay both the employee and employer portion of the payroll tax. The "Making Work Pay" tax credit offsets some of this self-employment tax as well.

Obama has previously proposed rewarding work by increasing the number of working parents eligible for Earned Income Tax Credit (EITC) benefits, increasing the benefit available to parents who support their children through child support payments, increasing the benefit for families with three or more children and reducing the EITC marriage penalty which hurts low-income families.

(2) CREATE A UNIVERSAL MORTGAGE CREDIT

Owning a home is the culmination of the American dream that so many Americans work so hard for. The tax code is supposed to encourage home ownership with a mortgage interest deduction, but it goes only to people who itemize their tax deductions. Like so much in our tax code, this tilts the scales toward the well-off. The current mortgage interest deduction excludes nearly two-thirds of Americans

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who do not itemize their taxes. Barack Obama will ensure that anyone with a mortgage, not just the well-off, can take advantage of this tax incentive for homeownership by creating a universal mortgage credit. This 10 percent credit will benefit an additional 10 million homeowners, the majority of whom earn less than \$50,000 per year. Non-itemizers will be eligible for this refundable credit, which will provide the average recipient with approximately \$500 per year in tax savings. This tax credit will also help homeowners deal with the uncertain state of the housing market today.

(3) ELIMINATE INCOME TAXES FOR SENIORS MAKING LESS THAN \$50,000

Since the New Deal we've had a basic understanding in America: If you work hard and pay into the system, you've earned the right to a secure retirement. But too many seniors aren't getting that security, even though they've held up their end of the bargain. Lower and middle income seniors are struggling as their expenses on health and energy skyrocket while their incomes do not keep pace. This strain has been greater since 1993, when taxes on social security benefits were raised. Millions of seniors saw their net benefits go down.

Seniors also had to take on the added strain – and sometimes cost – of filing a complicated tax return. President Bush's Advisory Panel on Tax Reform studied the taxation of Social Security benefits and reported:

“Under current law, Social Security beneficiaries must work through a convoluted series of computations in a full-page, 18-line worksheet to determine the amount of their benefits subject to tax. Current rules effectively phase out the preferential treatment of Social Security benefits based on a complicated, three-tier approach. Depending on the tier, taxpayers may be required to include 0, 50, or 85 percent of Social Security benefits in their taxable income. To find out which of these tiers applies, taxpayers who receive Social Security benefits must compute their income a second time by adding back a number of items that normally are not taxed.”

After going through all of these complicated calculations, many seniors find that they owe little or no tax, meaning that all of the hassle was for naught.

Barack Obama will eliminate all income taxation of seniors making less than \$50,000 per year. This will provide immediate relief to 22 million American seniors who will not need to file an income tax return, and will eliminate any income tax for nearly seven million seniors at a savings of roughly \$1,400 each year. For many seniors, this will eliminate the need to hire a tax preparer, resulting in even larger savings.

(4) ENABLE MILLIONS OF AMERICANS TO COMPLETE TAX RETURNS IN 5 MINUTES

The tax code has become too complicated. Too many Americans have to pay for expert advice to fill out long forms and comply with complex requirements. The Internal Revenue Service (IRS) estimated in 2004 that it took more than 28 hours for an individual to complete his/her tax filing, and that half of the taxpayers filing the “easy” forms ended up paying a tax preparer to do it for them. Barack Obama will dramatically simplify tax filings so that millions of Americans will be able to do their taxes in less than 5 minutes. Currently, the IRS receives Americans' financial information directly from employers and banks. Obama will ensure that the IRS uses this information to give taxpayers the option of a pre-

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filled tax forms to verify, sign and return to the IRS or online. This will eliminate the need for Americans to hire expensive tax preparers and to gather information that the federal government already has on file. Experts estimate that the Obama proposal will save Americans up to 200 million total hours of work and aggravation and up to \$2 billion in tax preparer fees.

(5) LEVEL THE PLAYING FIELD FOR AMERICAN BUSINESSES

The tax code is filled with corporate loopholes and preferential regulations that benefit a handful of companies at the expense of the rest of the business community as well as ordinary people who are hit with higher effective tax rates. Some large companies have managed to secure tax breaks or to hide their profits in overseas tax havens and not pay any American corporate taxes at all. Barack Obama will level the playing field for all businesses by eliminating special interest loopholes and deductions, such as those for the oil and gas industry, as well as by limiting the ability of large multi-national corporations to use tax havens to hide income overseas. He will firmly institutionalize the economic substance doctrine so we can stop companies from creating abusive tax shelters.

Obama will also crack down on the offshore tax havens engaged in shielding tax evaders from justice by refusing to share tax information with us the way all other nations do. This costs us tens of billions of dollars every year. Obama will create an International Tax Evasion Watch List to monitor these countries and will use economic pressure to make them comply. And Obama will penalize any company that reports income from tax havens on the list.

Obama will also eliminate the capital gains taxation of start-up businesses to encourage innovation and job creation. These provisions, combined with reducing the self-employment tax for small business measures, will ensure that the corporate tax code is not only fair, but also promotes continued economic growth and innovation.

A COMMITMENT TO FISCAL RESPONSIBILITY

Barack Obama's plan will provide \$80-85 billion in tax relief to America's workers, seniors, and homeowners. Unlike President Bush, whose fiscally irresponsible tax cuts that traded the budget surpluses of the 1990s to record deficits today, Obama has a plan to pay for his tax reform plan. In addition to closing the corporate loopholes and cracking down on international tax havens, he will pay for middle class tax relief by and increasing the highest bracket for capital gains and dividends and closing the carried interest loophole.