



Ecumenical Advocacy Days 2013

**The Most Important Policy
Conversation This Year:
TAXES**



Meet Our Panel

Ellen Nissenbaum, Center on Budget
and Policy Priorities

Edie Rasell, United Church of Christ

Gideon Bragin, Office of Senator
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ECUMENICAL ADVOCACY DAYS

TAX WORKSHOP

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Deficit Reduction Achieved So Far

\$2.75 trillion in deficit reduction enacted since 2010 (*not including sequestration cuts*) – for the years 2014-2023

\$1.6 trillion in spending largely from discretionary

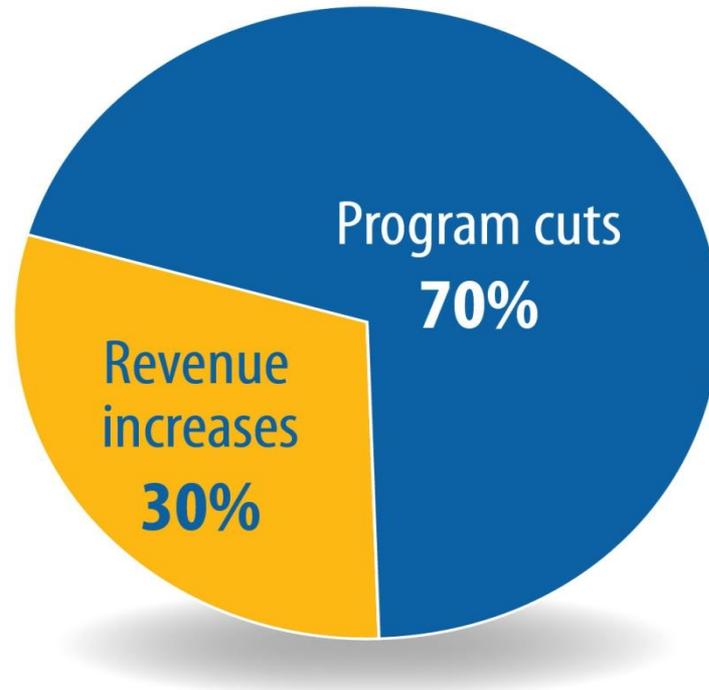
\$0.7 trillion in revenues

\$0.45 trillion in interest

\$1.5 trillion more deficit reduction would stabilize the debt over coming decade (\$1.3 trillion in policy changes, and \$0.2 trillion in interest)



70% of Recent Policy Savings to Reduce Deficits Have Come From Program Cuts

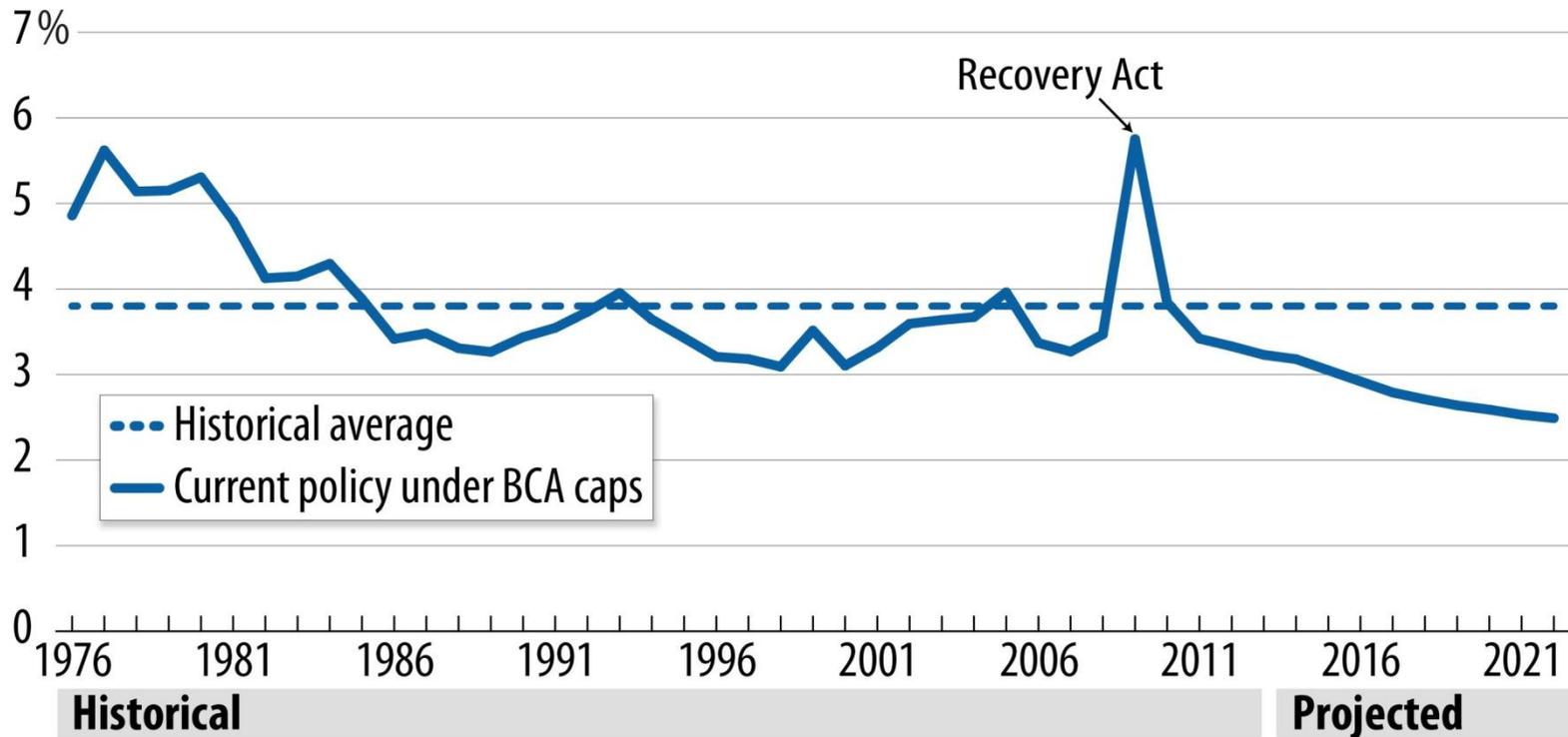


Note: Recent policy savings come from cuts in 2011 funding, Budget Control Act of August 2011, and American Taxpayer Relief Act of January 2013. Estimates are for 2014-2023.

Source: Center on Budget and Policy Priorities based on Congressional Budget Office and Joint Committee on Taxation data.



Non-defense Discretionary Funding (% of GDP, 1976-2022) “Roadmap for disinvestment”

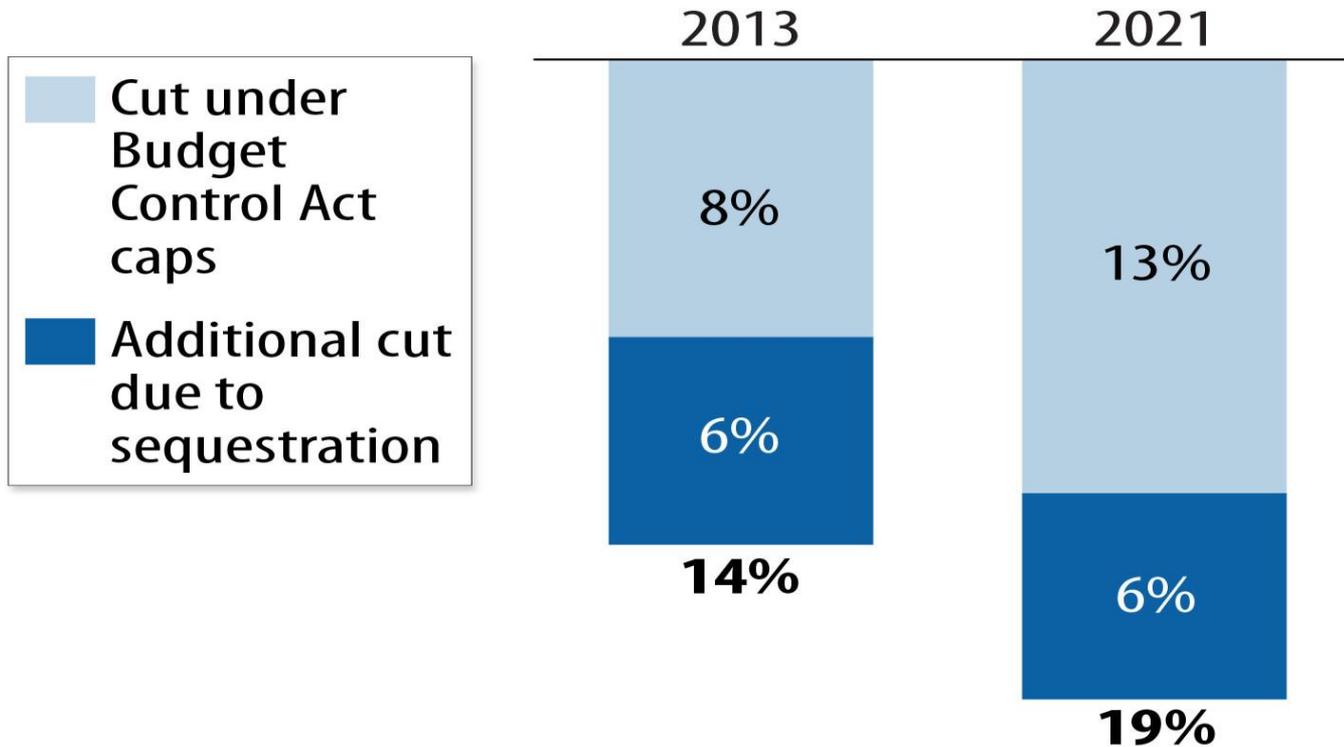


Source: Center on Budget and Policy Priorities based on Office of Management and Budget and Congressional Budget Office data.



Discretionary Programs Will Be Cut Even Deeper Under Sequestration

Percent cut in discretionary funding relative to 2010 funding adjusted for inflation



Note: 2010 funding adjusted for inflation is from Congressional Budget Office August 2010 baseline projections.

Source: CBPP based on Congressional Budget Office data.



Number of U.S. Households Living Below World Bank Measure of Serious Poverty in Developing Nations:

Living on Less Than \$2 a Day, Per Person

	Cash Income	Cash Income plus SNAP
1996	636,000 households with 1.4 million children	475,000 households with 975,000 children
Start of 2011	1.46 million households with 2.8 million children	800,000 households with 1.4 million children



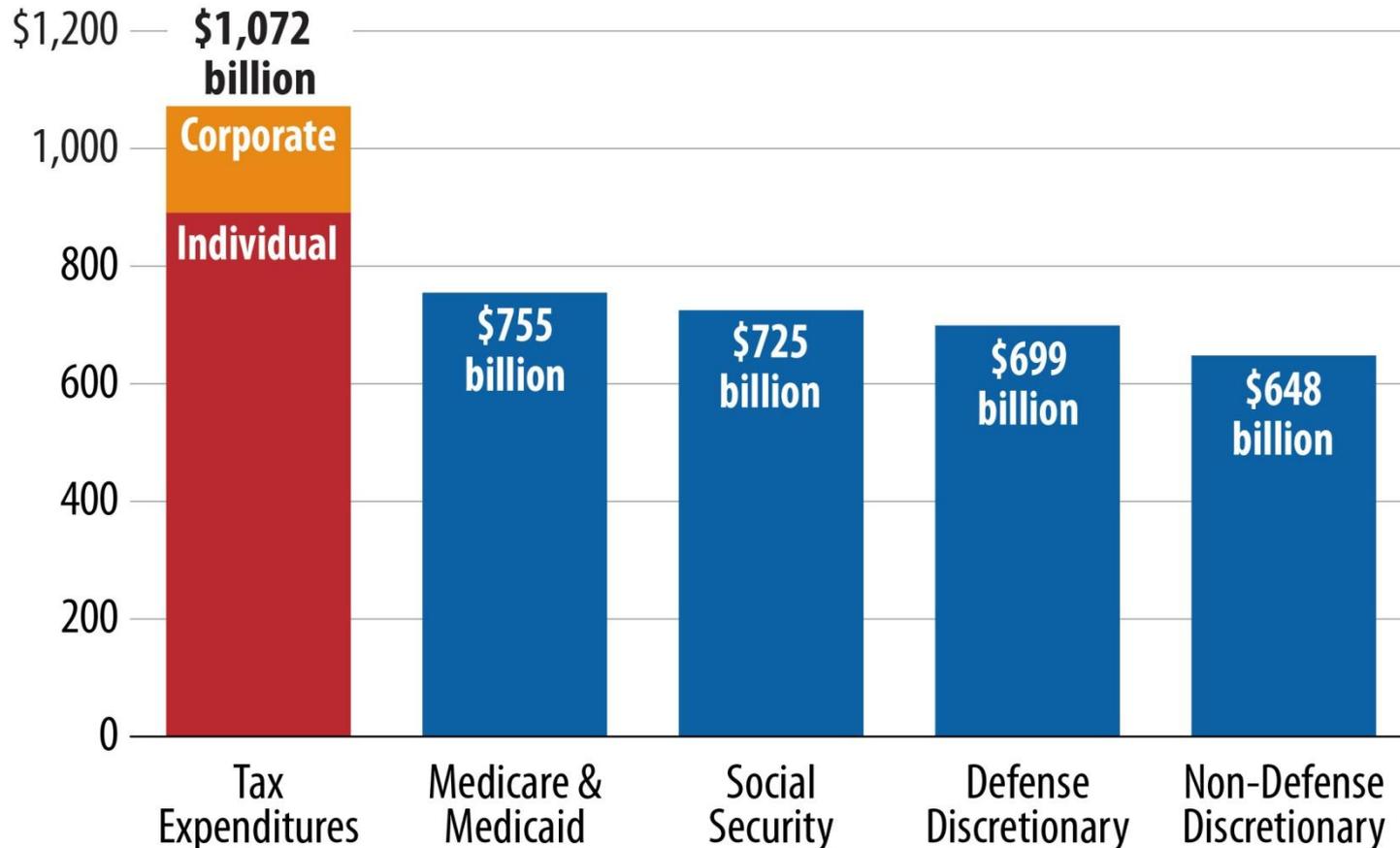
Making The Case For Revenues

- Demographics coupled with rising health care costs
- Need for more investments/jobs
- Need to replace the entire sequester,
- Need to get our deficit under control – without increasing poverty or income inequality.



Tax Expenditures are Substantial

Tax expenditures and outlays for other major spending categories in 2011, in billions



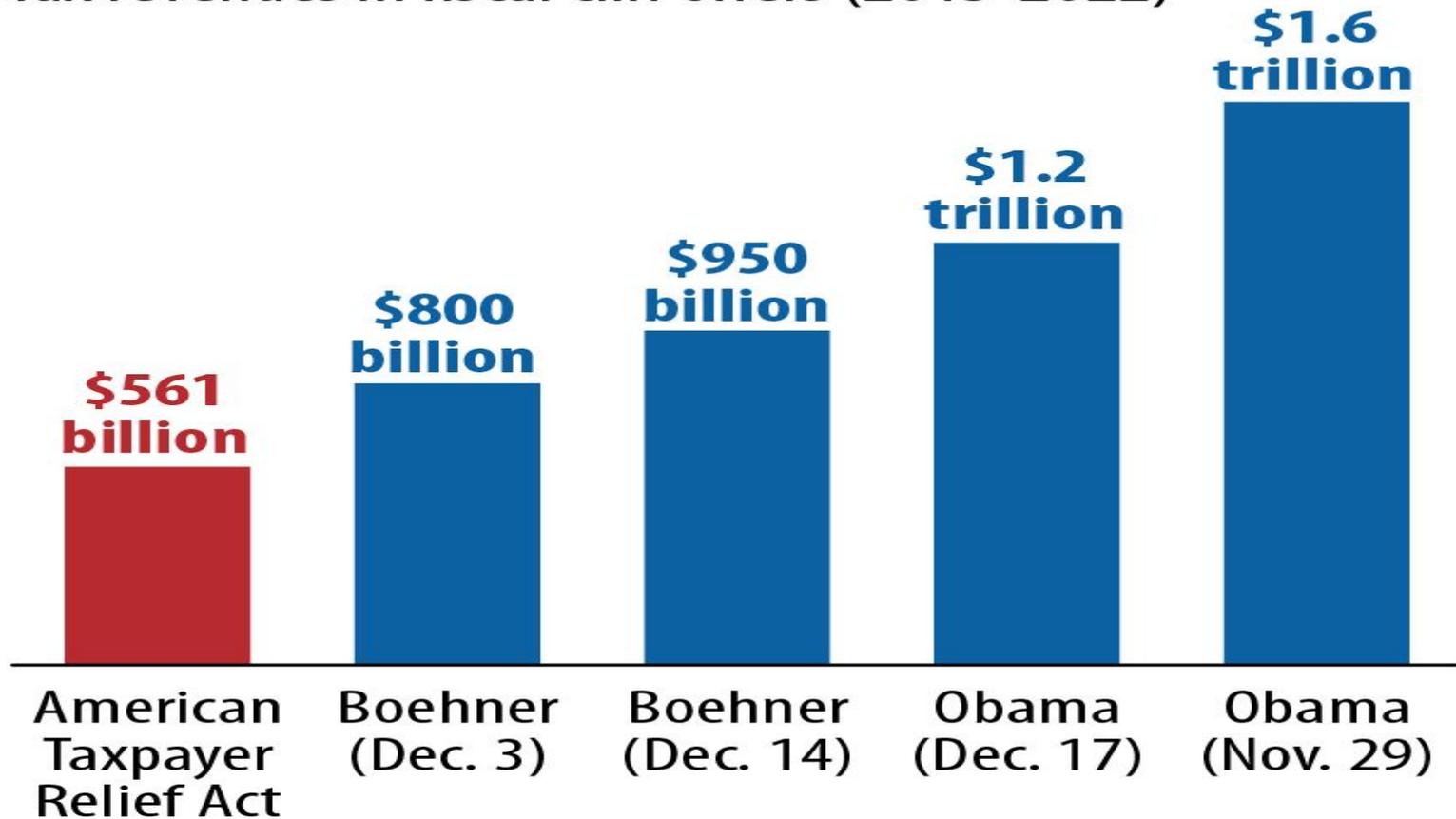
Note: Tax expenditure estimates do not account for interaction effects; estimate does not include outlays.

Source: Office of Management and Budget, Historical Tables 8.5 and 8.7 and Analytical Perspectives Table 17-2.



Offers From Both GOP and White House Proposed Higher Revenues Than the American Tax Relief Act

Tax revenues in fiscal cliff offers (2013-2022)





The EITC Improves Low-Income Children's Health and School Performance

- Newborns are more likely experience improvements in a number of birth indicators, such as reductions in low weight births and premature birth.
- Additional income from the EITC and CTC leads to significant increases in students' test scores
- Test score improvements are even larger for more disadvantaged children



EITC Income for Poor Children Boosts Working Hours and Earnings Later in Life

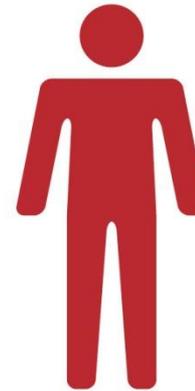
+\$3,000
a year



Adding \$3,000 a year in EITC income to children in working-poor families before age 6...



+135
working hours
a year



...Increases working hours by 135 hours a year between the ages of 25 to 37, and increases their annual earnings by 17% over the same period

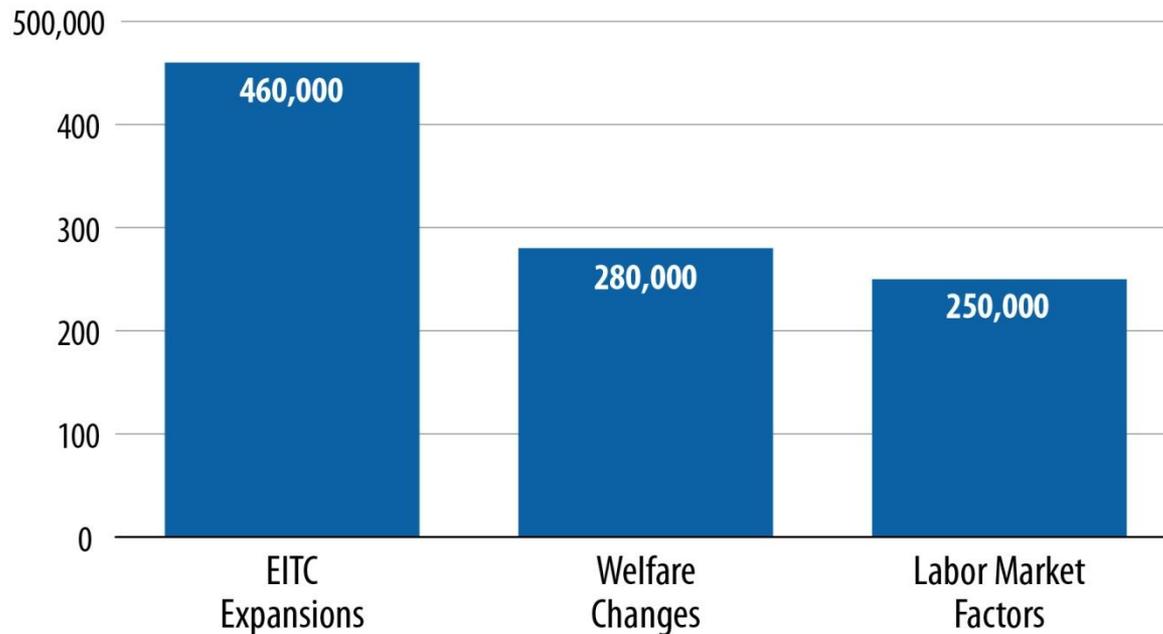
Source: Greg J. Duncan, Kathleen M. Ziol-Guest, and Ariel Kalil, "Early-Childhood Poverty and Adult Attainment, Behavior, and Health," *Child Development*,

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EITC was the single biggest factor in boosting employment among single mothers

Increase in employment of female heads of households in 1999 due to changes since 1993



Source: CBPP analysis of results from Jeffrey Grogger, "The Effects of Time Limits, the EITC, and Other Policy Changes on Welfare Use, Work, and Income among Female-Head Families," *Review of Economics and Statistics*, May 2003 and data from March 1999 Current Population Survey.

Note: Categories from the Grogger study were combined for simplicity. The categories "time limits," "other reforms," and "maximum benefits" were combined into the category "welfare changes." The categories "minimum wage" and "unemployment rate" were combined into the category "labor market factors."



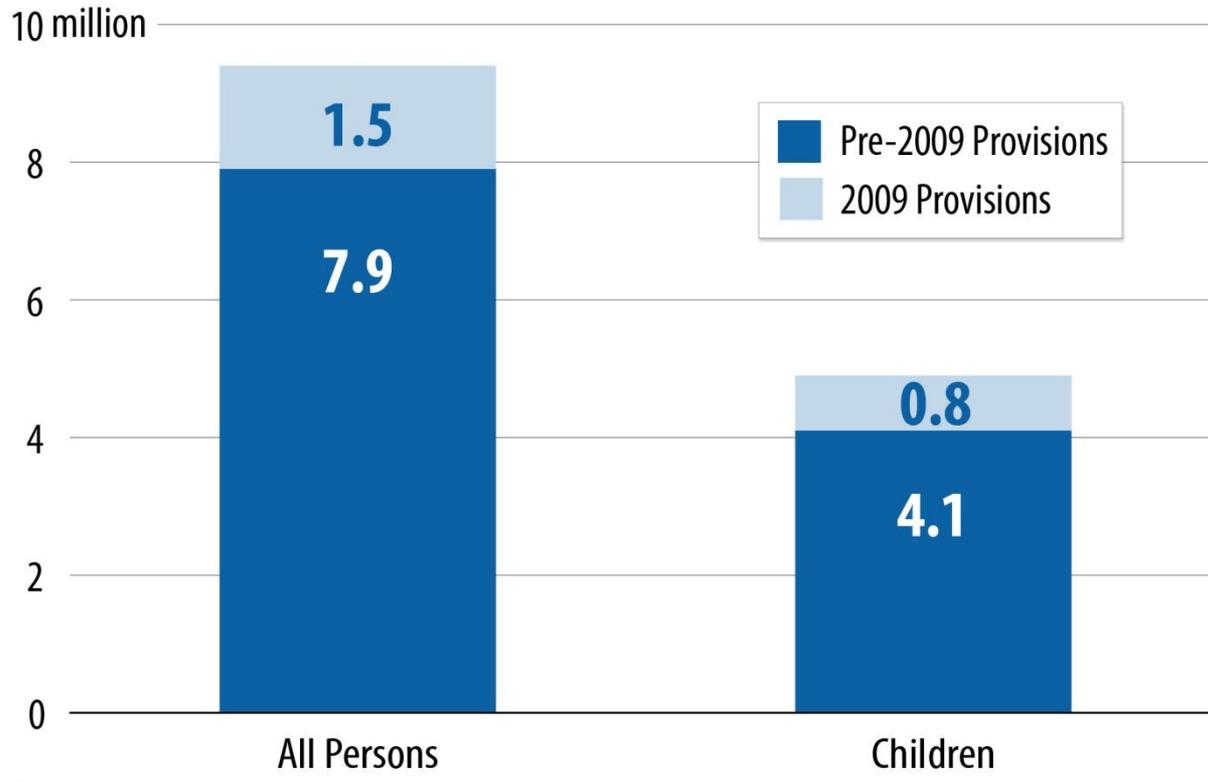
REFUNDABLE TAX CREDITS: Threats and Opportunities

- These credits lift more children out of poverty than any other program and help support millions of low-income working families.
- Improvements made in ARRA (2009) were extended only five years in the December “fiscal cliff deal.” **Make the improvements permanent in tax reform.**
- Possible threat: proposals to cut the credits and provide less to these families (e.g. scaling back refundability)
- Tax Committees’ deliberations now



Refundable federal credits lift millions of families out of poverty

Persons lifted above the poverty line (using the Supplemental Poverty Measure) by the EITC and the CTC, 2011



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Core Principles for Deficit Reduction

- Any further budget/deficit deals should reflect that about 70% of the deficit reduction to date has come from spending cuts.
- Accordingly, any further deficit reduction—including cancellation of sequestration—must include significant new revenues
- Don't increase poverty or income inequality
- No further cuts in non-defense discretionary funding
- Don't shift costs to states, especially in Medicaid
- Must address need for jobs and stronger economic growth

Taxes 101

Much of what you need to know about taxes to be
an excellent advocate for tax reform

Ecumenical Advocacy Days 2013

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Tax Fairness: What is a fair tax?

How much does (should) someone's tax increase as their income increases?

or what share of income should a richer person pay compared with a poorer one?

If your income doubles, should the amount you pay in taxes also double?

Progressive Taxes

A progressive tax: the share of income someone pays in tax rises as their income rises.

Income = \$1000, tax is \$100 (10%)

Income = \$2,000, tax is not \$200 (10%)
but \$220 (11%)

Why are Progressive Taxes Fair?

- People with more money who can afford to pay more tax should do so. Poorer people cannot afford to pay more.
- People are able to make money due to their own efforts but, most of all, due to the efforts of others.
 - Social stock of knowledge: education, health care, the technological innovations made and paid for by others, roads, communications tools, etc.
 - Richer people have benefited and need to pay back to society.
- Paul: “a fair balance between your present abundance and their need” and “the one who had much did not have too much, and the one who had little did not have too little” (2 Corinthians 8:13-15)

See *Unjust Deserts* by Gar Alperovitz and Lew Daly

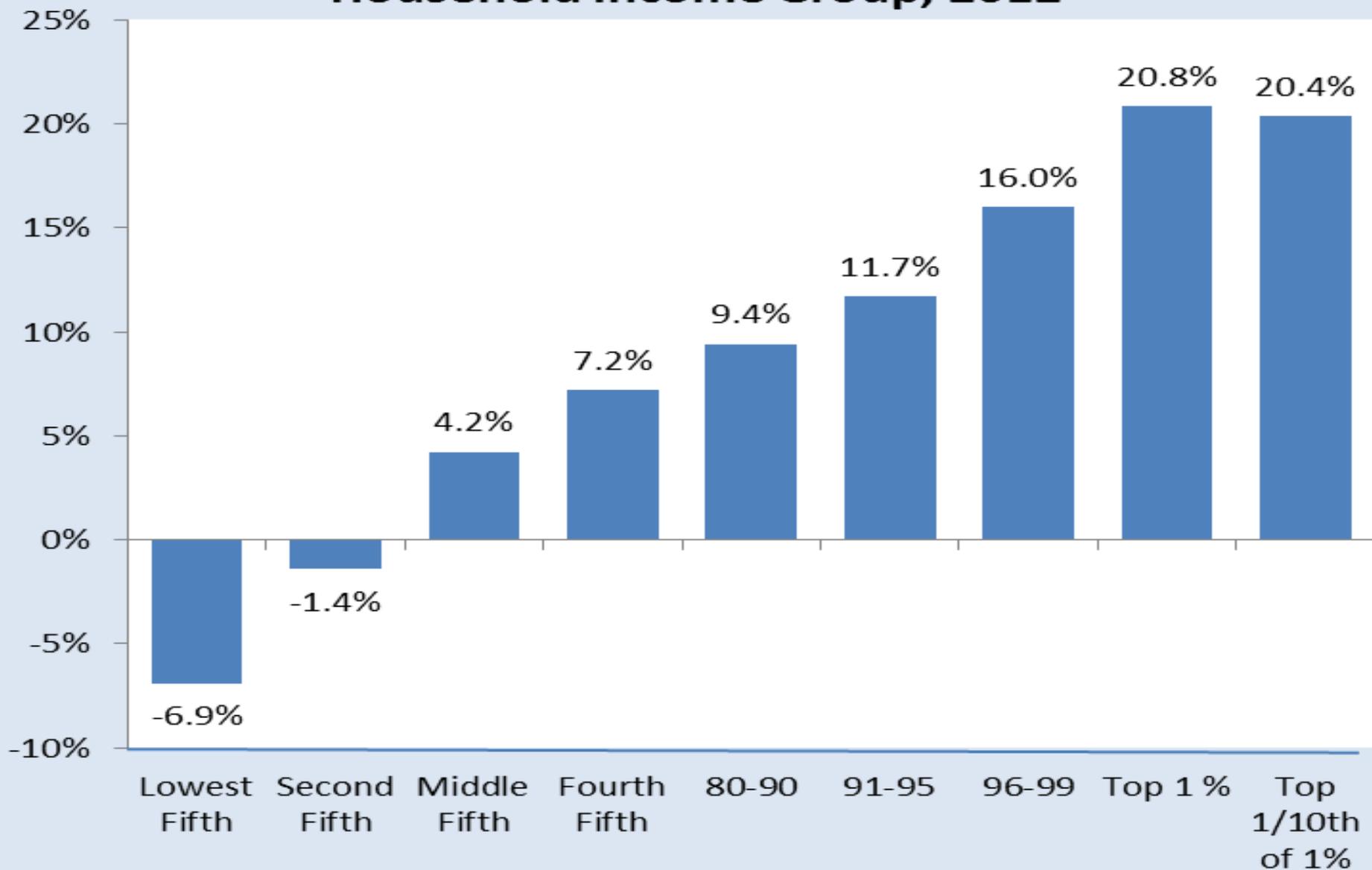
Of all our taxes
which is the most progressive?

Which of the following is the most progressive tax?

- Federal income tax
- State income tax
- Sales tax
- Payroll tax
 - Social Security: 6.2% paid by employers and employees on wages and salaries up to \$113,700
 - Medicare: 1.45% paid on all wages and salaries by employers/employees

Federal Personal Income Tax

Taxes Paid as a Share of Income in each Household Income Group, 2012



Source: Tax Policy Center

Who Doesn't Pay Federal Income Taxes?

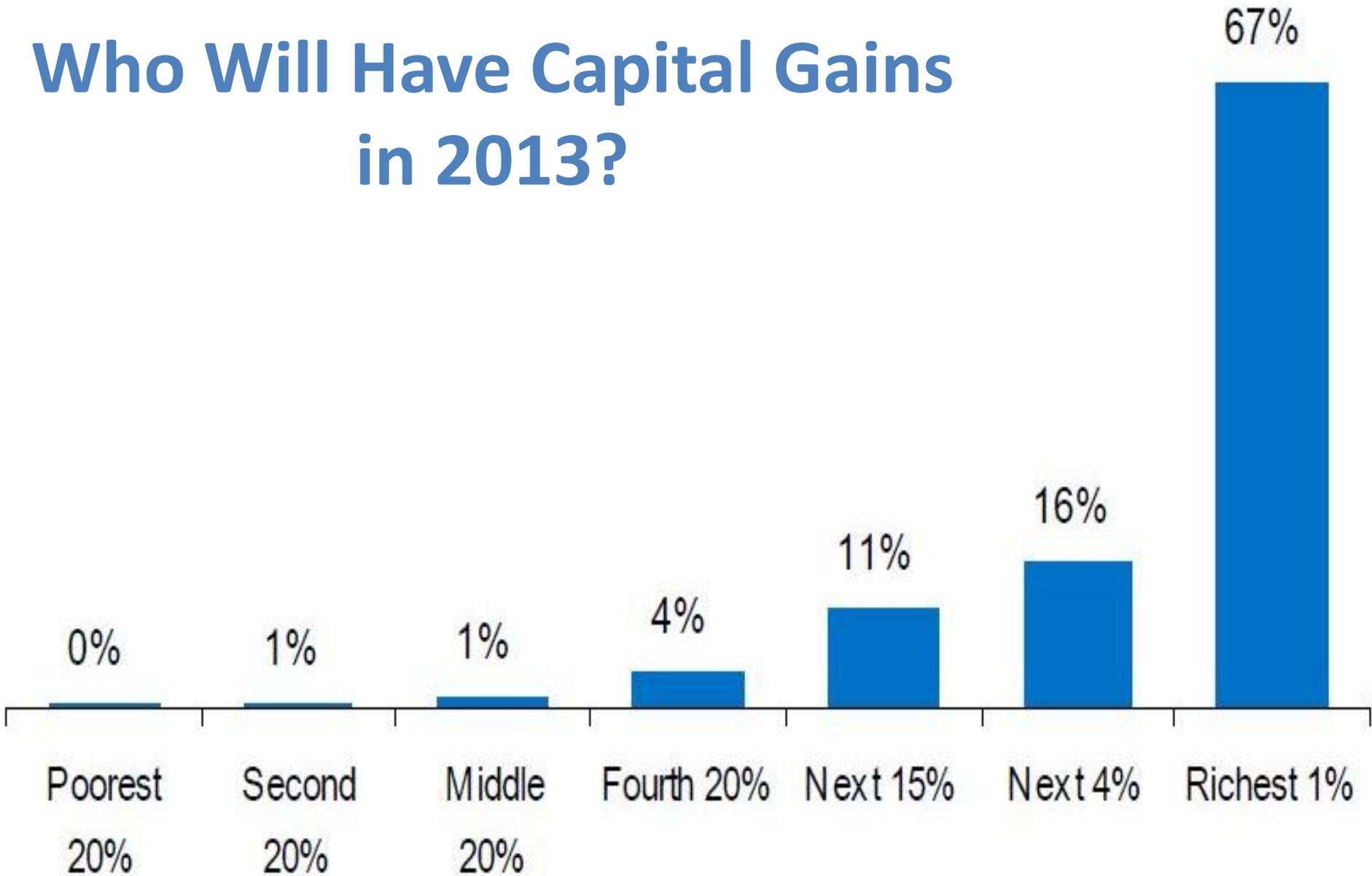
- 47% paid no federal income tax in 2011.
- Of those, nearly two-thirds paid payroll taxes.
- So just 1/3 of 47%, some 17% of households, paid no federal taxes (although they probably paid state and/or local taxes).
- Of these 17%:
 - 10 % were elderly
 - 7% were non-elderly with income below \$20,000

One particularly unfair part of federal income tax

Capital Gains Taxes

- Capital gain taxes are assessed on the gains from the sale of stocks, bonds, mutual funds, businesses, property.
- Households with income above \$400k (single) or \$450k (married) pay 20% instead of 39.6%. Above \$36,250 / \$72,500 pay 15% (not 25%, 33%, 38%)
- This low tax rate is the main reason millionaires pay lower tax rates than their secretaries.
- Over 90% of the benefits from the low rate on capital gains will go to those with cash incomes over \$200,000, and three-fourths of the benefits will accrue to millionaires.

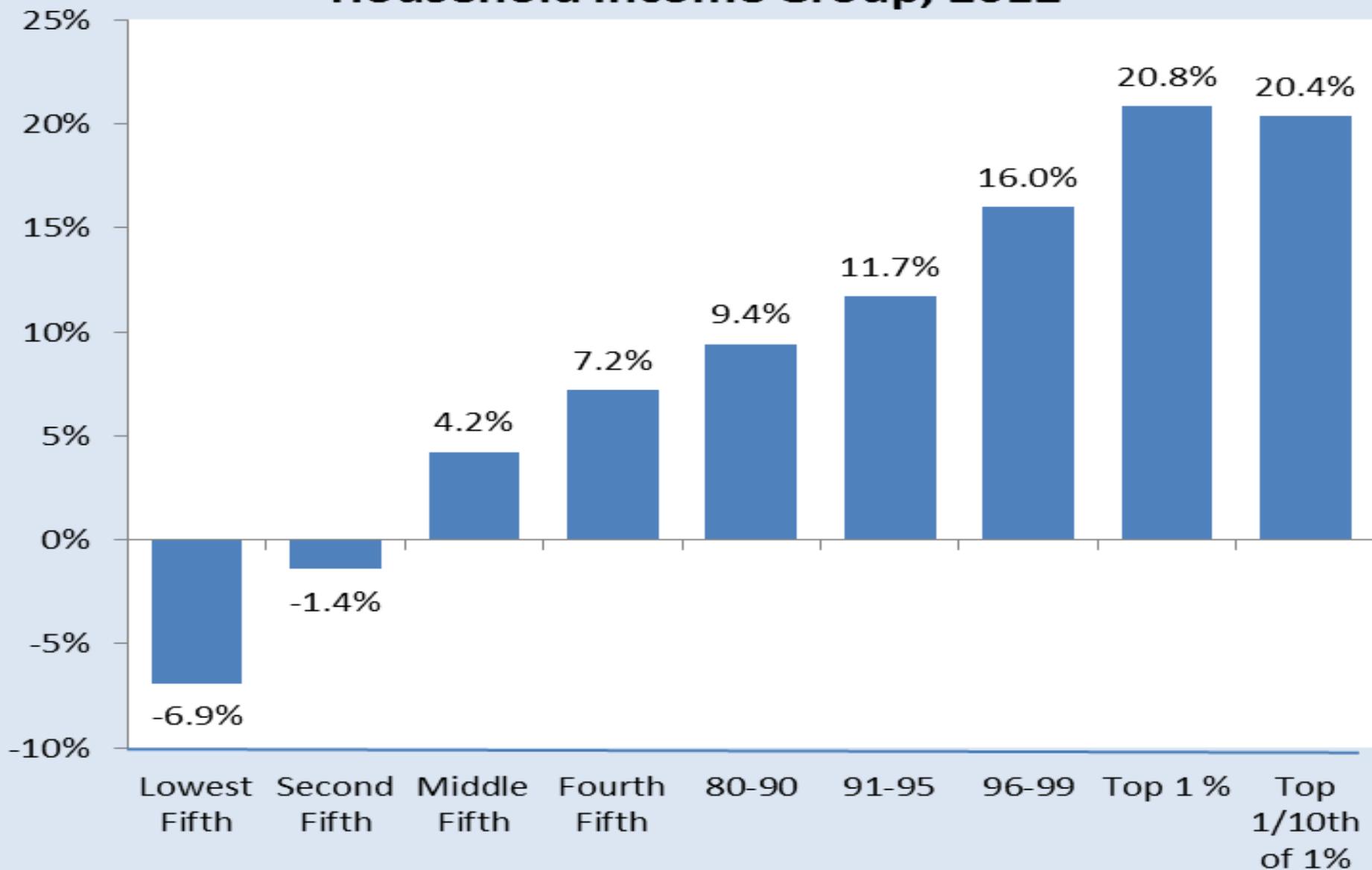
Who Will Have Capital Gains in 2013?



Source: Institute on Taxation and Economic Policy (ITEP) microsimulation model, September 2012

Federal Personal Income Tax

Taxes Paid as a Share of Income in each Household Income Group, 2012

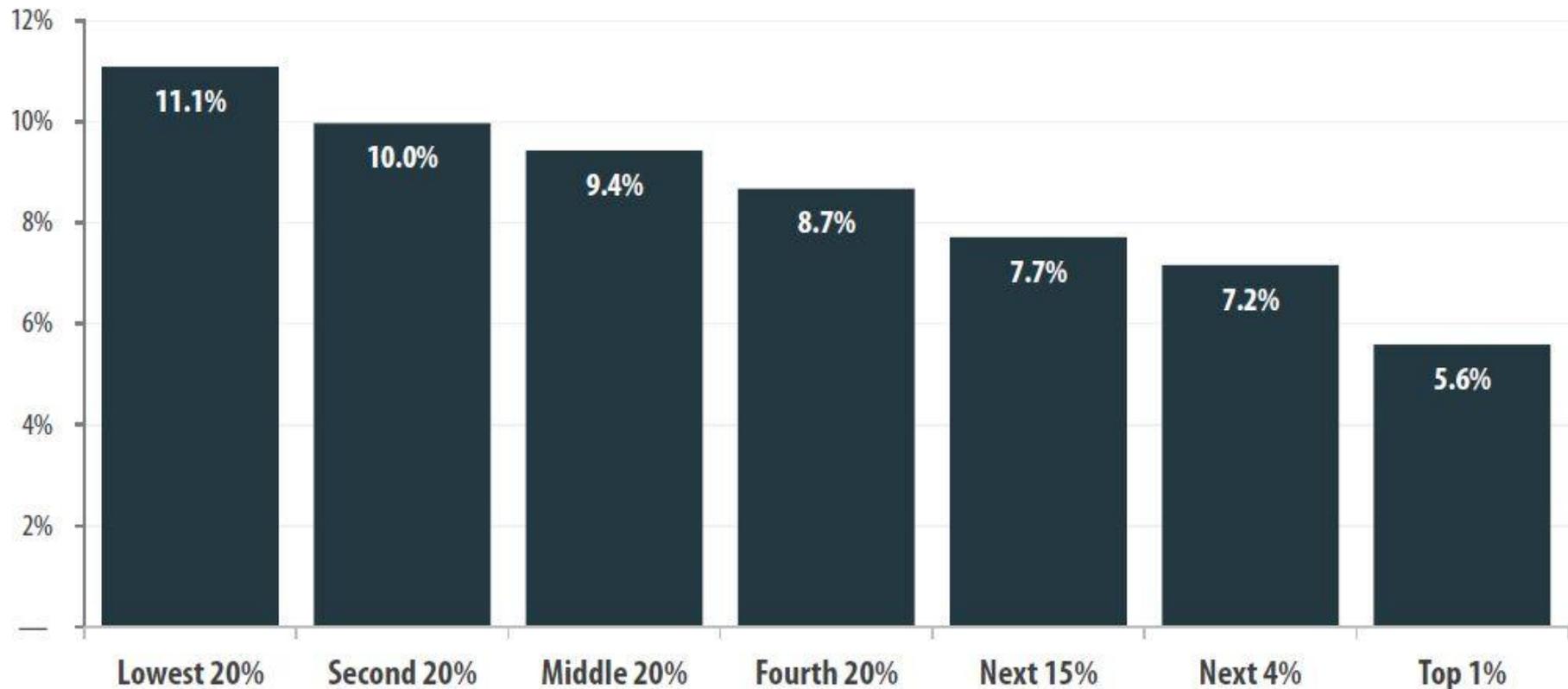


Source: Tax Policy Center

State & Local Taxes, 2010

Averages for All States

Total State and Local Taxes Imposed on Non-Elderly Residents, as Shares of 2010 Income



Source: Citizens for Tax Justice

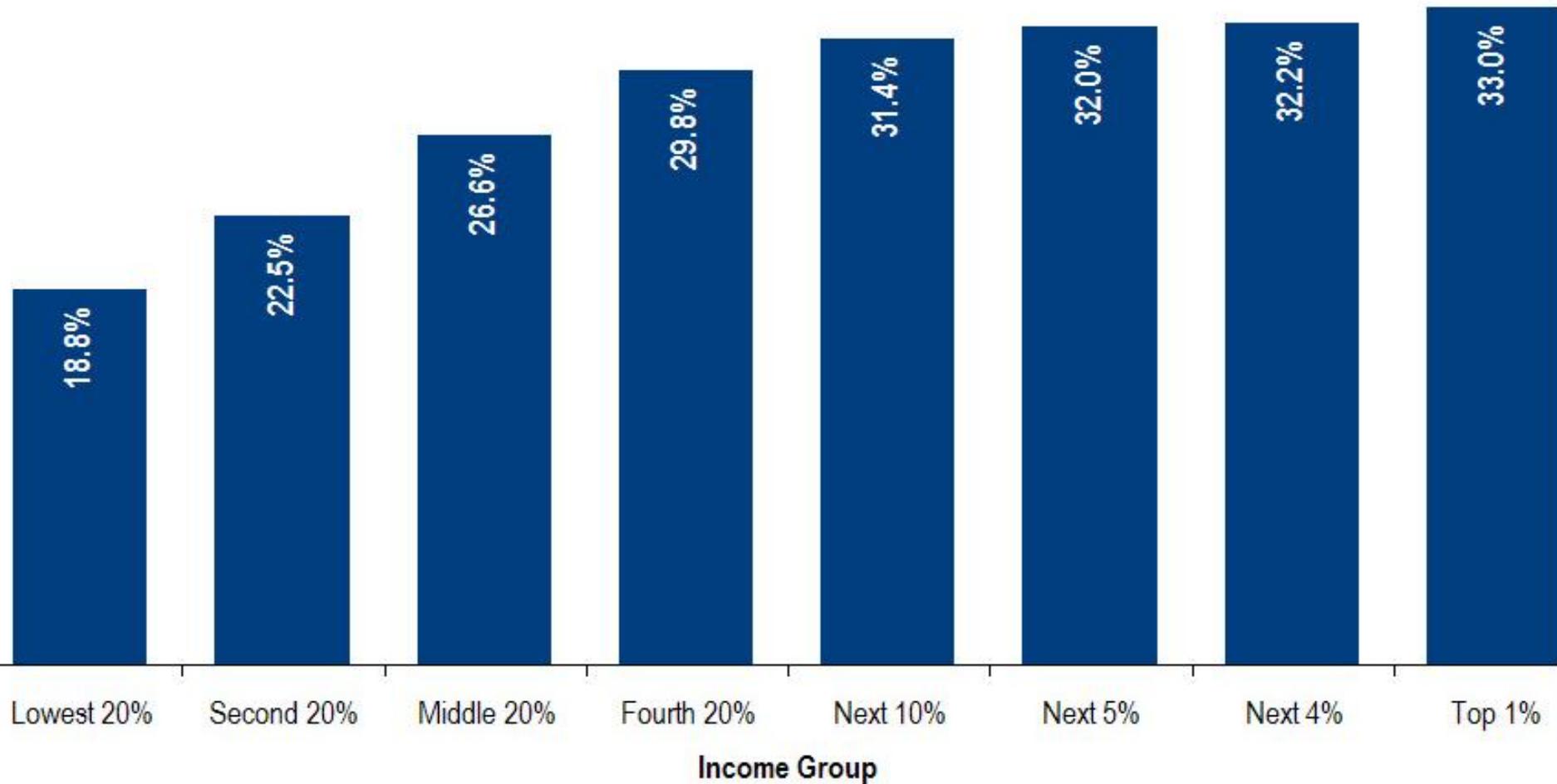
Figure represents 50 state (and District of Columbia) average for total state and local taxes paid as a share of 2010 income, post- federal offset

State & Local Taxes

- Rely less on progressive personal income taxes. The income tax rate is often fairly “flat” with little difference between the rates for rich and poor
- Rely heavily on sales taxes (same % for everyone) that are assessed on goods (physical objects) not services like haircuts, tickets to events, health care, education, legal and financial services, etc.
- Wealthier households buy more services and save more money so pay less sales tax than poorer ones.

Taxes Paid, 2013

Federal, State, and Local

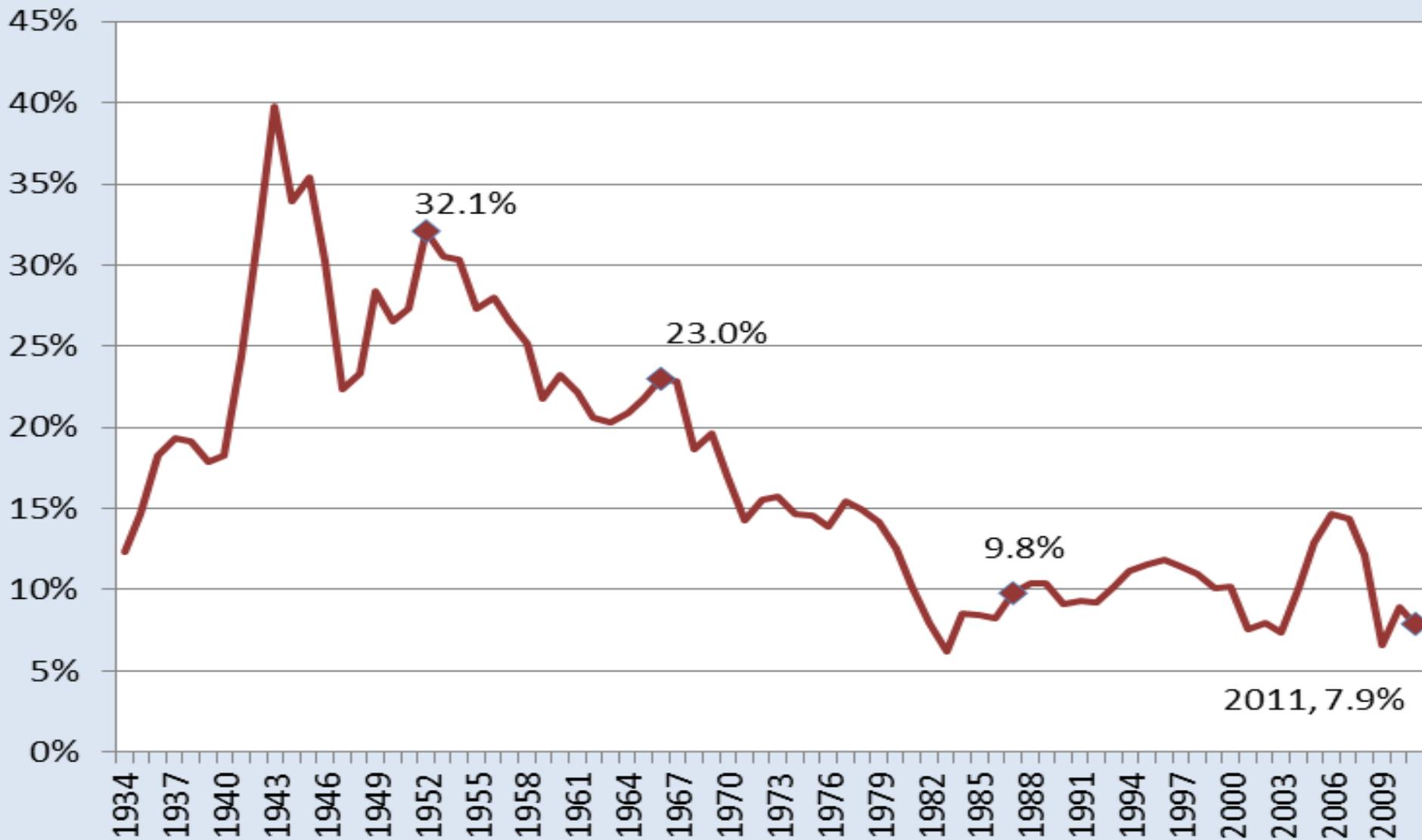


Source: Institute on Taxation and Economic Policy (ITEP) Tax Model, April 2013
Citizens for Tax Justice, April 2013.

Corporate Income Taxes

- Paid on corporate profits (revenues minus expenses)
- Corporate tax *rates* in the U.S. are higher than in many other industrialized countries. But U.S. corporations *pay* less in taxes than do corporations other major industrialized countries due to legal loopholes and illegal activities.
- Corporate tax rate in the U.S. 35%
- Taxes actually paid 19%
- Over three years, 30 corporations including GE, Boeing, and PepsiCo paid no taxes.

Corporate Taxes as a share of Federal Revenue, 1934-2011



How Corporations Pay No or Few Taxes

Many loopholes, legal and illegal.

- Shift profits to low-tax foreign jurisdictions (tax havens)
 - 83 of the 100 largest publicly-traded U.S. corporations have subsidiaries in tax havens. ExxonMobil (32), Citigroup (427)
- U.S. taxes profits earned abroad only after they are brought back to the U.S. So corporations have a financial incentive to build plants and create jobs in other countries, or to make their business appear to take place abroad.
- Estimates of taxes lost: \$100 billion per year or more.

Tax Expenditures

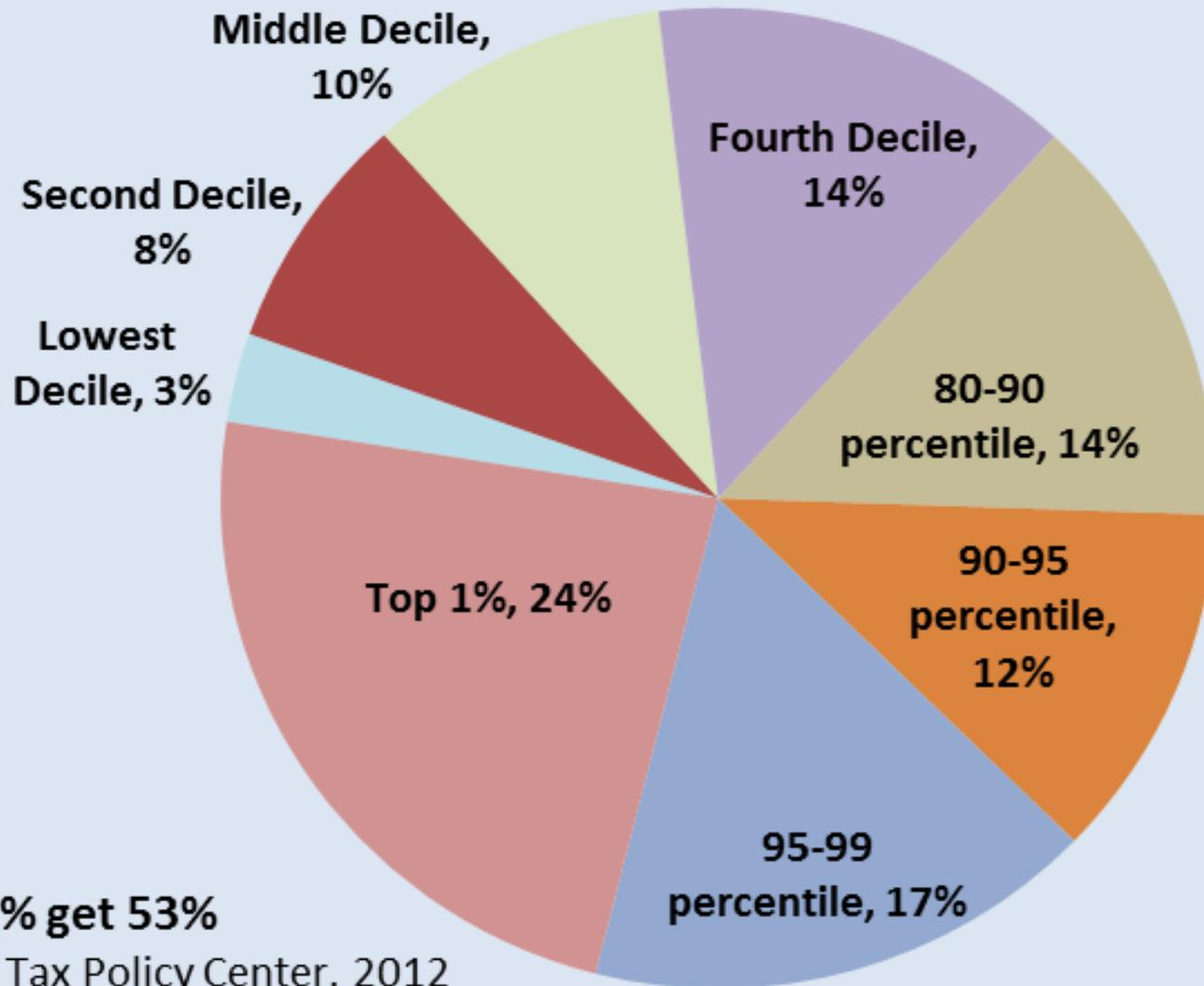
- Tax expenditures are tax breaks that resemble government spending because they provide financial assistance to specific activities, entities, or groups of people.
- Tax expenditures cost money: lost tax revenue and new spending.
- Tax expenditures are not subject to annual appropriations but once in law, continue indefinitely, largely unexamined.

Top 6 Examples of Tax Expenditures and Cost in 2013

- Exclusion of employer contributions for health insurance premiums \$180 billion
- Mortgage interest deduction \$101 billion
- Deductions for contributions to retirement plans \$73 billion
- Capital gains tax reduction \$62 billion
- Deduction of state and local taxes \$46 billion
- Accelerated depreciation for machinery and equipment \$33 billion

- In 2011, tax expenditures cost about \$1.1 trillion (this is more than was collected in personal income taxes).
 - Federal tax expenditures equal nearly one-third of the total expenditures made through the budget.
 - In many states, tax expenditures equal nearly half the amount of expenditures made through the budget.
- The largest beneficiaries of tax expenditures are upper income households.

Tax Expenditures Received by each Income Group, 2011



Overview of Tax Reform

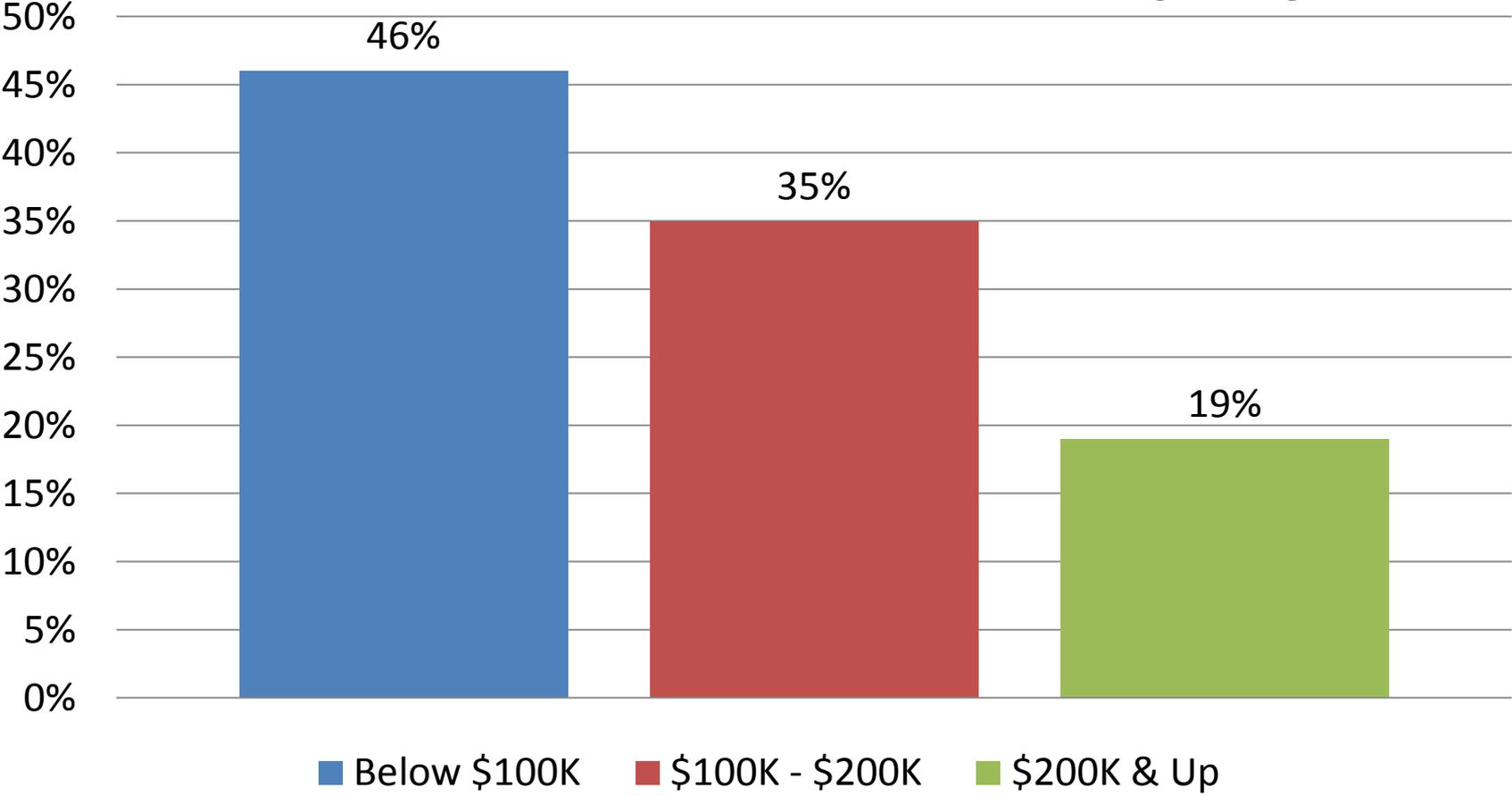
Gideon Bragin,
Office of Senator Sherrod Brown

Table 2. The 20 Largest Individual Tax Expenditures, FY2014

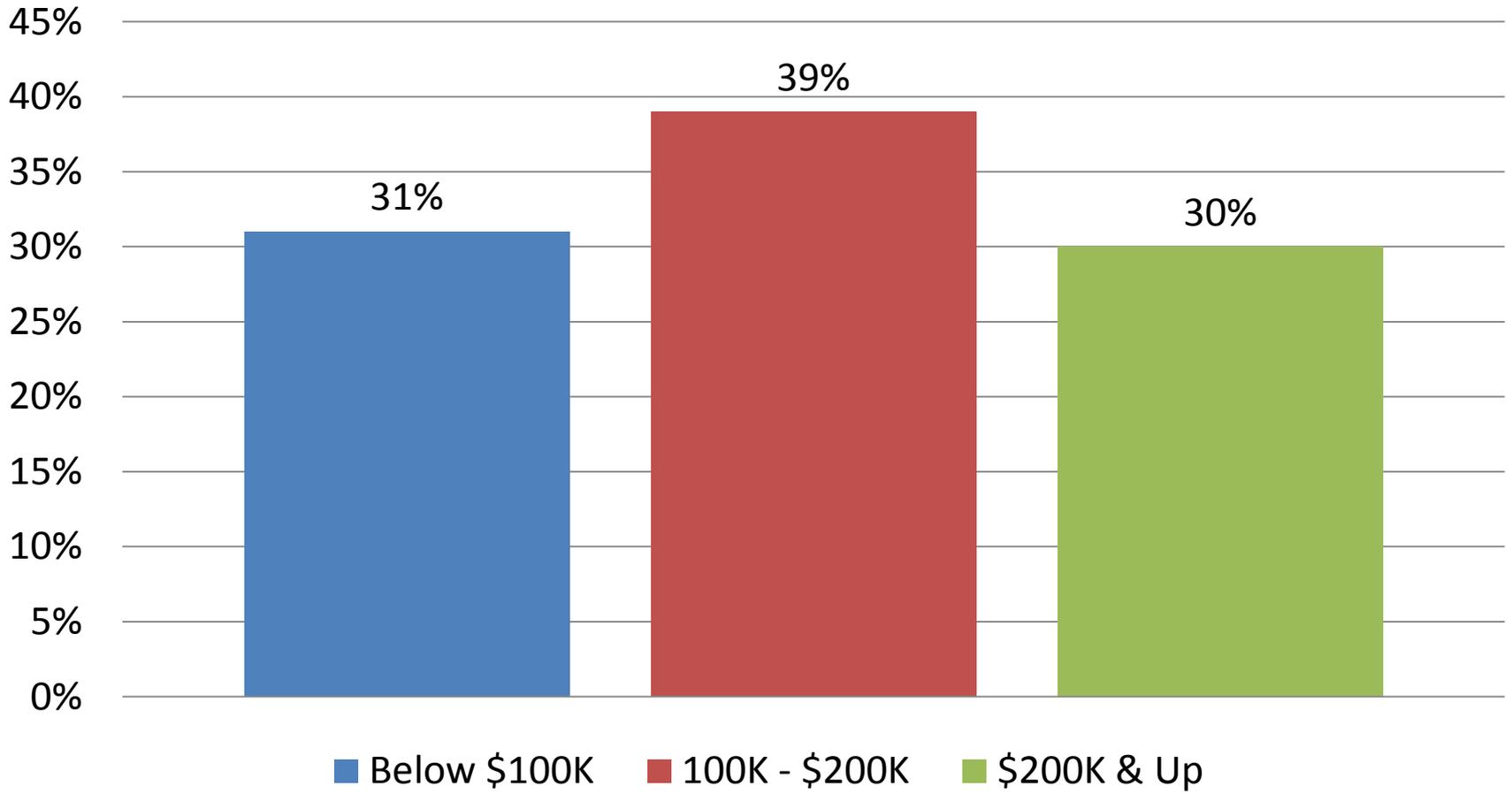
Provision	Category	Amount (\$billions)	Share of All Tax Expenditures (%)	Cumulative Share (%)
Exclusion of Employer Health Insurance	Consumption	164.2	13.8	13.8
Exclusion of Employer Pensions	Saving	162.7	13.7	27.5
Mortgage Interest Deduction	Housing	99.8	8.4	35.9
Exclusion of Medicare	Government	76.2	6.4	41.9
Capital Gains Rates	Saving	71.4	6.0	48.3
Earned Income Credit	Labor Supply	58.4	4.9	52.8
Deduction of Income Taxes	Government	54.0	4.5	57.7
Gains: Exclusion at Death/Gift Carryover	Saving	51.9	4.4	62.1
Deduction of Charitable Contributions	Consumption	51.6	4.3	66.4
Employer Benefits under Cafeteria Plans	Consumption	43.8	3.7	70.1
Tax Exempt/Tax Credit Bonds	Government	42.7	3.6	73.7
Exclusion of Social Security Benefits	Government	42.6	3.6	77.3
Exclusion of Inside Buildup, Insurance	Saving	27.7	2.3	79.7
Exclusion of Capital Gains on Housing	Housing	27.2	2.3	82.0
Deduction of Property Taxes	Housing	27.1	2.3	84.2
Deduction of Medical Expenditures	Consumption	16.6	1.4	85.7
Individual Retirement Accounts	Saving	16.0	1.3	87.0
Child Credit	Structural	15.1	1.3	88.3
Accelerated Depreciation	Business	10.3	0.9	89.2
Exclusion of Foreign Earned Income	Labor Supply	8.2	0.7	89.8

Source: CRS calculations based on Joint Committee on Taxation revenue estimates.

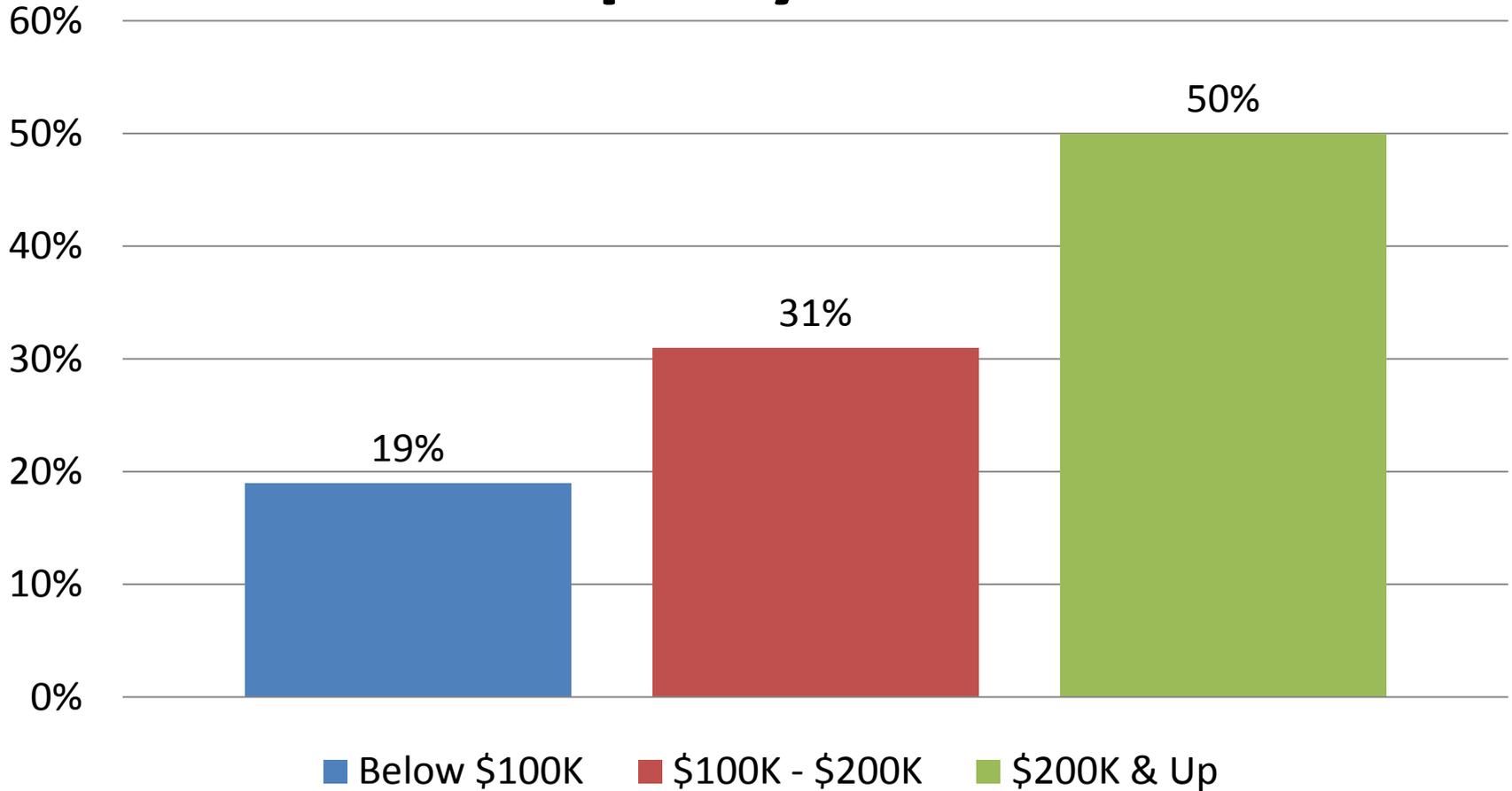
Employer Provided Health Benefits and Deduction for Self-Employed



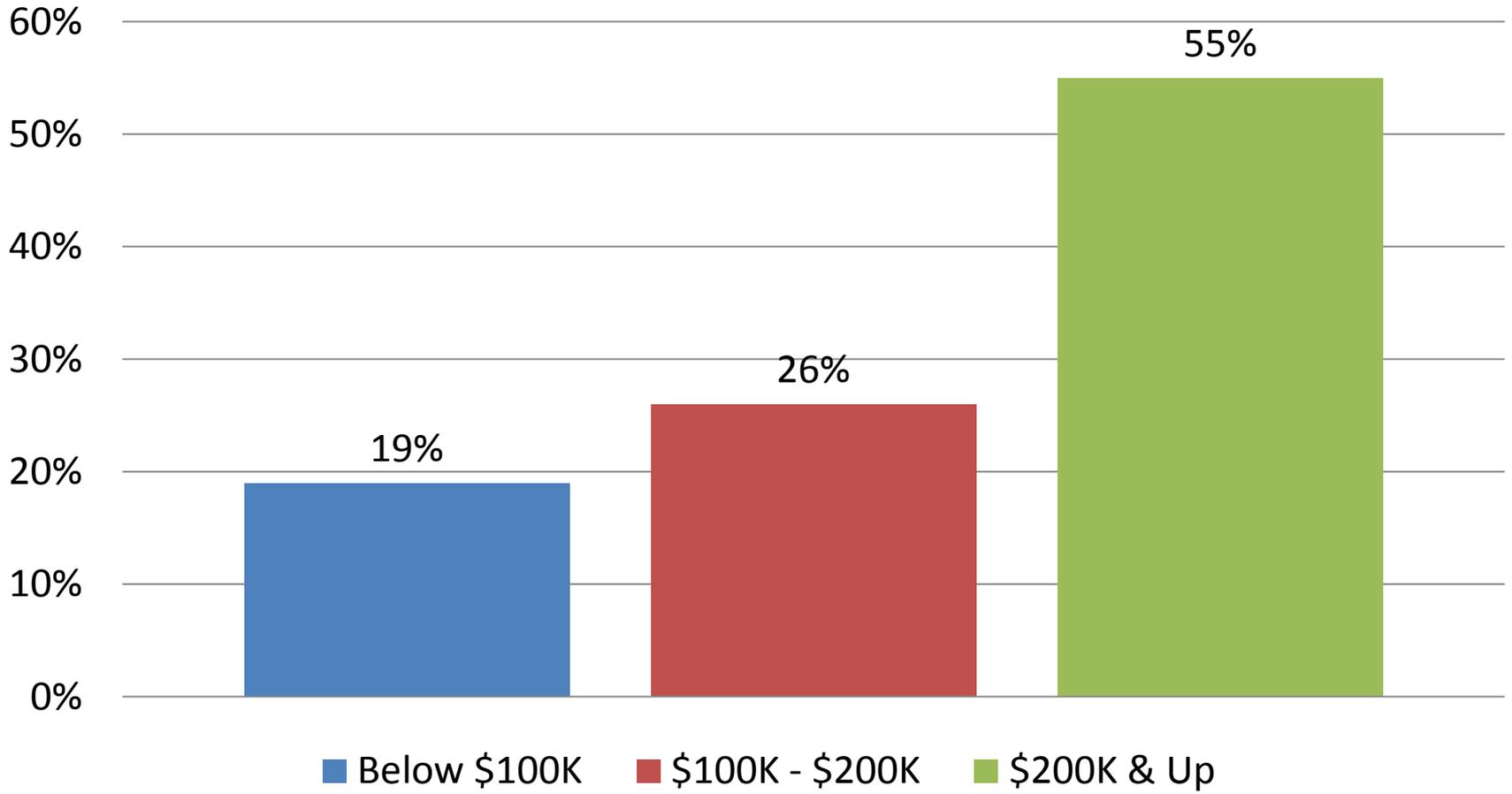
Mortgage Interest Deduction



State and Local Income, Sales, and Personal Property Tax Deductions



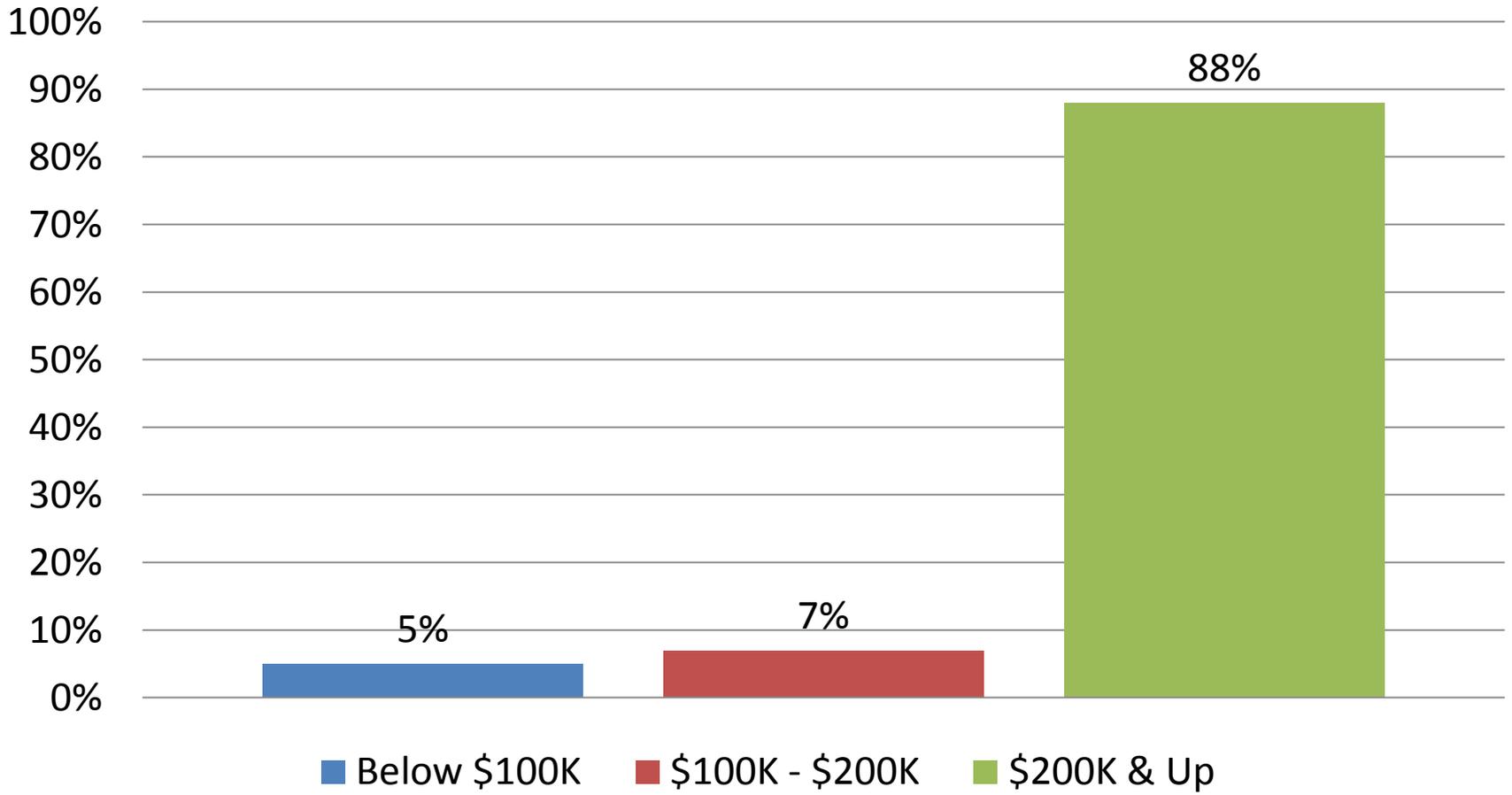
Charitable Contributions Deduction



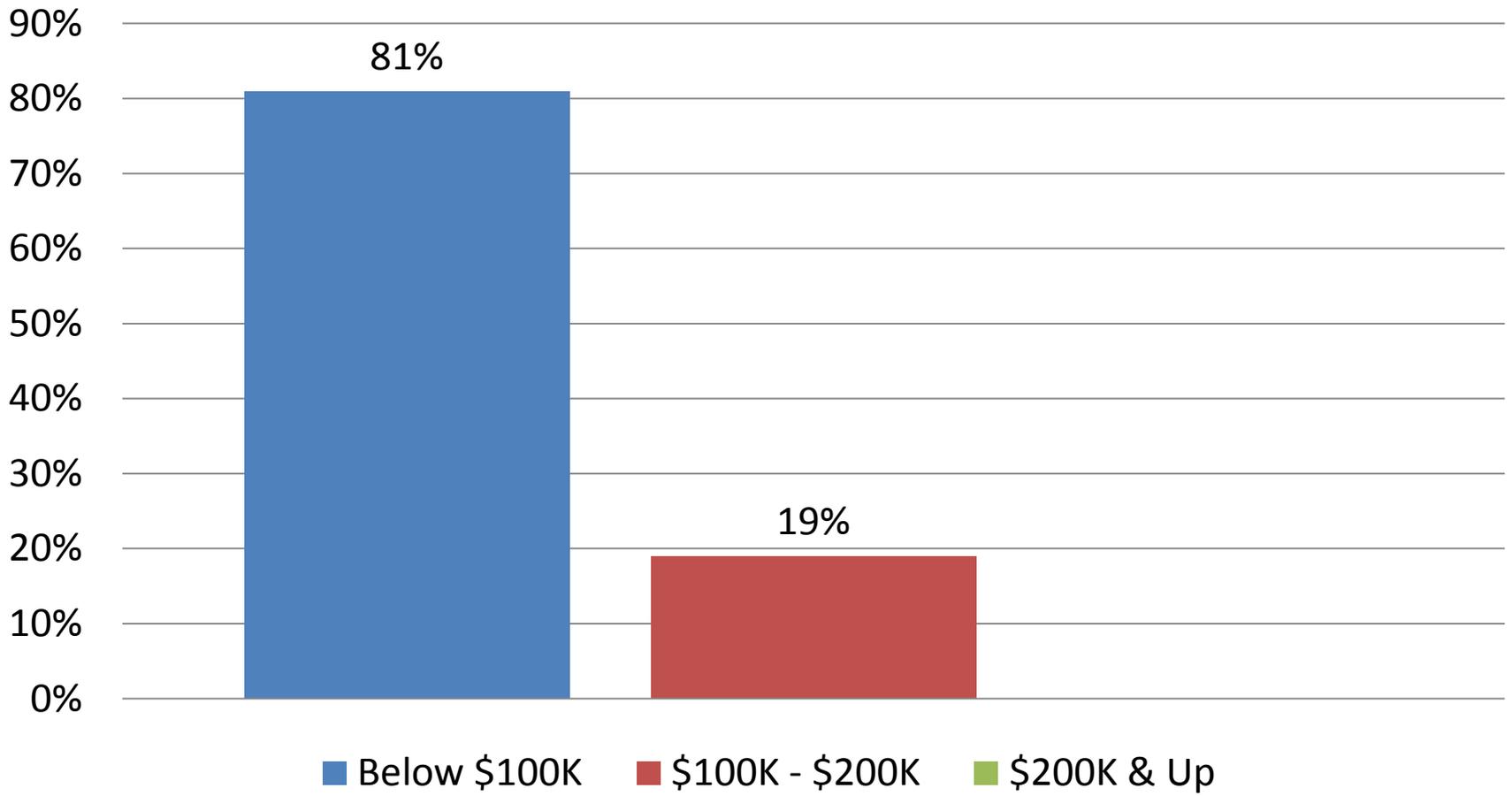
Dividends



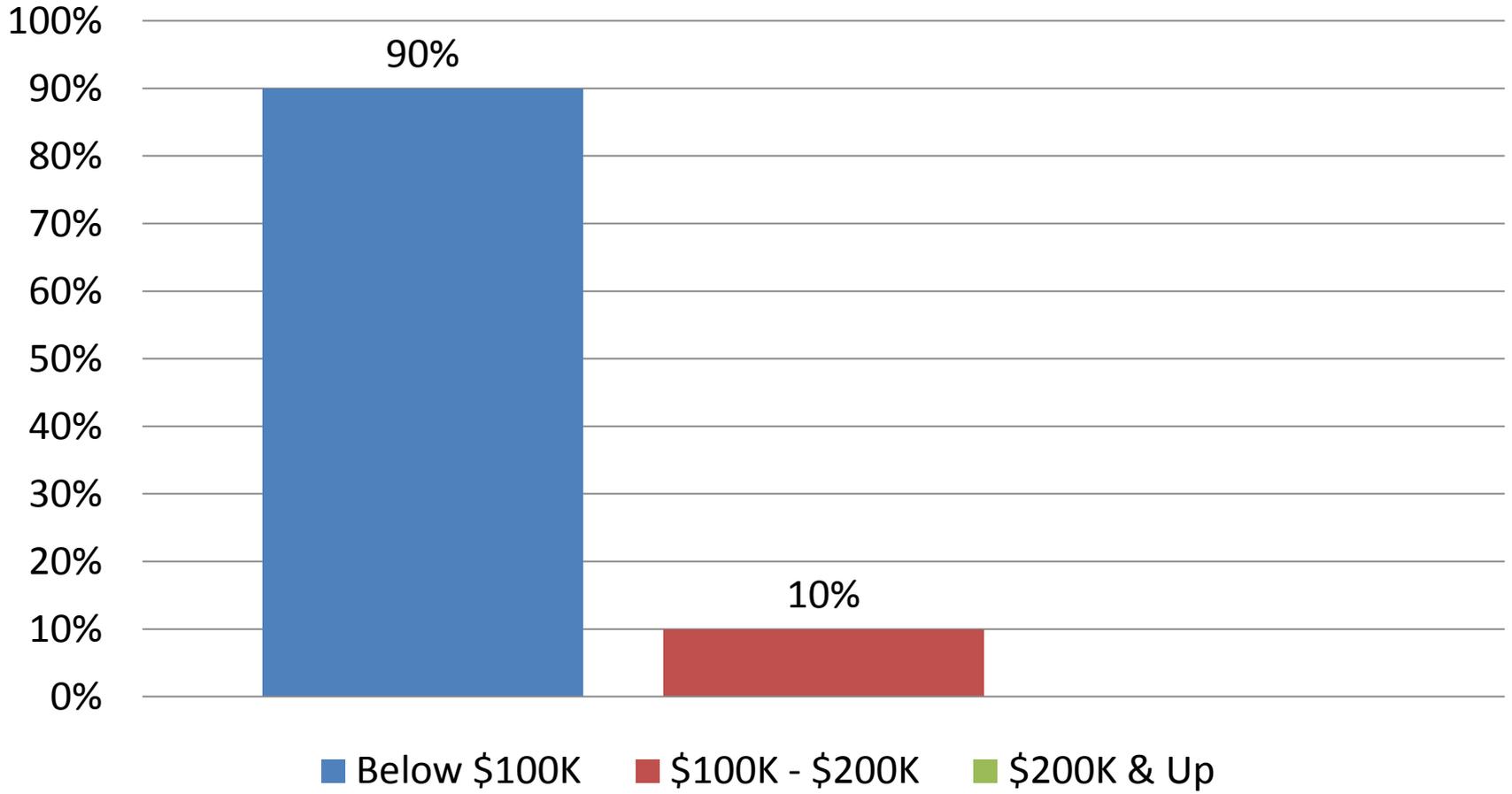
Capital Gains



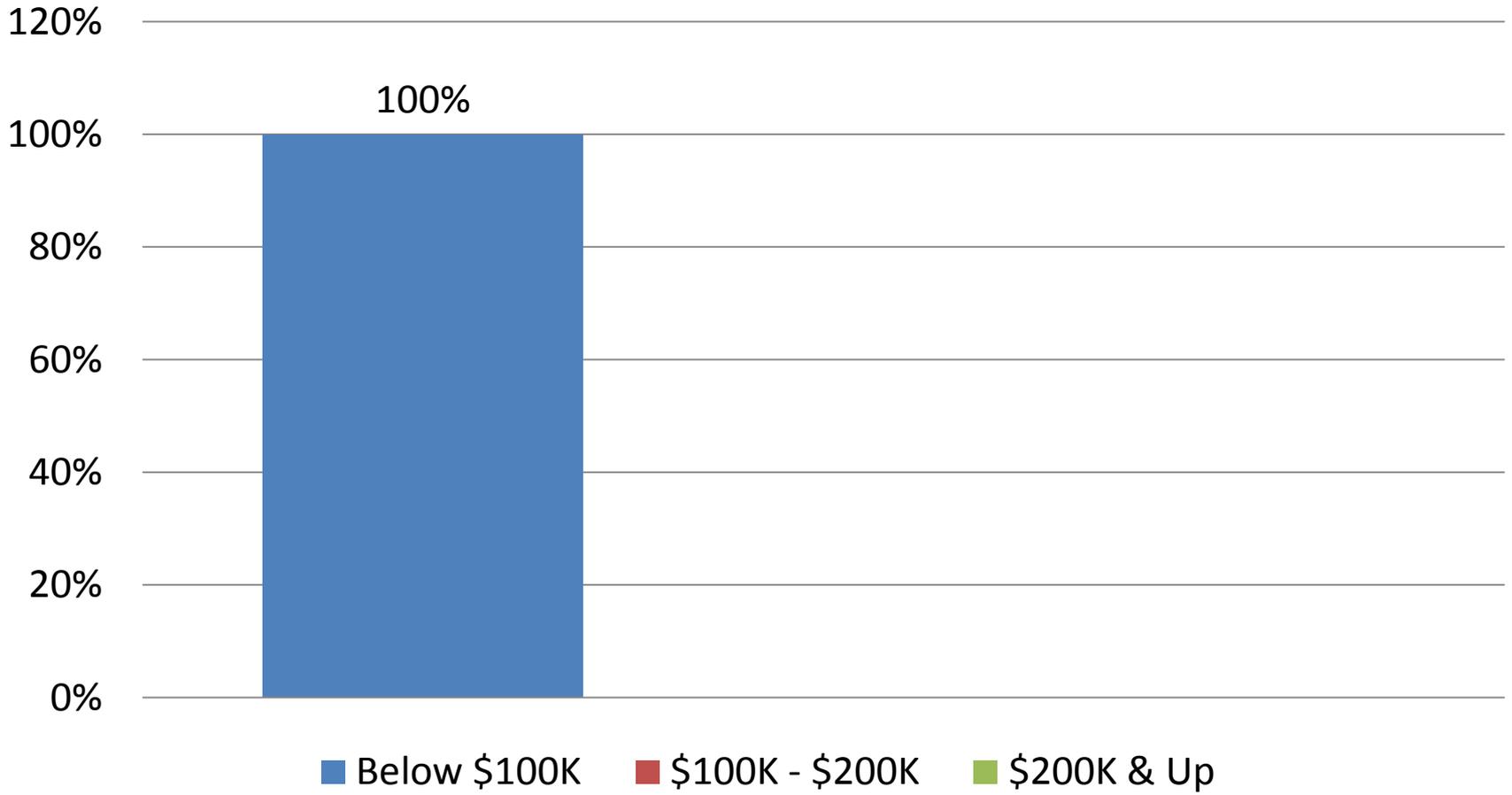
Education



Child Tax Credit



Earned Income Tax Credit



Goals for Tax Reform

Increase Progressivity of the Code

1. Eliminate or Reform Regressive Expenditures
2. Make the '09 Enhancements Permanent and Expand Refundable Credits

Raise Revenue to Reduce the Deficit and Protect the Safety Net

1. Raise Taxes on Passive Income
2. Look at Business Loopholes for Revenue