The Most Important Policy Conversation This Year: TAXES
Meet Our Panel

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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


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

<table>
<thead>
<tr>
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<th>2013</th>
<th>2021</th>
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</thead>
<tbody>
<tr>
<td>Cut under Budget Control Act caps</td>
<td>8%</td>
<td>13%</td>
</tr>
<tr>
<td>Additional cut due to sequestration</td>
<td>6%</td>
<td>6%</td>
</tr>
<tr>
<td></td>
<td><strong>14%</strong></td>
<td><strong>19%</strong></td>
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</tbody>
</table>

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

<table>
<thead>
<tr>
<th></th>
<th>Cash Income</th>
<th>Cash Income plus SNAP</th>
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</thead>
<tbody>
<tr>
<td>1996</td>
<td>636,000 households with 1.4 million children</td>
<td>475,000 households with 975,000 children</td>
</tr>
<tr>
<td>Start of 2011</td>
<td>1.46 million households with 2.8 million children</td>
<td>800,000 households with 1.4 million children</td>
</tr>
</tbody>
</table>

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

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

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


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

- **All Persons**
  - Pre-2009 Provisions: 7.9
  - 2009 Provisions: 1.5

- **Children**
  - Pre-2009 Provisions: 4.1
  - 2009 Provisions: 0.8
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

Edie Rasell
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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

<table>
<thead>
<tr>
<th>Income Group</th>
<th>Tax Rate</th>
</tr>
</thead>
<tbody>
<tr>
<td>Lowest Fifth</td>
<td>-6.9%</td>
</tr>
<tr>
<td>Second Fifth</td>
<td>-1.4%</td>
</tr>
<tr>
<td>Middle Fifth</td>
<td>4.2%</td>
</tr>
<tr>
<td>Fourth Fifth</td>
<td>7.2%</td>
</tr>
<tr>
<td>80-90</td>
<td>9.4%</td>
</tr>
<tr>
<td>91-95</td>
<td>11.7%</td>
</tr>
<tr>
<td>96-99</td>
<td>16.0%</td>
</tr>
<tr>
<td>Top 1%</td>
<td>20.8%</td>
</tr>
<tr>
<td>Top 1/10th of 1%</td>
<td>20.4%</td>
</tr>
</tbody>
</table>

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

2011, 7.9%
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

- Top 1%, 24%
- 95-99 percentile, 17%
- 90-95 percentile, 12%
- 80-90 percentile, 14%
- Fourth Decile, 14%
- Second Decile, 8%
- Lowest Decile, 3%
- Middle Decile, 10%

Top 10% get 53%
Source: Tax Policy Center, 2012
Overview of Tax Reform

Gideon Bragin,
Office of Senator Sherrod Brown
Table 2. The 20 Largest Individual Tax Expenditures, FY2014

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

Source: CRS calculations based on Joint Committee on Taxation revenue estimates.
Employer Provided Health Benefits and Deduction for Self-Employed
State and Local Income, Sales, and Personal Property Tax Deductions

- Below $100K: 19%
- $100K - $200K: 31%
- $200K & Up: 50%
Charitable Contributions Deduction

- Below $100K: 19%
- $100K - $200K: 26%
- $200K & Up: 55%

Legend:
- Blue: Below $100K
- Red: $100K - $200K
- Green: $200K & Up
Dividends

- Below $100K: 17%
- $100K - $200K: 18%
- $200K & Up: 65%

Legend:
- Blue: Below $100K
- Red: $100K - $200K
- Green: $200K & Up
Capital Gains

- Below $100K: 5%
- $100K - $200K: 7%
- $200K & Up: 88%
Child Tax Credit

- Below $100K: 90%
- $100K - $200K: 10%
- $200K & Up: 0%
Earned Income Tax Credit

Below $100K: 100%
$100K - $200K: 0%
$200K & Up: 0%
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