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ISSUE GUIDE

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Taxes

What's This Going to Cost Me?



Obama's Tax Plan at a Glance

Barack Obama proposes a bevy of income tax cuts and credits for middle- and working class individuals, while repealing the Bush tax cuts for the wealthiest Americans and raising other taxes, including on capital gains and dividend income, that largely affect them. Big businesses would find it harder to shelter income in tax havens and lose other loopholes, but start-ups would be exempt from capital gains taxes. All firms would be encouraged to invest in R&D.

The Obama Agenda, in Detail

For Individuals

Most Americans, including some of the wealthiest, will see individual income taxes reduced if [Obama's agenda](#) becomes law. Not only would he make the Bush tax cuts of 2001 and 2003 permanent for most Americans, he also proposes a variety of tax credits and exemptions. These include:

- A \$1,000 refundable tax credit per family to offset payroll taxes.
- Expanding the Child and Dependent Care Tax Credit to make it refundable and allow low-income earners to claim up to 50 percent of child-care costs.
- A \$4,000 refundable credit against college tuition.
- An expanded Earned Income Tax Credit to benefit the working poor.
- Eliminating income tax for seniors making under \$50,000.
- A credit against retirement savings for low-income filers worth up to \$1,000 per couple.
- A refundable mortgage interest credit of up to, according to the Tax Policy Center, \$800.
- An unspecified fix to the Alternative Minimum Tax.

Though broadly applicable, these would have the greatest impact on middle- and lower-income earners. Most of the tax credits would be refundable, so that if the credit exceeds the total taxes paid, the Treasury will mail out a check for the difference. Many of those who would get a “tax cut” under this plan currently pay no taxes at all.

On the other hand, American couples making more than \$250,000 (or individuals making more than \$200,000) will see their slice of the Bush tax cuts disappear like a sinking yacht. Additionally, Obama proposes raising their capital gains and dividends taxes to 20 percent and would eliminate the carried interest rules that allow Wall Street fund managers to treat much of their income as capital gains. Obama has proposed raising the cap on Social Security taxes, although perhaps carving out a “doughnut hole” that will protect those earning between \$102,000 and \$250,000. Finally, Obama supports an estate tax with a top rate of 45 percent and a \$3.5 million exemption, which is lower than the current tax.

For Businesses

Obama's business agenda would seem to favor smaller firms, start-ups, and innovation. He proposes unspecified investment incentives for small businesses and new farmers (according to the Tax Policy Center), and reducing the self-employment tax. He would

eliminate capital gains taxes for investors in start-ups and small firms and permanently resurrect the R&D credit for all firms.

Companies that start or expand operations in the U.S. would get tax cuts, but other big firms would likely face hikes. He would end provisions that favor certain industries, such as those for oil and gas (although he would reward renewable energy production), and he would close loopholes that allow companies to shelter income, especially in tax havens. He would codify as law the economic substance doctrine that the courts use to determine whether tax shelters are legitimate and limit the deductibility of CEO pay. Finally, publicly traded partnerships would have to pay corporate income taxes.

How he's voted

"As a U.S. senator, Obama's voting record did not deviate all that much from the standard line of his political party," says Pete Sepp of the anti-tax [National Taxpayers Union](#). He notes, also, that as an Illinois state senator in 2000, Obama supported the gas tax holiday he now opposes. He has since [decided](#) the tax holiday didn't lower gas prices for Illinois drivers and later [voted against](#) making it permanent.

What the Experts Say About the Obama Plan

For Individuals

According to the Tax Policy Center, a nonpartisan center-left organization, Americans up until the 99th percentile are [more likely to see a tax cut](#) than a tax increase under Obama's proposals. Only the richest one percent or so -- those with household incomes north of \$500,000 in 2009 -- would be more likely to face a tax hike. The nonpartisan [Tax Foundation](#), which is generally sympathetic to lower taxes, particularly on the capital class, takes the analysis one step further. "The Obama plan would redistribute more than \$131 billion per year from the top 1 percent of taxpayers to all other taxpayers," [writes](#) Foundation president Scott Hodge.

For Businesses

Venture capital fund managers, speaking generally about carried interest, [insist](#) that taxing their profits as income rather than capital gains, as Obama proposes, would discourage their interest in venture investing. However, the Tax Policy Center's Roberton Williams is skeptical. "When we see tax rates go up and reported income go down, we don't know if people have changed their behavior and are earning less money, or they've found different ways to characterize their income," he says. "That said, economists generally believe that the behavioral effects of tax increases tend to be small. In the short run we see noticeable changes, but two or three years down the road, behaviors don't look very different."