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Correcting Misunderstandings About Obama's Latest Tax Offer Vs. Boehner's "Plan B"

by Robert Greenstein

On the tax side of the "fiscal cliff" talks between President Obama and House Speaker John Boehner, the differences between Obama's latest offer and Boehner's "Plan B" proposal are far greater than much of the news coverage has suggested. The same holds true for the differences between Boehner's "Plan B" and a proposal that House Democratic Leader Nancy Pelosi floated last summer.

With regard to Obama and Boehner, the differences in their latest proposals extend far beyond the income threshold below which they would extend President Bush's reductions in tax rates, which are due to expire at year-end. Indeed, the closer you look at the competing offers, the bigger the differences are.

Plan B vs. Obama's Offer

For starters, the Boehner plan *maintains several generous tax cuts for incomes over $1 million*. In particular, despite talk from congressional Republican leaders in recent weeks about limiting itemized deductions, Plan B would *block* the major limit on deductions for high-income individuals (people over $1 million as well as affluent people below that threshold) from going back into effect on January 1. Blocking this "Pease" provision, as it is known — which the Bush tax cuts phased out but which is slated to return next year — from being reinstated is worth many thousands of dollars a year to most millionaire households.

This is part of the reason that an analysis issued late yesterday by the respected Urban Institute-Brookings Tax Policy Center (TPC) finds that Plan B would provide people with incomes over $1 million with an average annual tax cut of *$108,500 apiece*, relative to current law (i.e., relative to the taxes they would owe if the tax cuts now in effect expire on schedule).[1]

Also misunderstood is the fact that the Obama plan ends a number of tax cuts *at the $250,000 level, not $400,000*. These include both the repeal of the "Pease" provision and the cut in the capital gains

[1] TPC Table T12-0420.

tax rate. The $400,000 threshold applies only to the Bush cut in individual income tax rates; all other tax cuts would expire at $250,000.

These are very big differences between the plans.

In addition, Plan B *ends* improvements in key tax credits for low-income working families (the Earned Income Tax Credit and the Child Tax Credit) that the President and Congress enacted in 2009 and 2010, thereby causing these families to lose substantial amounts. The Obama plan would extend these improvements. Under Plan B, a mother with two children who works full time at the minimum wage of $7.25 and earns $14,500 a year would lose $1,560 of her Child Tax Credit, which would plummet from $1,725 to $165.

In more detail, here are some important facts about Plan B and the Obama proposal:

- Plan B would allow the cuts in tax rates on ordinary income and on capital gains to expire for incomes over $1 million and would tax dividends for these people at a 20 percent rate. But, it would *not* allow limits on tax expenditures for high-income households, including people with incomes over $1 million, to take effect. (As noted, the law that was in effect before the 2001 Bush tax cut and that's scheduled to return on January 1 substantially limits itemized tax deductions for high-income households; Plan B blocks the limit for everyone, including people over $1 million — the people who gain the most from abolishing this limit.)

- Plan B also maintains the stunning estate-tax giveaway that Congressional Republican leaders insisted upon as part of the tax-cut deal that they struck with the President at the end of 2010. This tax cut benefits only the estates of the wealthiest 3 of every 1,000 people who die, relative to the 2009 estate-tax rules that Obama seeks to reinstate, since only these estates would owe *any* estate tax under the 2009 rules according to TPC analysis. This provision of Plan B costs an estimated $119 billion in lost revenue over ten years — all of which would go to the heirs of those wealthiest 3 of every 1,000 Americans who die, giving them an average tax cut of over $1 million per estate.

- The Obama proposal, by contrast, reinstates the limits on tax expenditures for high-income households — and ends all of the Bush capital gains tax cuts and part of the Bush dividend tax cuts — for people with incomes above $200,000 for singles and $250,000 for couples. (The dividend tax rate for incomes above these levels would be 20 percent.) Only with respect to individual income tax rates does the proposal retain the Bush tax cuts on the first $400,000 in income. And, as noted, the Obama proposal restores the estate tax to its 2009 parameters.

- Finally, Obama *maintains* the tax-credit improvements for lower-income working families, as well as an expanded tax credit for college tuition costs for both low- and middle-income families, which the President and Congress enacted in 2009 and extended in 2010.

The Results

Plan B retains extremely large tax cuts for people making over $1 million and raises several hundred billion dollars less over ten years than the comparable Obama proposals, even as it *shrinks* tax credits for the working poor and some middle-class families with college students.

The new TPC analysis finds that people with incomes over $1 million would receive an average annual tax cut that's $61,800 larger under Plan B than under the tax-cut extension that the Senate passed last summer, which let all relevant tax cuts expire above the $200,000 and $250,000 thresholds.[2] Because the new Obama offer preserves the individual income-tax rate cuts on the first $400,000 of income rather than the first $250,000, this $61,800 difference should be somewhat smaller when Plan B is compared to the latest Obama offer, but the additional tax cut for millionaires under Plan B will still be huge.

In addition, Administration estimates show that 25 million families with incomes *below* $250,000 would be worse off under Plan B than under either the Obama offer or the Senate-passed bill due to the loss of the 2009 tax-credit improvements for working families; such families would lose an average of $1,000 each.

In fact, Plan B's failure to extend the 2009 tax-credit improvements for low-income working families would push millions of parents working for low wages, and their children, into — or deeper into — poverty. In 2011, Census Data show, the tax-credit measures that Speaker Boehner would allow to expire lifted 1.5 million Americans in low-income working families — including 800,000 children — out of poverty. They also lessened the depth of poverty of 15.2 million additional people — including 7.1 million children — who remained below the poverty line but were lifted closer to it.[3]

By letting tax-credit improvements for working-poor families with children expire and extending a lavish estate tax cut for the nation's richest heirs and heiresses, Plan B seems like something that Ebenezer Scrooge might have fashioned.

Plan B vs. Pelosi

Nor, despite some media accounts, is the Boehner offer essentially the same as an idea that House Democratic Leader Pelosi floated last summer.

Unlike Plan B, the Pelosi idea maintained the limits on tax expenditures scheduled to return on January 1 for people over $1 million. And it would set the estate tax at its 2009 parameters, ending the lavish additional estate tax break of 2010. The Pelosi concept also extended the 2009 tax-credit

[2] TPC Table T12-0286 and T12-0422. Assumes Senate-passed bill with 2009 estate tax parameters and 2013 AMT relief.

[3] These figures use the Census Bureau's Supplemental Poverty Measure, which counts refundable tax credits as income and makes other improvements to the official poverty measure that a National Academy of Sciences panel recommended.

improvements for low- and moderate-income households, which Plan B would let expire. In all these areas, the differences between Plan B and the Pelosi concept are large.

The revenue loss associated with the $1 million threshold would likely be smaller under the Pelosi idea than under Plan B for another reason as well. While they were considering the $1 million threshold, Pelosi's staff indicated that if they proposed to set the threshold at $1 million rather than $250,000, they likely would include provisions to recapture the value of the tax cuts that people with incomes over $1 million would receive on income between $250,000 and $1 million.

Some of the differences among these proposals may sound technical, but they are crucial for a clear understanding of how large the gaps between them really are. In this case, the devil is truly in the detail.