

Six Key Facts About How the President Has Made the Tax System Fairer



“Our tax policy has been skewed toward the top 1 percent and away from the middle class, working class in this country. Reversing that would make a significant difference. That's not trivial. That's not around the edges.”

—Senator Barack Obama, Storm Lake, Iowa, Sept. 2007

April 14, 2016

Key Facts About How the President Has Made the Tax System Fairer

- 1. Enacted tax credits benefiting about 24 million working and middle-class families a year while keeping tax rates low for 98 percent of Americans.**
 - ✓ **Permanently extended tax cuts for 98 percent of Americans that had been set to expire.**
 - ✓ **Enacted in 2009 – and later made permanent – the “ARRA credits,”** expansions of the Earned Income Tax Credit (EITC) and Child Tax Credit (CTC), and the American Opportunity Tax Credit (AOTC), that provide about 24 million working and middle-class families a year a tax cut of about \$1,000.
 - ✓ **Middle-class federal income taxes are now near historic lows.**
- 2. Enacted tax relief that – with \$3,600 for the typical family over four years – was crucial to the economic recovery, including support for small businesses.**
- 3. Successfully fought to reverse the costly “Bush tax cuts” for the wealthy, reducing the deficit by more than \$800 billion over the next decade.**
 - ✓ Includes increasing the top income tax rate to its Clinton-era level (39.6%) and rolling back tax cuts for investment income and estates.
- 4. The very wealthiest Americans are paying significantly higher tax rates as a result of President’s policies.**
 - ✓ After major changes took hold in 2013, the highest-income 0.1 percent of people in the United States saw their tax rates increase by more than 6 percentage points on average, implying that they paid more than \$50 billion more in taxes than they would have under the older rules.
- 5. Made our tax system fairer by curbing special interest loopholes and cracking down on offshore tax avoidance.**
- 6. The President’s proposals would build on this progress by making the tax code more progressive.**
 - ✓ The President’s proposals would ensure the wealthy pay their fair share by closing inefficient tax loopholes, while targeted new tax cuts would make paychecks go further for working and middle-class families.

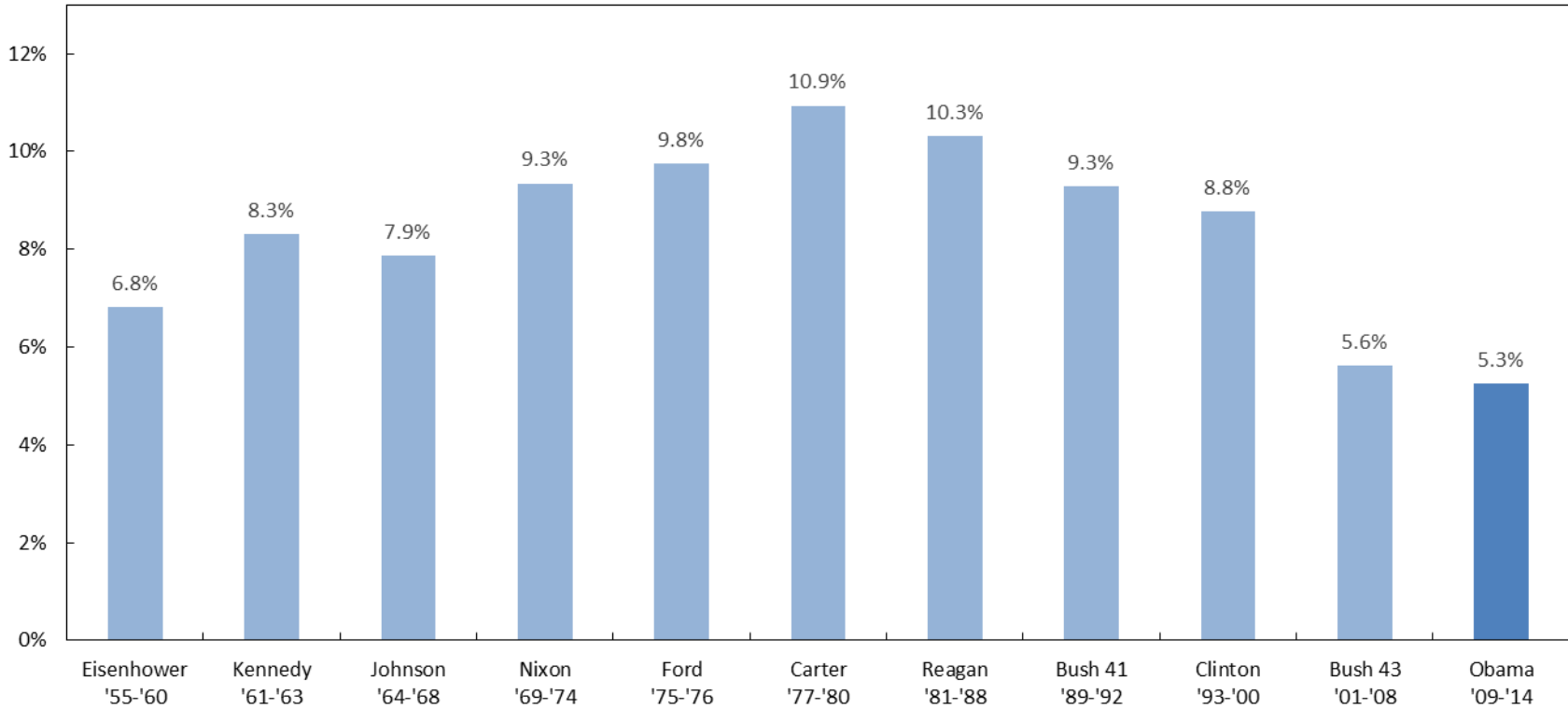
Enacted Tax Credits Benefiting About 24 Million Working and Middle-Class Families a Year While Keeping Tax Rates Low for 98 Percent of Americans

As part of his agenda to strengthen the economy, the President has locked in tax cuts for working and middle-class families and enacted significant new tax cuts. For example:

- The President kept working and middle-class taxes from rising by **permanently extending tax cuts for 98 percent of Americans** that had been initially set to expire in 2010, including permanently fixing the Alternative Minimum Tax.
- The EITC and CTC expansions first enacted in the 2009 Recovery Act and recently made permanent now **provide about 16 million working families a year with an average tax cut of about \$900.**
 - **The CTC expansion allows more low-income families to access the CTC.** For example, a single mother of two who works full-time, year-round for the federal minimum wage (earning \$14,500) receives an additional CTC of \$1,725 from this expansion (she wouldn't receive *any* CTC without it).
 - **The EITC expansions increase the maximum EITC by about \$700 for families with more than two children, a group with disproportionately high poverty rates, and reduce marriage penalties in the EITC** by making married couples eligible for the EITC at somewhat higher income levels.
- The AOTC provides a maximum credit of \$2,500 per year for the first four years for students and families paying for college – **up to \$10,000 per student.** Altogether, the AOTC **provides a tax cut of over \$1,000 on average for nearly 10 million families a year,** compared to prior law.
- The Affordable Care Act created the Premium Tax Credit (PTC), the largest tax cut for healthcare in American history, which helps low- and middle-income families afford health insurance. The PTC is estimated to provide nearly \$1 trillion in benefits to families over the next ten years.
- President Obama's new tax policies have **increased the after-tax income of families in the lowest quintile of the income distribution by more than 6 percent on average – or more than \$850 – thereby reducing the extent and severity of poverty for millions of working families and their children.**

Middle-Class Federal Income Taxes Are Now Near Historic Lows

Average federal income tax rate for median income family



Middle-class taxes are at historically low levels, with the typical middle-income family paying lower federal income taxes than in almost any other period in the last 60 years.

Enacted Tax Relief That Was Crucial to the Economic Recovery: *\$3,600 for the Typical Family Over Four Years*

Tax relief for working families played a critical role in giving working families – and the broader economy – a much-needed boost as we recovered from the Great Recession. Under President Obama:

- The **Making Work Pay Credit**, enacted in the Recovery Act, provided 95 percent of working families – more than 100 million taxpayers – a tax cut of \$400 per person (\$800 per couple) in 2009 and 2010.
- The **President's Payroll Tax Cut** reduced payroll taxes for 160 million workers by 2 percentage points, cutting taxes for a typical family earning \$50,000 a year by \$1,000 in 2011 and 2012.

In all, a typical middle-class family received a tax cut of \$3,600 over 2009-2012 – and even more if they were putting a child through college because of the American Opportunity Tax Credit.

The President also enacted **18 tax cuts for small businesses** during his first term, helping small businesses hire more workers, make new investments, and provide health insurance for employees.

- In December 2015, the President signed legislation making permanent critical tax cuts for small businesses, including enhanced expensing for small businesses making new investments and a zero percent capital gains rate for investments in small businesses.

Successfully Fought to Reverse the Costly “Bush Tax Cuts” for the Wealthy, Reducing the Deficit by More Than \$800 Billion Over the Next Decade

The Bush tax cuts enacted in 2001 and 2003 cut the top tax rates for high-income Americans. The American Taxpayer Relief Act the President signed into law reversed these costly tax cuts, including by:

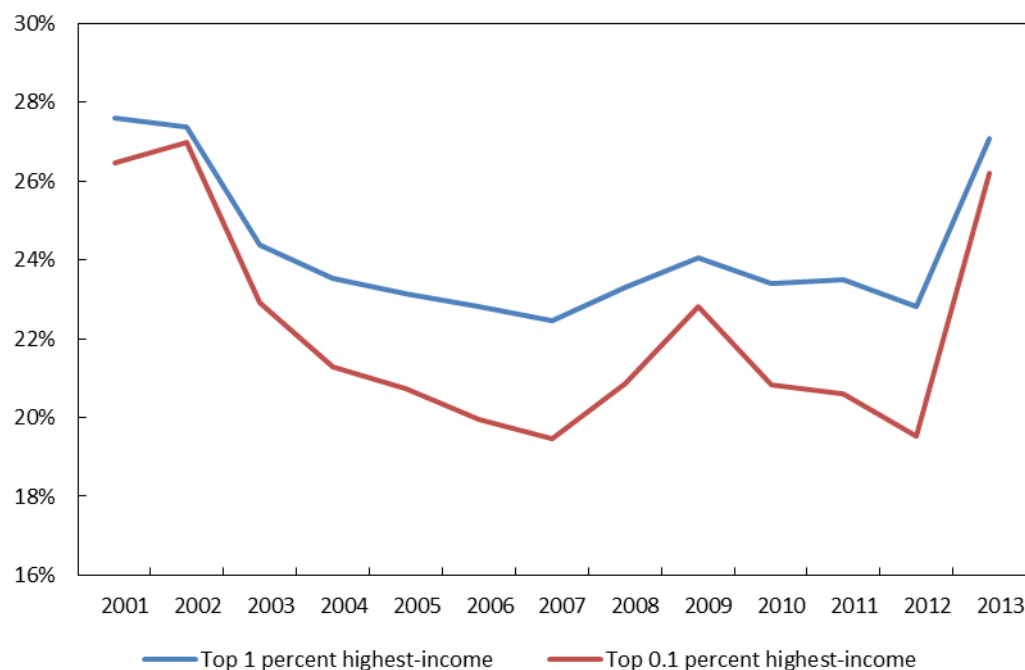
- **Restoring the top income tax rate from 35% to its Clinton-era level of 39.6%**
- **Increasing the top tax rate on investment income from 15% to 20%** (23.8% including increases enacted in the Affordable Care Act)
- Restoring limits on deductions for high-income taxpayers

After these changes became effective in 2013, effective tax rates increased sharply for the highest-income Americans, reversing a decade-long trend of tax cuts for the highest-income Americans.

Altogether, reversing the high-income Bush tax cuts will reduce the deficit by more than \$800 billion over the next decade.

Obama Administration Reversed Tax Cuts for the Very Wealthy

Average income tax rate



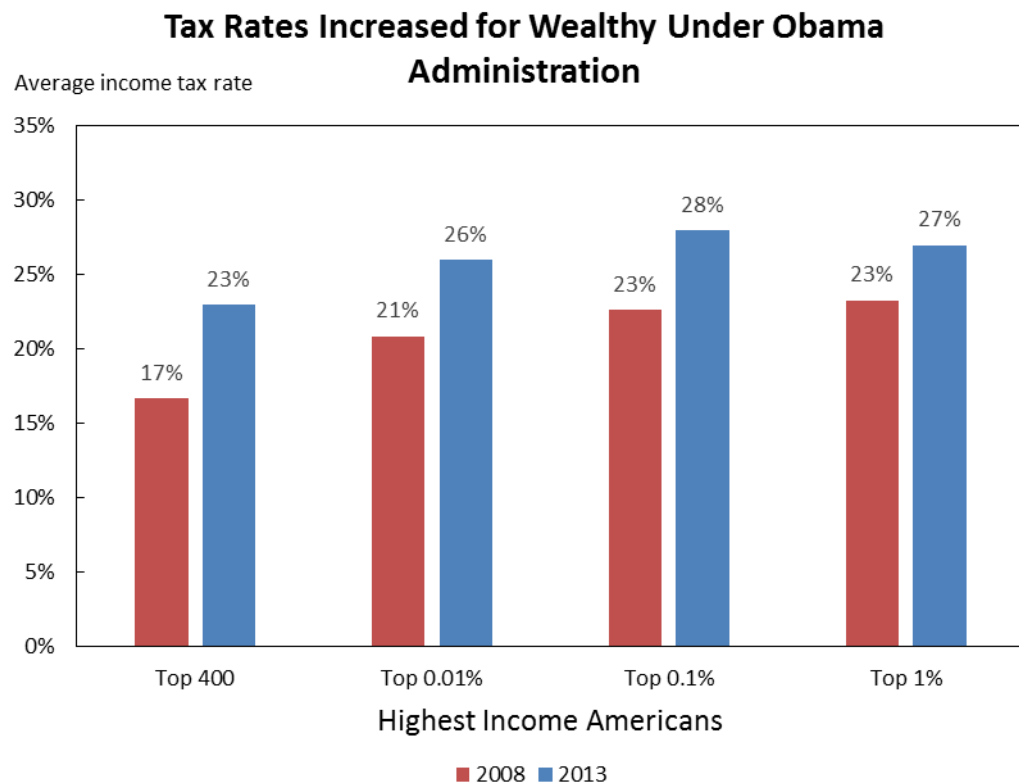
Sources: Internal Revenue Service; Center on Budget and Policy Priorities

Note: 2013 is the latest year with IRS data available, and is the year that the tax changes affecting high-income Americans from the American Taxpayer Relief Act and Affordable Care Act became effective. Some of the difference in tax rates between 2012 and 2013 may be attributable to wealthy taxpayers accelerating capital gains realizations to 2012.

As a Result of President Obama's Major Tax Policies, Effective Tax Rates for the Highest-Income Americans Have Increased Significantly

As part of the President's balanced approach to deficit reduction, he fought to reverse tax cuts for the highest-income Americans – pushing back on inequities in our tax code that leave some wealthy families paying a lower rate than many working families:

- The richest 400 people in the United States – who earned more than \$264 million each on average in 2013 – **saw their effective tax rate rise by more than a third in 2013**, from 17 percent to 23 percent, implying they **paid about \$6.5 billion more in taxes than they would have under the older rules.**
- The richest 0.1 percent of people in the United States **saw their tax rates increase by more than 6 percentage points in 2013** to 28 percent on average, **implying that they paid more than \$50 billion more in taxes than they would have under the older rules.**



Source: Internal Revenue Service

Note: 2013 is the latest year with IRS data available, and is the year that the tax changes affecting high-income Americans from the American Taxpayer Relief Act and Affordable Care Act became effective. Some of the difference in tax rates between 2012 and 2013 may be attributable to wealthy taxpayers accelerating capital gains realizations to 2012.

The Very Wealthiest Americans are Paying Significantly Higher Tax Rates as a Result of President's Policies

Our tax code has long been rife with loopholes and tax preferences that allow many wealthy Americans to avoid paying their fair share. For example, income from investments is taxed a lower rate than income from labor, which allows many wealthy families to pay a lower tax rate than many working and middle-class families and contributes to growing income and wealth inequality.

Fortunately, under President Obama we've made significant strides toward ensuring the wealthy pay a fairer share in taxes, including by reducing the disparity between the top tax rate on investment income and labor income. The tax policies enacted since 2009 have made the tax system more progressive and reduced inequality in after-tax income. Overall, relative to the tax code in place before the Administration, in 2017:

- The top 0.1 percent of families – *who on average earn more than \$8 million a year* – will pay effective tax rates more than 6.5 percentage points higher than they would have under the pre-Obama tax code, ***meaning they are contributing \$500,000 more in taxes on average.***
- The top 1 percent of families – *who on average earn \$1.6 million a year* – will pay effective tax rates about 5 percentage points higher than they would have under the pre-Obama tax code, ***meaning they are contributing over \$80,000 more in taxes on average.***

The Administration Has Made Our Tax System Fairer by Curbing Special Interest Loopholes and Cracking Down on Offshore Tax Avoidance

Curbing harmful loopholes

- **Treasury administrative actions to curb corporate “tax inversions”** – transactions in which U.S. companies move their tax residence overseas on paper to avoid U.S. taxes – have made it more difficult for companies to invert and reduced the economic benefits of doing so.
- **Treasury proposed regulations to end a specific abuse of the carried interest loophole** – the use of “management fee waivers” to convert fees into low-taxed carried interest.
- **Proposed and enacted legislation to close international tax loopholes.**
- **Secured new tools for the IRS to more effectively audit hedge funds, private equity firms, and other large partnerships and ensure they pay what they owe in taxes.**

Enforcing the law and combatting evasion and noncompliance

- **Pushed for and signed the Foreign Account Tax Compliance Act (FATCA)**, establishing a new information exchange framework to prevent tax evasion using offshore accounts.
- **Cracked down on offshore tax evasion through criminal investigations and prosecutions** – including aggressive action against Swiss banks that facilitated U.S. tax noncompliance.
- **Enhanced tax enforcement efforts have prompted tens of thousands of individuals to declare secret accounts and pay back taxes and penalties.** Since 2009, the IRS has received more than 54,000 offshore voluntary disclosures, collecting more than \$8 billion in tax, penalties, and interest.

In addition, the President’s legislative proposals would go even further in closing loopholes, including a robust framework for pro-growth business tax reform that stops inversions and promotes investment in the U.S.

The President's Tax Proposals Would Make Paychecks Go Further for Working and Middle-Class Families

Despite the progress we've made, the President knows there's more to be done to help working families get ahead in today's economy. A few of the key ways the President has proposed to further cut taxes for working and middle-class Americans are:

- **Expanding the EITC for workers without dependent children**, which would reduce the extent and severity of poverty for more than 13 million low-income workers.
- **Streamlining and expanding education tax incentives**, which would increase the maximum AOTC for low-income students and make the AOTC available for 5 years instead of 4, cutting taxes for students and families paying for college.
- **Simplifying and expanding the Child and Dependent Care Tax Credit**, including tripling the maximum child care credit for families with young children to \$3,000. This proposal would benefit more than 5 million families with nearly 7 million children paying child care expenses.
- **Providing a new "Second Earner" tax credit**, which would encourage work and cut taxes for more than 23 million working and middle-class couples.

The President's Proposals Would Build on This Progress By Curbing Tax Breaks and Closing Loopholes for the Wealthy

The President would build on the progress already made by closing inefficient tax loopholes and ensuring that the wealthy pay their fair share, including by:

- **Limiting tax expenditures for the highest-income taxpayers**, reducing deficits by more than \$600 billion by limiting tax breaks whose benefits accrue disproportionately to high-income households.
- **Eliminating “stepped-up basis” – aka the “Trust Fund loophole” – for the wealthy and increasing the top tax rate on capital gains and dividend income to 28 percent**, the same rate that President Reagan signed into law.
- **Strengthening the estate tax** by increasing the tax rate on the very wealthiest Americans and closing loopholes that allow the wealthy to avoid the tax.
- **Closing gaps in payroll taxes and the Net Investment Income Tax to ensure that all high-income business owners pay their fair share in Medicare taxes.**
- **Ending the carried interest loophole, the inversions loophole, and other special interest tax breaks.**
- **Enacting the “Buffett rule,”** which would ensure that millionaires pay no less than 30 percent of their income in taxes and act as a backstop to prevent high-income households from using tax preferences to reduce their total tax bills to less than what many middle class families pay.