To: Editorial Boards and Columnists
From: Trevor Thomas, Communications Director, Americans for Tax Fairness; tthomas@americansfortaxfairness.org; 616-430-2030
Date: March 18, 2013
Re: Comparison of Tax Plans in U.S. Senate and House Budgets Being Voted on this Week

This week the U.S. Senate and U.S. House of Representatives will vote on two dramatically different budget proposals drafted by U.S. Sen. Patty Murray and U.S. Rep. Paul Ryan, respectively. Americans for Tax Fairness, a national coalition representing more than 275 groups pressing for a fairer tax system, urges you to endorse the revenue proposal in the Murray budget and to editorialize against the revenue plan in the Ryan budget.

Broadly, Rep. Ryan's budget would cut spending by $4.6 trillion over 10 years and reduce tax revenues by $5.7 trillion, according to the non-partisan Tax Policy Center, without specifying how to make up for that lost revenue. Ryan proposes a large reduction in tax rates – cutting the top individual income tax rate by more than one-third and cutting the corporate income tax rate by more than one-quarter.

In contrast, Sen. Patty Murray's budget proposes to both cut spending and raise tax revenue by $975 billion each over 10 years, to reduce the deficit and invest in American families and communities.

A third alternative, put forward by the Congressional Progressive Caucus in the House and praised by Nobel-prize winning economist and New York Times columnist Paul Krugman, would raise $5.7 trillion in new revenue over 10 years. It is similar in scope to a proposal put forward by Americans for Tax Fairness (http://bit.ly/145lTx5), which provides many options for raising trillions of dollars over 10 years from the richest 2 percent and from big corporations:

1. End corporate tax breaks for shifting jobs and profits offshore: $221-$606 billion
2. Close other corporate tax loopholes and tax breaks: $162 billion
3. Place a small sales tax (3 cents on each $100, or .03%) on Wall Street trading: $353 billion
4. Limit tax deductions for the richest 2%, as President Obama proposes: $513 billion
5. Close loopholes that allow the very wealthy to shield income from taxation: $1.5-$1.7 trillion
6. Place a 5%-5.6% surtax on the incomes of millionaires or multimillionaires: $107-$453 billion

THE MURRAY BUDGET ON REVENUE

Americans for Tax Fairness has pressed for a fair and balanced solution that requires the wealthy and corporations to pay their fair share of taxes in order to raise revenue to reduce the deficit and make new investments, not to reduce overall individual or corporate tax rates.

The Murray budget proposes $1.85 trillion in additional deficit reduction over the next 10 years, with $975 billion from new tax revenue and the same amount in spending cuts, which would replace the across-the board spending cuts under sequestration. This deficit reduction would be on top of $2.4 trillion already enacted during the last two years – $1.5 trillion in spending cuts, $600 billion from higher income taxes on the richest 1% from the "fiscal cliff" deal in January, and the rest from interest savings.

Murray's budget specifies that the progressivity of the tax code must be maintained. It also clearly states that "tax expenditure reform" (i.e., closing loopholes) should ensure that the tax code remains at least as progressive as it is today. It would allow cuts in tax rates, but only if they wouldn't interfere with the budget's revenue-raising and progressivity goals. Essentially, it leaves the tax-writing details to the Senate Finance Committee.

But as Citizens for Tax Justice noted, "[T]he Murray plan does not specify what tax increases or [tax] spending cuts would be acceptable. The plan says it would raise revenue by 'closing loopholes and cutting wasteful spending in the tax code that benefits the wealthiest Americans and biggest corporations,' which is certainly moving in the right direction for those of us who believe that the overall tax system is not asking very much from wealthy individuals or from corporations."

For example, the Murray budget does not propose any specific action to make sure that corporations pay their fair share – such as General Electric, Verizon, Boeing and more than two dozen other big corporations that paid no federal income taxes in the last four years, or the billions of dollars in taxes that are lost each year because U.S. corporations are able to shelter their profits overseas in tax havens.

And the $975 billion figure in loophole closures is a relatively modest sum – even House Speaker Boehner proposed raising at least $800 billion by closing loopholes during his budget negotiations with President Obama last year.

The Murray budget does not set out to balance the budget, instead it would stabilize the debt as a percentage of GDP. Under the Murray budget, federal revenue would be 19.8% of GDP by 2023, about what it was in 2000 under President Clinton when there was a budget surplus. [p. 62 of Murray plan] Of course, many budget experts believe much more revenue is needed as the baby-boom generation has begun to retire, thereby putting much more demand on health care programs.

THE RYAN BUDGET ON REVENUE

The Ryan budget would overhaul the tax code, dramatically reducing its progressivity and increasing inequality. It would do this by setting only two individual tax rates (down from 7). The top rate would be reduced from 39.6% to 25%, and a lower bracket of 10% would be created for everyone else. The bill does not specify at what level the 10% tax rate would end and the 25% tax rate would begin.

According to the Tax Policy Center, under the Ryan budget plan households in the "top 0.1 percent of income, who make $3.3 million or more, would get a whopping tax cut of $1.2 million on average – a 20 percent increase in their after-tax income. By contrast, middle-income households would get an average tax cut of about $900. Those in the bottom 20 percent (who make $22,000 or less) would get $40 and one-third of them would get no tax cut at all."

The Ryan budget would also reduce the corporate tax rate from 35% to 25%; yet, over the last 60 years the corporate share of federal revenues has shrunk from 30.5% in 1953 to just 7.9% in 2011, according to the U.S. Office of Management and Budget [Table 2.2].

Ryan's budget suggests that its $5.7 trillion in tax cuts would be financed by raising revenue through closing loopholes, but no loopholes are specified, and it is politically implausible for Congress to close enough loopholes to raise that much money.

Given Ryan's revenue gap, his budget would have to cut tax expenditures that benefit the middle class and the working poor (i.e. mortgage interest deduction, employer provided health care)— not just those for upper-income households — which almost certainly would make the tax code less progressive and shift tax burdens down the income scale, according to the Center on Budget and Policy Priorities. (http://www.cbpp.org/cms/index.cfm?fa=view&id=3921)

CONGRESSIONAL PROGRESSIVE CAUCUS BUDGET

The Congressional Progressive Caucus's (CPC) back-to-work budget is as bold on the left as Ryan's budget is far-reaching on the right, with the important exception that it is paid for with specific revenue measures. As Paul Krugman noted: "There are no Ryan-style magic asterisks, trillion-dollar savings that are assumed to come from unspecified sources; this is an honest proposal. And 'Back to Work' rests on solid macroeconomic analysis, not the fantasy 'expansionary austerity' economics — the claim that slashing spending in a depressed economy somehow promotes job growth rather than deepening the depression — that Mr. Ryan continues to espouse despite the doctrine's total failure in Europe.

The Economic Policy Institute projects that the CPC budget would sharply boost economic growth and increase employment by nearly 7 million jobs in its first year through $2.1 trillion in new public investments. These would be paid for by ending the Bush-era tax cuts for those households making more than $250,000 a year (as President Obama originally proposed); creating modestly higher marginal tax rates for millionaires (so they pay a higher top rate than a family making $300,000 a year); capping the value of itemized deductions at the 28% rate (as President Obama is once again expected to propose in his forthcoming budget); and ending the ability of U.S. multinationals to defer (delay) paying taxes on the profits of their overseas subsidiaries until those profits are "repatriated" (brought back to the U.S.). Most of these proposals are also explained in the tax revenue options paper prepared by Americans for Tax Fairness.

All this week the U.S. Senate will debate its budget as scores of amendments are expected to be offered. We believe a final vote on the measure will be on either Thursday or Friday. The House is likely to vote no its budget plan Wednesday. If we can be of further assistance to you let us know.

###