



From the Desk of Dean Zerbe.



A Look at the Candidates' Position on Taxes

by Dean Zerbe

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As the Democrats enjoyed the clean air in Denver, the air was also clearing regarding the candidates and their positions on taxes, particularly Senator Obama. As the New York Times recently noted: "Senator Barack Obama appears to be altering his proposals for extending Social Security payroll taxes and raising the capital gains tax, by delaying the increases or scaling them back." With all the changes, I wanted to give you the latest thinking on the Presidential candidates and their positions on taxes.

Five Big Principles To Keep in Mind

1. **Priorities.** The guiding principles for the two candidates on taxes are straightforward: Senator Obama's focus is on tax policies that seek wealth redistribution and fairness. Senator McCain's goals in tax are to encourage job growth.

2. **Passion.** Neither candidate has been active in tax issues in the Senate. Passion matters when you are trying to make big reforms in tax. Further, McCain opposed the Bush tax cuts before his conversion on the road to the nomination. Obama voted to repeal the Bush tax cuts - including those for working families. It is difficult to see much happening in the way of corporate tax reform because it is not a priority for either candidate.

3. **Economy.** If the economy is where it is currently or worse, it will strengthen McCain's hand to keep in place current tax law, and Obama will face an uphill challenge to increase taxes. Obama acknowledged this reality last Sunday on ABC's "This Week" when he indicated that tax increases may depend on the state of the economy.

4. **Effective Dates.** A new president will not wait to change the tax laws until January 1, 2011.

5. **Senate.** By using budget reconciliation as a vehicle, an Obama administration would be able to bypass the normal 60-vote requirements for controversial legislation to move forward in the Senate.

Personal Income Tax

In general, McCain will keep the framework of the Bush tax cuts, including income tax rates. Obama will raise the top two rates to 36% and 39.6%. Both candidates have stated that they will keep in place the Bush tax cuts for families making less than \$250,000, and Obama has proposed additional tax cuts, including refundable payments to low-income families who do not have a federal income tax liability. Look also for an Obama administration to aggressively challenge independent contractor status.

Capital Gains/Dividends

McCain wants to maintain current law of 15%. Obama has spoken of raising the rates to 25% or 28% but now is stating that he will seek a rate of 20% for those families making more than 250k. Senator Obama has also talked about lower capital gains rates for small businesses and start-ups.

AMT

McCain's position is that he hopes to repeal AMT. Obama looks to keeping the current "patch" in place.

Social Security

McCain has made a variety of comments, but more recently has stated that he is not going to raise payroll taxes. Obama has said that he will look to having an additional social security tax phased in at incomes above \$250k. The rate would be 2-4%, but I believe could go higher. In addition, Obama's advisors are opining the tax would not be imposed immediately, but rather in the future - possibly ten years from now.

Estate Tax

McCain has proposed a \$5 million unified credit and 15% rate. Obama has put forward a \$3.5 million unified credit and a 45% rate. It is unlikely that McCain could get his proposal through a Democratic Congress, and it will not be easy for Obama either. This is not a priority for many in the

Democratic caucus. However, the Democrats will be very unkeen about allowing the repeal to take place in 2010 - so something will have to move.

Corporate Tax Reform

As I mentioned above, I don't see corporate tax reform as a priority for either candidate, nor does it have much traction with Congress.

Research and Development

Both candidates have stated strong support for making the R&D tax credit permanent.

Bottom Line

McCain will have a difficult time keeping in place the Bush tax cuts. He will have to choose priorities and still compromise on taxes. With Obama, we need to look at history. The last time the Democrats controlled the White House and both houses of Congress - 1993 - we saw the largest tax increase ever. Taxes were increased across-the-board, despite campaign promises of a middle-class tax cut.

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