



The Latest on McCain and Obama Tax Returns

New disclosures and new tax proposals present an opportunity to examine how they and their wives fare under the candidates' tax plans

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In June the Center for American Progress Action Fund analyzed the impact of the tax plans proposed by Sens. John McCain (R-AZ) and Barack Obama (D-IL) on John and Cindy McCain's own personal income taxes and Barack and Michelle Obama's own personal income taxes. The availability of the candidate's tax returns at that time offered a unique opportunity to look at the impact of their proposed tax law changes on real, live, wealthy people. Three events of note since then cause us to update that analysis:

- The McCain campaign released Cindy McCain's partial 2007 tax return late last week; previously only her partial 2006 return had been released.
- Sen. McCain proposed additional tax cuts as part of his Pension and Family Security Plan released October 14. The new cuts are temporary and would be in effect through 2010. They include cutting the top tax rate on capital gains to 7.5 percent from 15 percent, increasing the limit on capital losses, waiving the income tax on unemployment benefits, and new tax relief for retirees.
- Some months ago the Obama campaign clarified its own tax proposal, which results in slightly larger tax cuts for both the McCains and the Obamas than shown in our June analysis.

A fourth tax development that is not included in the new analysis below is the increasing attention being paid to the tax impact of the McCain health care plan. There are two reasons for excluding this from our consideration. First, we don't have enough information on the health insurance of the McCains and Obamas to do the analysis. Second, for well-off couples like these the tax impact of the health care plan will be small relative to the impact of their tax plans.

So what does our new analysis show? With respect to Cindy McCain’s 2007 tax return, it shows over \$1.8 million dollars less in reported income than her 2006 return. The McCains file separate returns and Sen. McCain’s previously released return shows an increase from 2006 to 2007 of \$46,995. But with his wife’s loss of \$1,869,403, the family income substantially declined—falling to \$4,602,437 from \$6,066,431 in 2006.

These tax returns, however, give us just a glimpse of what the McCains’ income might actually be. The campaign refuses to release anything but Mrs. McCain’s 1040 tax form, which provides only a fraction of the information she is reporting to the Internal Revenue Service. Most of the McCains’ decline in income between 2006 and 2007 was in “Schedule E” income. Schedule E is a form where income from a wide variety of sources is reported—including trusts and a type of closely held (often family-owned) business.

There is a great deal of income legally sheltered from taxation in the machinations underlying the Schedule E. Without having Mrs. McCain’s complete records it is impossible to know for sure whether the McCains actually did better or worse in 2007 than in 2006—their accountants may just have been able to legally shelter more income. Having that information would be helpful in fleshing out the McCains and Obamas as examples of how the tax proposals affect the well-off. Having a firm grasp of their income would give us a better feel for the equity of their tax proposals.

Sen. McCain’s new Pension and Family Security Plan affects the McCains’ taxes by cutting the top rate for taxing capital gains in half—to 7.5 percent from 15 percent. This brings us to another observation regarding Cindy McCain’s tax returns—it is an example of how the wealthy quite consistently accrue capital gains income as an important source of total income, unlike most people who report capital gains (if at all) only sporadically throughout their lives. In 2006, the McCains reported a total of \$743,476 in capital gains. In 2007 they reported \$746,395. Had the capital gains rate been 7.5 percent instead of 15 percent Sen. McCain and his wife would have saved \$110,310 in taxes over those two years.

The Obamas, who rely primarily on earnings from Sen. Obama’s books and their wages, reported small capital losses for both 2006 and 2007. The McCain Pension and Family Security Plan, in addition to the lower the rate on capital gains, increases the amount of capital losses that taxpayers can use to offset other income (without getting into the thorny details, the reason these losses are limited is that without a limitation there are huge tax sheltering possibilities). The Obamas would have saved \$1,427 from this provision over the two years.

This latest proposal by Sen. McCain comes, of course, on top of his earlier commitment to make the temporary Bush tax cuts permanent (they’re set to expire in 2010) and a number of other proposed changes. Sen. Obama also proposes to make parts of the Bush tax cuts permanent—primarily those benefiting middle- and lower-income taxpayers. He repeals most of the Bush tax cuts for well-off.

Table 1. The Pension and Family Security Plan Tax Cut

	McCains	Obamas
2006	-\$54,636	-\$2,498
2007	-55,674	1,071
2 Year Total	-\$110,310	-\$1,427

Note: Obama taxes in 2007 go up because full loss recognized 2006, not carried over.

The tables below show the tax cuts each candidate's plan would have given to themselves and each other relative to letting the Bush tax cuts expire in 2006 and 2007—the years for which we have tax returns for the candidates and their wives (joint returns for the Obamas, married-filing-separate returns for the McCains). Both the McCains and the Obamas get the biggest tax breaks under the McCain plan—a two-year total for the McCains of \$732,440 and \$269,516 for the Obamas. Sen. Obama's tax cut for these well-off families is much smaller: \$62,943 for the McCains versus \$13,986 for the Obamas. Tables with additional details on the analysis follow.

Table 2. Affect of Candidates Tax Proposals on Their, and Their Opponent's, Tax Liabilities

	McCains			Obamas		
	2006	2007	2 Year Total	2006	2007	2 Year Total
Tax Return Total Inc.	\$6,424,845	\$4,602,437	\$11,027,282	\$991,296	\$4,238,165	\$5,229,461
Change Under McCain	-428,065	-304,376	-732,440	-51,890	-217,627	-269,516
Change Under Obama	-39,983	-22,959	-62,943	-7,000	-6,986	-13,986

Table 3. The McCains and McCain Tax Law

2006 Levels

	Cindy		John		Combined		Difference
	Pre-Bush	McCain Law	Pre-Bush	McCain Law	Pre-Bush	McCain Law	
Tax Return Total Income	\$6,066,431	\$6,066,431	\$358,414	\$358,414	\$6,424,845	\$6,424,845	\$-
Adjustments	-	-	19,605	19,605	19,605	19,605	-
Adjusted Gross Income	\$6,066,431	\$6,066,431	\$338,809	\$338,809	\$6,405,240	\$6,405,240	\$-
Deductions	509,827	689,561	117,569	125,476	627,396	815,037	187,641
Exemptions	-	16,500	-	16,500	-	33,000	33,000
Taxable Income	\$5,556,604	\$5,360,370	\$221,240	\$196,833	\$5,777,844	\$5,557,203	-\$220,641
Tax Before AMT & Credits	\$2,041,666	\$1,629,744	\$71,659	\$55,517	\$2,113,326	\$1,685,261	-\$428,065
Alternative Minimum Tax	-	-	-	-	-	-	-
Credits (Foreign Tax Credit)	8,669	8,669	-	-	8,669	8,669	-
Personal Income Tax	\$2,032,997	\$1,621,075	\$71,659	\$55,517	\$2,104,657	\$1,676,592	-\$428,065

Table 4. The McCains and McCain Tax Law

2007 Levels

	Cindy		John		Combined		Difference
	Pre-Bush	McCain Law	Pre-Bush	McCain Law	Pre-Bush	McCain Law	
Tax Return Total Income	\$4,197,028	\$4,197,028	\$405,409	\$405,409	\$4,602,437	\$4,602,437	\$-
Adjustments	-	-	18,882	18,882	18,882	18,882	-
Adjusted Gross Income	\$4,197,028	\$4,197,028	\$386,527	\$386,527	\$4,583,555	\$4,583,555	\$-
Deductions	486,478	610,043	122,379	131,628	608,857	741,671	132,815
Exemptions	-	10,200	-	10,200	-	20,400	20,400
Taxable Income	\$3,710,550	\$3,576,785	\$264,148	\$244,699	\$3,974,698	\$3,821,484	-\$153,215
Tax Before AMT & Credits	\$1,307,307	\$1,019,211	\$88,027	\$71,747	\$1,395,334	\$1,090,959	-\$304,376
Alternative Minimum Tax	-	-	-	-	-	-	-
Credits (Foreign Tax Credit)	2,505	2,505	-	-	2,505	2,505	-
Personal Income Tax	\$1,304,802	\$1,016,706	\$88,027	\$71,747	\$1,392,829	\$1,088,454	-\$304,376

Table 5. The McCains and Obama Tax Law

2006 Levels

	Cindy		John		Combined		Difference
	Pre-Bush	Obama Law	Pre-Bush	Obama Law	Pre-Bush	Obama Law	
Tax Return Total Income	\$6,066,431	\$6,066,431	\$358,414	\$358,414	\$6,424,845	\$6,424,845	\$-
Adjustments	-	-	19,605	19,605	19,605	19,605	-
Adjusted Gross Income	\$6,066,431	\$6,066,431	\$338,809	\$338,809	\$6,405,240	\$6,405,240	\$-
Deductions	509,827	512,950	117,569	120,693	627,396	633,643	6,247
Exemptions	-	-	-	-	-	-	-
Taxable Income	\$5,556,604	\$5,553,481	\$221,240	\$218,116	\$5,777,844	\$5,771,597	-\$6,247
Tax Before AMT & Credits	\$2,041,666	\$2,005,475	\$71,659	\$67,480	\$2,113,326	\$2,072,955	-\$40,371
Alternative Minimum Tax	-	-	-	387	-	387	387
Credits (tax on foreign investments)	8,669	8,669	-	-	8,669	8,669	\$0
Personal Income Tax	\$2,032,997	\$1,996,806	\$71,659	\$67,868	\$2,104,657	\$2,064,673	-\$39,983

Table 6. The McCains and Obama Tax Law

2007 Levels

	Cindy		John		Combined		Difference
	Pre-Bush	Obama Law	Pre-Bush	Obama Law	Pre-Bush	Obama Law	
Tax Return Total Income	\$4,197,028	\$4,197,028	\$405,409	\$405,409	\$4,602,437	\$4,602,437	\$-
Adjustments	-	-	18,882	18,882	18,882	18,882	-
Adjusted Gross Income	\$4,197,028	\$4,197,028	\$386,527	\$386,527	\$4,583,555	\$4,583,555	\$-
Deductions	486,478	489,648	122,379	125,548	608,857	615,196	6,339
Exemptions	-	-	-	-	-	-	-
Taxable Income	\$3,710,550	\$3,707,380	\$264,148	\$260,979	\$3,974,698	\$3,968,359	-\$6,339
Tax Before AMT & Credits	\$1,307,307	\$1,288,660	\$88,027	\$83,715	\$1,395,334	\$1,372,375	-\$22,959
Alternative Minimum Tax	-	-	-	-	-	-	-
Credits (tax on foreign investments)	2,505	2,505	-	-	2,505	2,505	-
Personal Income Tax	\$1,304,802	\$1,286,155	\$88,027	\$83,715	\$1,392,829	\$1,369,870	-\$22,959

Table 7. The Obamas And the McCain and Obama Tax Laws

2006 Levels

	Tax Calculations			Difference	
	Pre-Bush	McCain Law	Obama Law	McCain Law	Obama Law
Tax Return Total Income	\$991,296	\$984,160	\$991,296	-\$7,136	\$0
Adjustments	7,470	7,470	7,470	-	-
Adjusted Gross Income	\$983,826	\$976,690	\$983,826	-\$7,136	\$0
Deductions	144,131	169,131	146,342	25,000	2,211
Exemptions	-	19,800	-	19,800	-
Taxable Income	\$839,695	\$787,759	\$837,484	-51,936	-2,211
Tax Before AMT & Credits	\$300,616	\$248,966	\$293,856	-51,650	-6,760
Alternative Minimum Tax	-	-	-	-	-
Credits (Child Care)	960	1,200	1,200	240	240
Personal Income Tax	\$299,656	\$247,766	\$292,656	-\$51,890	-\$7,000

Table 8. The Obamas And the McCain and Obama Tax Laws

2007 Levels

	Tax Calculations				
	Pre-Bush	McCain Law	Obama Law	McCain Law	Obama Law
Tax Return Total Income	\$4,238,165	\$4,241,165	\$4,238,165	\$3,000	\$0
Adjustments	98,200	98,200	98,200	-	-
Adjusted Gross Income	\$4,139,965	\$4,142,965	\$4,139,965	\$3,000	\$0
Deductions	334,172	453,679	336,374	119,507	2,202
Exemptions	-	20,400	-	20,400	-
Taxable Income	\$3,805,793	\$3,668,886	\$3,803,591	-136,907	-2,202
Tax Before AMT & Credits	\$1,473,943	\$1,256,316	\$1,466,957	-217,627	-6,986
Alternative Minimum Tax	-	-	-	-	-
Credits (FTC)	298	298	298	-	-
Personal Income Tax	\$1,473,645	\$1,256,018	\$1,466,659	-\$217,627	-\$6,986

Table 9. Modeled Relevant Differences Between Taxes

All at 2006 Levels

Pre-Bush	McCain	Obama	Pre-Bush	McCain	Obama
Bracket Starts (2006 Level, MFJ--MFS is half of MFJ)			Rates		
\$-	\$-	\$-	N/A	10.0%	10.0%
\$-	\$15,100	\$15,100	15.0%	15.0%	15.0%
\$51,186	\$61,300	\$61,300	28.0%	25.0%	25.0%
\$123,700	\$123,700	\$123,700	31.0%	28.0%	28.0%
\$188,450	\$188,450	\$188,450	36.0%	33.0%	36.0%
\$336,550	\$336,550	\$336,550	39.6%	35.0%	39.6%
Maximum Tax Rate on Qualifying Dividends					
39.6%	15.0%	20.0%			
Maximum Tax Rate on Qualifying Capital Gains					
20%	7.5%	20%			
High Income Itemized Deduction Limitation ("Pease")--% in Effect					
100%	0%	Higher Exempt Level			
Personal Exemption High Income Phaseout ("PEP")--% in Effect					
100%	0	100% for Ms and Os			
Dependent and Child Care Expense Credit Maximum Expense					
\$4,800	\$6,000	\$6,000			
Double Dependent Exemption					
No	Yes	No			
Eliminate Alternative Minimum Tax					
No	Yes	No			
Capital loss limit					
\$3,000	\$15,000	\$3,000			

Sources: Tax forms, statutes, <http://www.ctj.org/pdf/gwbpi.pdf> and http://www.taxpolicycenter.org/tpccontent/tax_plan_matrix.xls

Table 10. Modeled Relevant Differences Between Taxes

All at 2007 Levels

Pre-Bush	McCain	Obama	Pre-Bush	McCain	Obama
Bracket Starts (2007 Level, MFJ--MFS is half of MFJ)			Rates		
\$-	\$-	\$-	N/A	10.0%	10.0%
\$-	\$15,650	\$15,650	15.0%	15.0%	15.0%
\$53,190	\$63,700	\$63,700	28.0%	25.0%	25.0%
\$128,500	\$128,500	\$128,500	31.0%	28.0%	28.0%
\$195,850	\$195,850	\$195,850	36.0%	33.0%	36.0%
\$349,700	\$349,700	\$349,700	39.6%	35.0%	39.6%
Maximum Tax Rate on Qualifying Dividends					
39.6%	15.0%	20.0%			
Maximum Tax Rate on Qualifying Capital Gains					
20%	7.5%	20%			
High Income Itemized Deduction Limitation ("Pease")--% in Effect					
100%	0%	Higher Exempt Level			
Personal Exemption High Income Phaseout ("PEP")--% in Effect					
100%	0	100% for Ms and Os			
Dependent and Child Care Expense Credit Maximum Expense					
\$4,800	\$6,000	\$6,000			
Double Dependent Exemption					
No	Yes	No			
Eliminate Alternative Minimum Tax					
No	Yes	No			
Capital loss limit					
\$3,000	\$15,000	\$3,000			

Sources: Tax forms, statutes, <http://www.ctj.org/pdf/gwbpi.pdf> and http://www.taxpolicycenter.org/tpccontent/tax_plan_matrix.xls