Center for American Progress Action Fund

Five Easy Pieces and Two Trillion Dollars

The Bush-McCain-Norquist Tax Agenda

Robert Gordon and James Kvaal

March 2008

www.americanprogressaction.org

FIVE EASY PIECES AND TWO TRILLION DOLLARS

The Bush-McCain-Norquist Tax Agenda

Robert Gordon and James Kvaal
Center for American Progress Action Fund

March 2008

Introduction and Summary

"[John McCain] campaigned on being very good on taxes in this election cycle… that he will continue to make [the Bush tax cuts] permanent, that he will veto any tax increase, period, that he wants to cut the corporate rate from 35 percent to 25 percent, that he wants to have full expensing, that he wants to abolish the AMT …. In addition to being the Americans for Tax Reform's entire agenda, that is a very pro-growth set of policies he has put forward, and he articulates why they are important."

—Grover Norquist, President, Americans for Tax Reform, February 27, 2008[1]

In 2001 and 2003, Sen. John McCain (R-AZ) opposed the Bush tax cuts, arguing that they came "at the expense of lower- and middle-income Americans" and were too costly in a time of war.[2] As a presidential candidate, however, McCain not only embraces the Bush tax cuts but also proposes massive additional tax cuts that are even more tilted against the middle class.

To assess the McCain tax proposals, we begin by defining five key characteristics of the Bush tax cuts: they cost an enormous sum, skew benefits to the wealthy, favor capital over work, protect tax shelters, and increase federal budget deficits. We then assess the McCain proposals against these five benchmarks. Finally, we compare both the Bush and McCain plans with the conservative tax agenda known as "Five Easy Pieces" advanced by Grover Norquist's Americans for Tax Reform and other conservative tax groups.

Our analysis suggests that the McCain plan shares five key characteristics of Bush policies. First, it is enormously expensive, costing more than $2 trillion over the next decade and essentially doubling the Bush tax cuts. Second, the McCain plan would predominantly benefit the most fortunate taxpayers, offering two new massive tax cuts for corporations and delivering 58 percent of its benefits to the top 1 percent of taxpayers. The Bush tax cuts provide 31 percent of their benefits to the top 1 percent of taxpayers.

Third, the McCain tax plan continues the shift of the tax burden from investment income onto earned income. Fourth, the plan not only fails to address current tax shelter problems in the tax code but in fact will lead to increased sheltering. Fifth, McCain cannot pay for his tax cuts without massive reductions in Social Security, Medicare, or other key programs that benefit the vast majority of Americans.

In the final analysis, we conclude that the McCain tax plan is essentially a continuation of the agenda articulated by Norquist and others to achieve piecemeal but radical changes to the U.S. tax code under the heading of "Five Easy Pieces." These changes require huge spending cuts, shift the tax burden away from capital and onto labor, and come "at the expense of lower- and middle-income Americans."

The Bush Record

Huge tax cuts were a centerpiece of George Bush's platform as a presidential candidate in 2000 and the top priority of his first years in office. In fact, his largest legislative accomplishments were two of the largest tax cuts in history. His tax policies have had five key characteristics:

- **Enormous size.** From 2001 to 2010, President Bush's tax cuts, together with extension of relief from the Alternative Minimum Tax that the president and Congress support, will cost approximately $2 trillion.[3]
- **Highly tilted in favor of the most well off.** Making the Bush tax cuts permanent over the next decade would deliver 74 percent of its relief to the top 20 percent of taxpayers and 31 percent of the relief to the top 1 percent.[4]
- **Favoring capital over work.** By cutting the estate, capital gains, and dividend taxes, Bush shifted the tax burden from income derived from wealth onto income from work. The result has been to make the tax code less progressive.[5]
- **Protecting tax shelters**. Bush has not supported efforts to end tax incentives for U.S. multinational corporations to invest overseas, rather than in the United States. He abandoned an international effort to crack down on foreign tax havens.[6]
- **Increasing the budget deficit**. Because Bush did not obtain spending cuts or tax increases from Congress to offset the cost of his tax cuts, the full cost of the tax cuts has contributed to higher budget deficits.[7] The single largest contributor to the increase in projected long-term deficits, amounting to about half the total, is Bush's tax cuts.[8]

The McCain Plan: More of the Same

Like George Bush, Sen. McCain is also campaigning for the White House on a promise of large tax cuts. In the following pages, we assess the cost of these tax cuts, their distributional consequences, the approach to taxing investments and earned income, and the impact on tax shelters and the federal budget deficit.

We rely primarily on the definitive descriptions of McCain's agenda on his website: his "Tax Cut Plan,"[9] his "Economic Stimulus Plan,"[10] and his position paper on "Government Spending, Lower Taxes and Economic Prosperity."[11] We have also reviewed McCain's economic speeches.[12]

The key provisions of McCain's tax agenda are:

- **Extend Bush's 2001 and 2003 tax cuts**. On his website, McCain says he will "keep tax rates low" as well as "fight Democrats' crippling plans for a tax increase in 2011," and "keep the current rates on dividends and capital gains." McCain has also recently supported permanent, deep reductions in the estate tax, but not a full repeal.[13]

- **Cut the corporate tax rate**. McCain says he will "cut the corporate tax rate from 35 percent to 25 percent." He argues that lower taxes will make U.S. corporations more competitive.

- **Allow expensing of corporate investments.** McCain proposes to "allow first-year deduction, or expensing, of equipment and technology investments." Under current law, corporations must generally deduct the cost of an investment over that investment's useful lifetime, a tax and accounting practice known as depreciation. McCain's proposal will allow corporations to depreciate the entire cost of investments in the first year of the purchase, a practice known as expensing. This would create extra incentives for business investment by letting corporations claim these tax breaks immediately. (McCain has also made a more modest proposal for changing the research and experimentation tax credit.)

- **Repeal the Alternative Minimum Tax**. McCain promises to "permanently repeal the Alternative Minimum Tax." The AMT is a parallel system for calculating tax liability, with fewer deductions and lower rates, created several decades ago as a backstop to the regular income tax to prevent excessive use of tax shelters. Millions of taxpayers must calculate their tax bills under both the AMT and the regular income tax and pay the higher amount. The AMT is affecting a large and growing number of middle-class taxpayers due to inflation and the Bush tax cuts, which cut regular income taxes. Since 2001, Congress has passed repeated temporary "patches" that exempt millions of middle-class families from the AMT, while continuing to apply the AMT to many high-income taxpayers.

We estimate the impact of the McCain tax cuts based on publicly available data from the Congressional Budget Office, the Joint Committee on Taxation, the U.S. Department of the Treasury, and the Urban Institute-Brookings Institution Tax Policy Center. McCain's proposals are compared with the extension of current policies, which means the cost and distributional consequences of extending the Bush tax cuts and the most recently enacted AMT "patch" are excluded from our analysis (in budget terminology, they are "put in the baseline"). If we were to include these costs in our estimates, as some respected analysts do, the costs of McCain's tax cuts would be much higher.[14]

Because Senator McCain has described his tax policies as an economic stimulus plan, we assume that these policies would be implemented immediately in 2009.[15] It is difficult to believe that McCain would phase in measures, such as expensing, where the fact of phasing in the change would delay investments and depress economic output.

The McCain Tax Plan Is as Expensive as the Bush Tax Cuts

McCain's three major new tax cuts—cutting corporate tax rates, expensing for corporate investment, and repealing the AMT—would cost the federal government more than **$2 trillion in tax revenue** over 10 years (see table below). They will approximately double the cost of the Bush tax cuts.

Our estimates are by nature preliminary, and as explained below, they are by design conservative. We look forward to estimates from others. The Center for American Progress Action Fund will soon publish a paper by Reuven Avi-Yonah of the University of Michigan analyzing McCain's corporate tax proposals in greater detail. From Avi-Yonah's analysis and our own estimates, we conclude that:

- **Cutting the corporate rate to 25 percent** would cost approximately **$995 billion** between 2009 and 2018. CBO projects that corporate tax revenue will total $3.48 trillion over that decade.[16] Because virtually all corporate income is taxed at 34 percent or 35 percent, McCain's tax cut will result in a nearly 30 percent loss of corporate tax revenue, or approximately $995 billion over 10 years. McCain's advisors also estimate the cost of the rate reduction at approximately $100 billion a year.[17]

- **Allowing the immediate expensing of corporate investment** in equipment and technology would

DOUBLING THE BUSH TAX CUTS
McCain Tax Proposals Cost Over $2 Trillion

PROPOSAL	COST IN BILLIONS, 2009–2018
Cutting the corporate tax rate	$995
Allowing immediate expensing of corporate investment	$745
Eliminating the Alternative Minimum Tax	$430
TOTAL	**$2,170**
Memo: Bush tax cuts, 2001–2010	*$2,110*

Note: Authors' analysis based on Congressional Budget Office and Tax Policy Center. Does not include extension of Bush tax cuts and AMT relief.

cost approximately **$745 billion** over 10 years. Len Burman, the director of the Tax Policy Center, estimates that McCain's two corporate tax cuts together cut corporate revenues by 50 percent in 2018, an estimate that Burman describes as "probably … conservative."[18] While following Burman's approach to reach the $745 billion figure, we agree it is conservative. The U.S. Department of the Treasury outlined a partial expensing proposal—one that would let corporations write off only 35 percent of their investments immediately—that cost $1.3 trillion over 10 years.[19] Avi-Yonah of the University of Michigan concludes that in light of the tax shelter opportunities McCain's corporate tax cuts create, these proposals are appropriately benchmarked against the last period of heavy sheltering, when corporate revenues were lower than today by 75 percent, not just 50 percent.[20]

- The **AMT repeal** would cost approximately **$430 billion** over 10 years. The Tax Policy Center estimates that repealing the AMT entirely would cost $1.9 billion, assuming the Bush tax cuts are extended.[21] To compare McCain's proposal with current policies, we subtract the $1.4 trillion cost of continuing the current AMT patch, leaving the cost of McCain's proposal at $430 billion.[22]

We believe these numbers probably understate the cost to the federal budget of McCain's tax cuts. For instance, McCain's tax cuts clearly will increase the deficit, yet our analysis does not include the resulting interest payments on the higher national debt. These costs could run in the hundreds of billions of dollars.

The McCain Plan Is Even More Regressive than the Bush Tax Cuts

The McCain plan to cut corporate taxes and eliminate the AMT is very regressive as well as very expensive. The plan delivers the vast majority of its benefits to high-income taxpayers and very little to tens of millions of middle-class families.

Cutting corporate taxes ultimately reduces taxes for individuals, but the individuals who benefit are overwhelmingly high income. The reasons: holders of capital benefit from cuts in the corporate rate,[23] and wealth in the United States is distributed unequally—much more unequally than income.

Eliminating the AMT is very regressive because the existing patch shields most middle-class families. While McCain claims that repealing the AMT will help 25 million families, the vast majority of these families would be protected by an extension of the patch legislation that Congress has passed every year. Thanks to the temporary relief, only 2 percent of AMT taxpayers earn less than $100,000 a year.[24] The taxpayers remaining under the AMT despite the patch are very high income. With the patch, almost half of AMT revenue comes from families making more than $500,000 a year,[25] and it is these taxpayers who are the chief beneficiaries of a complete repeal, rather than a patch.

The McCain tax cuts together are even more regressive than the Bush tax cuts (see table, page 6). The bottom 60 percent of taxpayers get only 4 percent of the benefit, while the bottom 80 percent get only 9 percent.

This analysis likely understates the true regressive nature of both the Bush and McCain tax cuts because it does not include the costs to families of the budget cuts that will ultimately be needed to pay for the tax cuts.[26] What is more striking still is that McCain would achieve these results at a time when wealthiest Americans are earning a larger share of national income than ever before. While the share of income accruing to the wealthiest 1 percent of Americans has been rising for three decades, the increase since 2001 is especially steep.

In 2001, the top 10 percent of Americans earned 44.8 percent of all U.S. income. By 2006, their share had risen to 49.7 percent—the largest share at any point since data collection began in 1917. Over the same period, the share of income going to the top 1 percent rose to 22.9 percent from 18.2 percent. That share is slightly topped by the share in only one year—1928.[27] Fully offsetting the growth in income inequality since 1979 would require shifting nearly $884 billion from the top 1 percent of households and giving $7,000 to each household in the bottom 80 percent.[28]

Some argue that it is fair to give the highest-income taxpayers the biggest tax cuts because they pay the most in taxes. In fact, the wealthiest Americans do not pay an especially large share of their income in federal taxes. The top 1 percent of households earns 22.9 percent of income, pay 29.5 percent of federal individual income taxes, and pay 20.1 percent of all federal taxes.[29] Yet this top 1 percent will receive 63 percent of the McCain tax cut.

The McCain Plan Shifts the Tax Burden onto Labor

Like President Bush's tax cuts, Sen. McCain's tax cuts deliver most of their rate reductions to capital held by the wealthy, not labor. President Bush changed only one ordinary income rate by 5 points, providing $300 in tax breaks to most taxpayers. Other ordinary income rate reductions were smaller; the 15 percent marginal income tax rate for the largest number of taxpayers, and for the median taxpayer,[30] did not change at all. Nor did the combined payroll tax of 15.2 percent, which economists generally believe is borne by the worker.

In contrast, President Bush reduced tax rates on capital held by the wealthiest 1 percent of Americans by anywhere from 5 points (for capital gains) to 24.6 points (for dividends) to 55 points (for estates). The capital gains reduction and dividend reduction alone provided $35,000 on average to each taxpayer earning over $1 million.[31]

DISTRIBUTION ANALYSIS
McCain Tax Plan More Regressive than Bush Administration

	BREAKDOWN BY INCOME					
	Bottom Quintile	*Second Quintile*	*Third Quintile*	*Fourth Quintile*	*Top Quintile*	*Top 1%*
Corporate Reductions	1%	1%	3%	6%	88%	59%
Alternative Minimum Tax Repeal	0%	0%	0%	0%	99%	57%
TOTAL	**1%**	**1%**	**2%**	**5%**	**90%**	**58%**
Memo: Extension of Bush policies	*0%*	*4%*	*8%*	*14%*	*74%*	*31%*

Notes: Authors' analysis based on data from the Congressional Budget Office, Tax Policy Center, and the Center on Budget and Policy Priorities. Follows CBO, U.S. Treasury, and TPC in assuming that corporate income taxes are paid by the owners of capital in proportion to their income from interest, dividends, capital gains, and rents. Distribution of this capital income is based on 2005 CBO data. AMT figures show the additional benefit of full repeal compared to the continuation of the current patch, based on TPC tables for 2007. Bush figures show extension of Bush tax cuts and AMT relief from CBPP.

As the chart below demonstrates, the effective marginal tax rate—the rate on the next dollar earned—is now more than twice as high for labor income as for capital income. Bush's policies have increased the gap between the two rates. McCain would extend Bush policies by locking in the capital gains and dividend cuts, preserving a double-digit cut in the estate tax rate and exempting massive estates altogether, and adding another 10 percentage point cut, plus expensing, through the reductions in corporate taxes.[32] The bias against labor would deepen.

The McCain Plan Creates More Tax Shelters

As noted above, President Bush has opposed the elimination of numerous international tax shelters, such as the deferral of taxes on overseas profits until those profits are brought back to the United States. Sen. McCain's tax plan contains no measures to tackle these shelters.

Moreover, McCain would create a potent new form of tax shelter through his proposal to provide for immediate expensing of investments in equipment and technology. As Avi-Yonah explains in his forthcoming paper, because McCain's plan does not end the deductibility of interest paid by corporations, his expensing proposal will let corporations obtain negative tax rates—making investments that are not only tax-free, but that can also reduce taxes owed on other income. Corporations need only borrow to purchase equipment or technology, deduct the interest payments on that loan, and then immediately expense the entire cost of the equipment or technology.

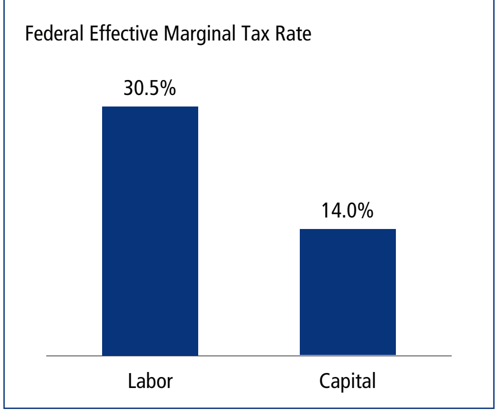
This tax shelter will allow corporations, and individuals using the corporate tax form, to avoid hundreds of billions of dollars in taxes. This tax shelter would also erode the individual income tax base by giving individuals strong incentives to organize their affairs through corporations.

While the U.S. corporate tax rate is high relative to other industrialized countries, American corporations pay relatively little in taxes due to the many corporate tax deductions and credits.[33] As the Treasury Department put it, "the high U.S. corporate tax rate does not result in higher corporate tax revenue relative to GDP due to the narrowness of the U.S. corporate tax base."[34] In fact, due to interest deductibility and accelerated depreciation, the effective marginal tax rate for corporations' debt-financed investment is negative.[35]

McCain is considering, but has not proposed, a change in the corporate tax code that would combine the lower rate with eliminating corporate tax breaks.[36] As explained further below, eliminating these tax breaks in bulk seems highly unlikely. In any event, McCain's expensing proposal still opens up dramatic new opportunities for tax sheltering.

WAR ON WORK

Taxes on Labor Are Twice the Taxes on Capital



Source: Congressional Budget Office (2008 data).

McCain Cannot Pay for His Plan without Draconian Spending Cuts

McCain has supported a Balanced Budget Amendment to the Constitution.[37] He also says he would balance the budget by the end of his first term in office.[38] Yet a recent Reuters analysis notes that "McCain's promises to reduce wasteful spending if elected president in November would not begin to cover the costs of his proposed tax cuts, analysts say."[39] The *Wall Street Journal* reports that, "[b]ehind the scenes, his campaign is searching for ways to pay for Sen. McCain's tax proposals."[40]

The three sets of measures identified by McCain as potential revenue sources[41] are highly unlikely to become law. And even if they did become law, they would pay for only about 40 percent of McCain's proposals. First, eliminating absolutely all earmarks, without funding any of the projects elsewhere, would yield only $18 billion, according to Taxpayers for Common Sense.[42] Second, eliminating and deeply cutting every program on a White House list of targeted programs—a list presented every year and never enacted in close to complete form—would yield $18 billion more (including heavy cuts in after-school programs, student aid, public broadcasting, and job training).[43] Third, the corporate tax breaks that McCain is considering eliminating would yield only another $45 billion, according to the *Wall Street Journal*.[44] And these tax breaks include widely supported measures, such as the low-income housing tax credit.

Even in the highly unlikely event that McCain succeeded in obtaining all the savings that he is said to be considering, he would need to make up more than $100 billion per year in revenue. These funds would have to come from unprecedented cuts in Social Security or discretionary spending. Specifically, McCain has two potential approaches to paying for his program. He could:

- **Massively cut education, energy, and law enforcement.** In 2008, the federal government will spend $392 billion on non-security discretionary domestic programs.[45] McCain could pay for his tax cuts by cutting all of these programs by more than one-fourth, including Title I education funding, Head Start, the national parks, and the FBI, among other programs. Alternatively, he could completely eliminate discretionary funding at the Departments of Education, Energy, and Justice.

- **Massively cut Social Security and Medicare**. McCain's position paper promises to "save the future of Social Security … without raising taxes" and "[address] benefit promises that cannot be kept," while "reduc[ing] the growth of Medicare spending." Campaign advisors have been even more explicit about the need to "keep Social Security solvent by reducing the growth in benefits."[46] Although cuts in Social Security are typically presented as ways to restore the program's solvency, such cuts could also be used, in effect, to pay for tax breaks.

Requiring massive cuts in education spending, Social Security, Head Start, worker safety programs or national parks funding may not be electorally appealing. But it is consistent with the goal, attributed to Grover Norquist, "to cut government in half in 25 years, to get it down to the size where we can drown it in the bathtub."[47]

Bush, McCain, and the "Five Easy Pieces"

At first glance, it is hard to understand why a man who hopes to win a national election would propose massive tax cuts that do so much for so few and so little for so many in the middle class.

The McCain plan, however, makes sense as a means to advance Norquist's "five easy pieces" plan to transform the tax code. In a December 2002 article in an American Enterprise Institute publication, Norquist, a long-time supporter of a "flat tax," explained this "stealth approach to tax reform:"[48]

> "There are two routes to a single-rate tax. For one, the President or a Congressional leader could draft a flat income or sales tax and present the entire package to the country for approval. The second route is what tax reformer Ernie Christian calls "The five easy pieces." If we eliminate the estate tax, stop taxing capital gains, end the Alternative Minimum Tax, make all savings tax free, let businesses write off investments in a single year rather than forcing them to depreciate expenditures over a long period, and then charge everyone the same rate, we will have a flat tax, Christian says."[49]

The Bush tax cuts were consistent with this blueprint for incremental steps toward radical change. As Ernest Christian put it, "Unbeknownst to many of the loudest advocates for radical change in our archaic tax code… the Bush administration seems to be quietly and efficiently putting in place the real substance of tax reform."[50] *The Washington Post*, *New Republic*, and *National Journal* have also noted the similarities between Christian's "five easy pieces" and the Bush agenda.[51]

McCain economic advisors Kevin Hassett and Jack Kemp have supported similar ideas. During the 2000 presidential race, for example, Hassett explained that Sen. McCain "believes the tax on capital should be zero and his ultimate goal is a consumption-based flat tax, which, polls consistently show, most of the nation favors. Senator McCain's tax plan offers prudent and purposeful first steps toward tax reform."[52]

The notion of "prudent and purposeful first steps" toward a "flat tax" precisely anticipates the "five easy pieces" approach elaborated by Norquist and Christian. And in 2002, Kemp endorsed "five incremental amendments to the current tax code that would begin the reformation process and simultaneously give the economy an immediate boost."[53]

The table below lists the easy pieces as defined by Norquist. (As the table shows, he named six pieces, not five; Christian and Kemp have slightly different lists.) This table shows that while Bush achieved partial progress on most of the easy pieces agenda, McCain would complete action on two more items, and partially complete action on five of the six proposals.

The proponents of "five easy pieces" often present it as progress toward a flat consumption tax, which some economists believe would improve U.S. economic growth. But, as William Gale of the Brookings Institution and Peter Orszag (now Congressional Budget Office director) noted in a 2004 article in *Tax Notes*, this approach does not actually move the nation toward a consumption tax.[54] First, a responsible consumption tax would either need to raise as much revenue as the current tax code or propose methods to compensate for revenue reductions. "Five Easy Pieces" does neither.

Even more fundamentally, the versions of consumption taxes supported by economists generally impose a one-time levy on savings that have already been taxed when earned. Taxing this money again when spent is a way of raising revenue that generates most of the economic gain from a shift to a consumption tax because it minimizes the distortion of behavior.[55]

But the Bush-McCain approach does the exact opposite: It provides windfall tax gains for holders of wealth. First, corporations would get tax rate reductions for investment they have already made—a provision that costs substantial money but does not create any beneficial incentives. Second, unlike a true consumption tax, individuals would not have to pay taxes on consumption they financed out of existing wealth.

Instead, the combined Bush-McCain approach simply lowers the tax on wealth by eliminating the estate tax and

FIVE EASY PIECES

Grover Norquist's Benchmarks for Conservative Tax Reform Compared to the Bush Record and McCain Proposals

GROVER NORQUIST'S PIECES	BUSH RECORD	MCCAIN PROPOSAL	EXPLANATION
Eliminate the estate tax	Yes in Part	Yes in Part	Signed by Bush but expires in 2010. McCain would make deep cuts permanent.
Stop taxing capital gains/end "double tax" on corporate income	Yes in Part	Yes in Part	Individual rate cut signed by Bush but expires in 2010. McCain would make permanent and cut corporate rate.
End the Alternative Minimum Tax	No	Yes	McCain would permanently repeal.
Make all savings tax free	No	No	Sought by Bush but rejected by Congress.
Let businesses write off investments in a single year	Yes in Part	Yes	Accelerated depreciation signed by Bush; full expensing sought by McCain.
Charge everyone the same rate	Yes in Part	Yes in Part	Flatter rates obtained by Bush. McCain would make permanent.

cutting capital gains, dividends, and corporate taxes. The net effect is to leave wage taxes to do all of the work. And while this approach does reduce wage taxes for some individuals, it overwhelmingly focuses those tax reductions (such as eliminating the AMT) on the wealthiest Americans.

Each step of "Five Easy Pieces" is a step away from the longtime principles of progressive taxation of all forms of income and into a regressive wage tax. As Gale and Orszag noted in 2004, "The bottom line is that the five easy pieces are really just five, large, regressive tax cuts." And, in the end, their net effect is "a wage tax that is imposed only on low- and middle-income households."

Endnotes

1 NPR Morning Edition, "Norquist: McCain Fiscal Policies Positive for GOP," February 27, 2008, available at http://www.npr.org/templates/story/story.php?storyId=45841288.

2 See "John McCain's Top 10 Class-Warfare Arguments Against Tax Cuts," available at http://www.humanevents.com/article.php?id=24421; see also Associated Press, "McCain Changes Story on Tax Cut Stance," January 21, 2008, available at http://apnews.myway.com/article/20080131/D8UH1CF80.html.

3 Tax Policy Center, "The 2001-2006 Income Tax Cuts with and without Conforming AMT Rate Cuts, Static Impact on Individual Income Tax Liability and Revenue, 2001-10," August 10, 2007, available at http://www.taxpolicycenter.org/numbers/displayatab.cfm?DocID=1651&topic2ID=40&topic3ID=57&DocTypeID=. Congress has already enacted several AMT "patches," such as the Tax Increase Prevention Act of 2007. President Bush proposes another patch in his 2009 budget.

4 Aviva Aron-Dine, "The Skewed Benefits of the Tax Cuts: With the Tax Cuts Extended, Top 1 Percent of Households Would Receive More Than $1.1 Trillion in Tax Benefits over the Next Decade," Center on Budget and Policy Priorities, February 4, 2008, available at http://www.cbpp.org/2-4-08tax.htm.

5 See, for example, Aviva Aron-Dine, "Have the 2001 and 2003 Tax Cuts Made the Tax Code More Progressive?" Center on Budget and Policy Priorities, March 11, 2008, available at http://www.cbpp.org/3-11-08tax.htm; Jonathan Weisman, "Tax Burden Shifts to the Middle: Presidential Campaigns Draw Differing Conclusions From Report," *The Washington Post*, August 13, 2004, p. A4; and discussion below.

6 Dana Milbank, "U.S. to Abandon Crackdown on Tax Havens; OECD Effort Is Too Broad and Could Raise U.S. Taxes, Treasury's O'Neill Says," *The Washington Post*, May 11, 2001.

7 Senate Budget Committee Democratic Staff, "Charts Used at Hearing with OMB Director Nussle," February 5, 2008, available at http://budget.senate.gov/democratic/charts/2008/PresFY2009BudgetPropNussle_020508.pdf.

8 Center on Budget and Policy Priorities, "Tax Cuts: Myths and Realities," November 16, 2007, available at http://www.cbpp.org/9-27-06tax.htm.

9 John McCain 2008, "McCain Tax Cut Plan," available at http://www.johnmccain.com/Informing/Issues/0B8E4DB8-5B0C-459F-97EA-D7B542A78235.htm.

10 ———, "Economic Stimulus Plan," available at http://www.johnmccain.com/Informing/Issues/1a8640f0-b2e3-4edb-b2a9-236df79d2579.htm

11 ———, "Government Spending, Lower Taxes, and Economic Prosperity," available at http://www.johnmccain.com/Informing/Issues/4a3ab6fe-b025-42b1-815b-13c696a61908.htm.

12 ———, "Speeches," available at http://www.johnmccain.com/Informing/News/Speeches/.

13 McCain voted for cloture on an estate tax near-repeal, pressed by Sen. Jon Kyl. See H.R. 5970, Vote No. 229, On the Cloture Motion, available at http://www.senate.gov/legislative/LIS/roll_call_lists/roll_call_vote_cfm.cfm?congress=109&session=2&vote=00229. That measure would have cost three-quarters as much as full repeal. See Aviva Aron-Dine & Joel Friedman, "New House Estate Tax Plan Features Same Low Effective Rates as Earlier Version," Aug. 2, 2006, available at http://www.cbpp.org/8-2-06tax4.htm. According to a recent news report, McCain favors the $10 million estate tax exemption in that bill. See David Leonhardt, "McCain and Bush's Heirs," *The New York Times*, January 9, 2008. Columnist Bob Novak has characterized McCain's current position as "radically scaling down the estate tax." See "John McCain: Born-Again Supply-Sider?" available at http://www.realclearpolitics.com/articles/2007/02/john_mccain_bornagain_supplysi.html.

14 See, for example, Len Burman, "On Taxes, McCain Calls Bush and Raises, Big Time," TaxVox: the Tax Policy Center blog, February 26, 2008, available at http://taxvox.taxpolicycenter.org/blog/_archives/2008/2/25/3544475.html.

15 John McCain 2008, "Economic Stimulus Plan."

16 Congressional Budget Office, "Preliminary Analysis of the President's Budget Request for 2009," March 3, 2008, tables available at http://www.cbo.gov/ftpdocs/90xx/doc9015/Selected_Tables.pdf.

17 See Bob Davis, "McCain's Economy Platform: Big Tax Cuts, With Caveats," *The Wall St. Journal*, March 3, 2008, p. A1, available at http://online.wsj.com/public/article/SB120451614688707083.html.

18 Burman, "On Taxes, McCain Calls Bush and Raises, Big Time."

19 U.S. Department of the Treasury, "Approaches to Improve the Competitiveness of the U.S. Business Tax System for the 21st Century," December 20, 2007, available at http://www.ustreas.gov/press/releases/reports/hp749_approachesstudy.pdf.

20 Reuven Avi-Yonah, forthcoming paper from the Center for American Progress Action Fund. One reason for the divergent estimates is uncertainty over whether McCain would eliminate the deductibility of interest on corporate investments. Burman assumes he would do so. However, McCain's materials do not mention the repeal of interest deductability, and Avi-Yonah assumes that he would not repeal it.

21 Tax Policy Center, "Aggregate AMT Projections, 2006-2017," January 28, 2008, available at http://www.taxpolicycenter.org/numbers/displayatab.cfm?Docid=1755&DocTypeID=7.

22 Tax Policy Center, "Options to Index the AMT to Prevent Growth in the Number of AMT Taxpayers, Static Impact on Individual Income Tax Revenue, 2008-18," January 30, 2008, available at http://www.taxpolicycenter.org/numbers/displayatab.cfm?DocID=1764&topic2ID=60&topic3ID=61&DocTypeID.

23 This is the common assumption in analyses by the Congressional Budget Office, the U.S. Treasury, and the Tax Policy Center. See Tax Policy Center, "Current Law Distribution of Taxes," available at http://www.taxpolicycenter.org/taxtopics/currentdistribution.cfm. The allocation of the burden of capital taxation is discussed in more detail in Avi-Yonah (forthcoming).

24 Tax Policy Center, "Distribution of AMT and Regular Income Tax by Cash Income, Current Law," January 29, 2008, available at http://www.taxpolicycenter.org/numbers/displayatab.cfm?Docid=1759&DocTypeID=7.

25 Ibid.

26 William G. Gale, Peter Orszag, and Isaac Shapiro, "Distributional Effects of the 2001 and 2003 Tax Cuts and their Financing," Tax Policy Center, June 3, 2004, available at http://www.taxpolicycenter.org/publications/url.cfm?ID=411018.

27 Based upon the data compiled by Emmanuel Saez. See tables available at http://elsa.berkeley.edu/~saez/.

28 Jason Furman, Lawrence H. Summers, and Jason Bordoff, "Achieving Progressive Tax Reform in an Increasingly Global Economy," The Hamilton Project, June 2007, available at http://www3.brookings.edu/views/papers/furman/200706bordoff_summers.pdf. The published estimate was $664 billion; an updated number was provided by the authors.

29 Tax Policy Center, "Distribution of Federal Taxes, 2000," November 21, 2002, available at http://www.taxpolicycenter.org/taxfacts/displayafact.cfm?Docid=221.

30 Tax Policy Center, "Percent of Tax Filers by Marginal Tax Rate, Selected Years, 1985-2003," December 31, 2003, available at http://www.taxpolicycenter.org/taxfacts/displayafact.cfm?Docid=262.

31 Tax Policy Center, "Distribution of Tax Change from Reduction in Rates for Long-Term Capital Gains and Qualifying Dividends, 2005," January 14, 2005, available at http://www.taxpolicycenter.org/numbers/displayatab.cfm?DocID=748&topic2ID=40&topic3ID=43&DocTypeID=1.

32 Although lower- and middle-income taxpayers also were subject to rate reductions for capital gains and dividends, these reductions provided only a miniscule benefit. The capital gains and dividend tax cuts together provide an $11 average benefit to taxpayers earning less than $50,000, and $77 benefit to taxpayers earning $50,000 to $100,000 and a $32,111 average benefit to taxpayers earning over $1 million. See Joel Friedman and Katharine Richards, "Capital Gains and Dividend Tax Cuts: Data Make Clear that High-Income Households Benefit the Most," Center on Budget and Policy Priorities, January 30, 2006, available at http://www.cbpp.org/1-30-06tax2.htm.

33 Congressional Budget Office, "Corporate Income Tax Rates: International Comparisons," November 2005, available at http://www.cbo.gov/ftpdocs/69xx/doc6902/11-28-CorporateTax.pdf.

34 U.S. Department of the Treasury, "Approaches to Improve the Competitiveness of the U.S. Business Tax System for the 21st Century."

35 Ibid.

36 Davis, "McCain's Economy Platform: Big Tax Cuts, With Caveats."

37 S.J. Res 1, 105 Cong., Senate Roll Call Vote 24, available at http://www.senate.gov/legislative/LIS/roll_call_lists/roll_call_vote_cfm.cfm?congress=105&session=1&vote=00024.

38 Libby Quaid, "McCain Scolds Obama on Campaign Funds," Associated Press, February 15, 2008.

39 Andy Sullivan, "McCain budget numbers don't add up, experts say," Reuters, March 10, 2008.

40 Davis, "McCain's Economy Platform: Big Tax Cuts, With Caveats."

41 Ibid.

42 Taxpayers for Common Sense, "Ending the Earmark ATM," February 14, 2008, available at http://www.taxpayer.net/budget/fy08earmarks/report.html.

43 Office of Management and Budget, Fiscal Year 2009 Budget, Summary Table S-5, available at http://www.whitehouse.gov/omb/budget/fy2009/summarytables.html.

44 Davis, "McCain's Economy Platform: Big Tax Cuts, With Caveats."

45 Office of Management and Budget, Fiscal Year 2009 Budget, Summary Table S-2, available at http://www.whitehouse.gov/omb/budget/fy2009/summarytables.html.

46 Ibid.; Caren Bohan, "McCain would tackle big budget problems: aide," Reuters, March 7, 2008.

47 Bill Moyers, "Bill Moyers Interviews Grover Norquist," NOW, January 10, 2003, available at http://www.pbs.org/now/transcript/transcript_norquist.html.

48 Ernest S. Christian and Gary A. Robbins, "Stealth Approach to Tax Reform," *The Washington Times*, November 1, 2002, available at http://www.cstr.org/commentaries/taxreform/washtimes-stealth2002.html.

49 Grover Norquist, "The Five Easy Pieces of Tax Reform," December 2002, available at http://www.taemag.com/issues/articleid.17391/article_detail.asp. The careful reader will note that Norquist actually identified six pieces, not five. Fuzzy math.

50 Christian and Robbins, "Stealth Approach to Tax Reform."

51 Jonathan Chait, "Bait and … Bush's Fake Tax Reform," *The New Republic*, January 17, 2005; Jonathan Weisman, "Anti-Tax Crusaders Work for Big Shift: White House Wary Of Broad Changes," *The Washington Post*, June 14, 2003, p. A01; John Maggs, "'Simpler, Fairer' Corporate Taxes," *National Journal*, January 8, 2005.

52 American Council for Capital Formation, "Economic Advisors to Leading Presidential Candidates Speak at ACCF Forums," January-February 2000, available at http://www.accf.org/publications/newsletter/volumes/January-February2000.html.

53 Jack Kemp, "Five Easy Pieces of Federal Tax Reform," Copley News Service, December 3, 2002, available at http://www.freedomworks.org/informed/issues_template.php?issue_id=1932.

54 William G. Gale and Peter R. Orszag, "Bush Administration Tax Policy: Down Payment on Tax Reform?" *Tax Notes*, November 8, 2004, p. 879.

55 David Altig, Alan J. Auerbach, Laurence J. Kotlikoff, Kent A. Smetters, and Jan Walliser, "Simulating U.S. Tax Reform," NBER Working Paper Series, Vol. w6248, October 1997, pp. -, 1997

Center for American Progress Action Fund

ABOUT THE CENTER FOR AMERICAN PROGRESS ACTION FUND

The Center for American Progress Action Fund transforms progressive ideas into policy through rapid response communications, legislative action, grassroots organizing and advocacy, and partnerships with other progressive leaders throughout the country and the world. The Action Fund is also the home of the Progress Report and ThinkProgress.

Center for American Progress Action Fund
1333 H Street, NW, 10th Floor
Washington, DC 20005
Tel: 202.682.1611 • Fax: 202.682.1867
www.americanprogressaction.org