2013 will be a year of long and difficult negotiations over tax reform in Washington, DC. No matter how President Barack Obama and Congressional leaders address the short-term issue of the tax cuts that expire at the end of this year (which has not been resolved as of this writing), the long-term issue of fundamentally reforming our tax code will likely take months, if not years, of debate on Capitol Hill.

Any overhaul of the tax code should produce more revenue than is being raised today, and it must accomplish this in a progressive manner. Both the personal income tax and the corporate income tax must produce more revenue without demanding more of low-income Americans, who are already paying their fair share of taxes.

**Knocking Down Myths about Taxes**

Anti-tax lawmakers and their allies in Washington are making several false (and often contradictory) claims about taxes to prevent us from achieving these goals. Many anti-tax lawmakers claim that the personal income tax is already too progressive and must be made less so. Many also claim that the corporate tax is not progressive at all, and that any increase in corporate taxes should be avoided because it will really be borne by low- and middle-income workers.

The first myth is usually expressed by those who complain that the bulk of the personal income tax is paid by well-off taxpayers and that many lower-income taxpayers do not owe personal income taxes, implying or pretending that there are no other significant taxes that Americans pay. Every year around “tax day” on April 15, CTJ publishes the figures that refute this, showing that America’s
Dear Reader,

As one of our steadfast supporters, you’ve seen our newsletters this past year. You know we were nonstop truthsquadding the election year tax debates, putting out game changing numbers since the early primaries when Rick “Regressive-Tax-System” Perry was still a frontrunner and Herman “999-Plan” Cain was still taken seriously.

We’ve been on the case since Mitt Romney was still trying to keep his Swiss bank accounts a secret and Barack Obama first dipped his toe in the tax-raising waters with his Buffett Rule idea.

We heard a lot during the election season about asking the rich to pay their fair share. But by the time you read this, the President will probably have struck a deal that leaves three quarters of those disastrous Bush tax cuts in place for yet another unaffordable year. We have a long way to go.

You know we can’t get there if Citizens for Tax Justice and ITEP can’t keep crunching the numbers and getting them out there. And this year with major tax reform a certainty in Washington (everybody says so) as well as in a couple dozen states, we expect to be busier than ever, with requests from legislators debating new proposals and journalists reporting on them, from Sacramento to Raleigh to Albany.

So next year presents a real opportunity, and that window pretty much closes at the end of 2013.

Help us do what we do in a big way starting in January. History’s about to happen and we’re ready to go to help shape it. Are you ready to help, too?

We cannot do this important work without you! As you plan your year-end contributions, we hope you will consider supporting CTJ and ITEP.

Thank you!
tax system as a whole is barely progressive once you include all the different types of federal, state and local taxes that people pay. For example, these figures show that the richest one percent of Americans reaped 21 percent of total income nationwide in 2011—and paid 21.6 percent of the taxes.

The second myth is that U.S. corporate income taxes are ultimately borne by American workers because they cause corporations to move operations and jobs offshore to countries with lower taxes. Several econometric studies conclude that corporate taxes are ultimately paid by the owners of corporate stocks and other business assets (about half of which are concentrated in the hands of the richest one percent of Americans). At a more basic level, it seems obvious that corporations would not lobby Congress so intensely to lower their taxes if they did not believe that their shareholders were the people ultimately paying them.

In other words, both the personal income tax and the corporate income tax are key to reforming the tax code in a way that raises revenue in a progressive manner. So what should Congress do?

**How to Raise Revenue in a Progressive Way**

In the **personal income tax**, Congress must limit the tax expenditures (tax loopholes and tax breaks for particular activities or groups) that are most targeted to the rich. This must include the special, low income tax rate for capital gains (the profits investors make from selling assets). The special rate for capital gains is the reason why wealthy investors like Mitt Romney and Warren Buffett can pay a lower effective tax rate than many middle-income people. Congress should end this break so that capital gains income is taxed at the same rates as any other income, which would also greatly simplify the tax code.

There are other tax expenditures that should be eliminated or reformed. For example, Congress should limit deductions for appreciation on donated property, and deductions for interest on million-dollar mortgages, particularly for vacation homes. But addressing these problems will not be enough if Congress leaves in place the capital gains preference, which provides more benefits to the richest one percent of taxpayers.

The President says reform of the personal income tax should raise revenue, but he typically defines a "revenue increase" as any set of tax rules that result in more revenue than an extension of all the Bush tax cuts. This sets a very low bar and means that President Obama often uses the term "tax increase" to describe policies that would produce less revenue than simply allowing all the Bush tax cuts to expire. Congress and the President must do better.

In the **corporate income tax**, Congress must limit the tax expenditures that allow profitable corporations to avoid taxes, particularly those tax breaks that encourage corporations to shift jobs and profits offshore.

The most straightforward and effective approach would be to repeal the rule allowing U.S. corporations to “defer” paying U.S. taxes on their offshore profits until those profits are brought to the U.S. Deferral encourages corporations to shift operations (and jobs) to a country with lower taxes, or just use convoluted transactions to make their U.S. profits appear to be generated by a subsidiary in a country with very low corporate taxes or no corporate tax (i.e., an offshore tax haven). The subsidiary may really be nothing more than a post office box in the Cayman Islands.

President Obama has made some modest proposals to limit deferral, but the incentives for corporations to engage in these abuses will exist until it is repealed entirely.
Corporate tax reform is a particular concern because the President and many lawmakers have proposed that this part of tax reform be “revenue-neutral.” Under this approach, corporate loopholes would be closed, but the revenue saved would be given right back to corporations in the form of a reduction in the corporate tax rate. This makes no sense, given the need for revenue to avoid cuts in public investments and to address the budget deficit.

The Obama administration seems convinced that our corporate income tax rate is too high and is therefore making America uncompetitive. They’re wrong. CTJ’s widely cited corporate tax study examined most of the Fortune 500 corporations that were consistently profitable for three years and found that collectively they paid just 18.5 percent of their profits in corporate income taxes over that three-year period. That average effective tax rate of 18.5 percent is far lower than the statutory tax rate of 35 percent that corporate lobbyists and their allies in Washington are complaining about.

CTJ is working with several broad coalitions of faith-based groups, think-tanks, labor unions and advocacy organizations to make sure these facts are in front of lawmakers and their staffs as they contemplate tax reform. To get more details about our recommendations for tax reform and to get the latest analyses and commentary that CTJ publishes almost daily, visit www.ctj.org.

**WHAT ABOUT THE FISCAL CLIFF?**

As you read this, there is some, but little chance that Congress and the President will have reached an agreement over the so-called “fiscal cliff.” This debate is changing almost daily, so for up to the minute information about the impact of various compromises and proposals check our website regularly: www.ctj.org or email ctj@ctj.org to sign up for our weekly Tax Justice Digest email.

So, what is the Fiscal Cliff?

The fiscal cliff is a set of policies that, if left unchanged, will keep our budget deficit under control. The “cliff” is actually the shape of the line charting the annual budget deficit, which falls dramatically at the end of this year when the Bush tax cuts are scheduled to expire and several spending cuts are scheduled to go into effect. The policies include:

**Tax increases**
- Bush 2001 and 2003 tax cuts expire
- Obama 2009 expansion of low-income tax credits including EITC expires
- Payroll tax cuts expire
- Research credit and other inefficient tax breaks for business expire
- More individuals paying Alternative Minimum Tax (AMT)
- Expansion of hospital insurance tax for high-income households

**Spending Cuts**
- Sequestration: automatic cuts to domestic and defense spending
- Unemployment Insurance expansion expires
- “Doc Fix” (temporary increase in Medicare payments to providers) expires

In addition, Congress must deal with the approaching debt ceiling limit which we will reach sometime in February.

While most economists agree that the projected long-term budget deficits are not sustainable, there is some fear about the impacts of the fiscal cliff on the recovering economy. This fear is mostly unwarranted. This is particularly true when it comes to the expiration of the Bush tax cuts, which would simply bring back the tax rules that were in place at the end of the Clinton years, when our economy was booming.
Will California be a bellwether for higher taxes to save important public programs? Governor Jerry Brown seems to think so.

At his instigation, the citizens of California just voted to increase their own taxes, as well as taxes on the richest Californians, by quite a lot. The ballot measure, Proposition 30, provided voters with a stark choice: approve higher income tax rates on the wealthy plus a boost in the state sales tax or face steep cuts in essential public services, notably education.

By a 54-46 percent margin, the voters chose public services.

Brown has some experience with California citizens, or more precisely, their ancestors, making just the opposite choice. During Brown’s first stint as California Governor in the 1970s, California’s property tax was a mess. Because of a steep rise in home values, the state’s property taxes, which in 1974 were paid two-thirds by businesses and one-third by homeowners, had flipped to just the opposite by 1978. Homeowners were rightfully irate, and hard-pressed.

There was a simple solution to this problem: restore the previous business-to-homes tax ratio. But a bill to do exactly that failed in the California legislature by a single vote. Many blamed Jerry Brown for this legislative failure, which seemed to leave voters with no option other than to approve “Proposition 13,” a giant cut in property taxes promoted by the real-estate industry.

Ironically for homeowners, Proposition 13 intensified the property tax shift away from businesses. It not only lowered property tax rates on all properties, but also essentially froze property assessments until properties are sold. Since homes change hands far more often than business properties, the homeowner share of property taxes was guaranteed to rise still further, which it has.

The 50-percent overall cut in property taxes led to sharply decreased funding for California’s previously excellent public schools and previously excellent state universities. So the middle class lost public education opportunities and California lost much of its competitive advantage over other states. (Of course, it still has the fantastic weather.)

California’s enthusiasm for slashing property taxes quickly spread to other states in 1978, but its then- and again-Governor Brown thinks times have changed. “Everyone is going to have to realize that building roads is important, investing in schools is important, paying for the national defense is important, biomedical research is important, the space program is an indicator of the world leader,” he recently told CNN. “All that takes money.”

Brown believes his state may now create the model for state – even federal – tax increases. “The cutting and the deficits are out of control. Our financial health, our credibility...as a nation that can govern itself, is on the chopping block.”

Indeed.

**STATE TAX REFORM IN 2013**

2013 is likely to be a watershed year for tax reform, if not in Washington DC then certainly in the states. Governors and lawmakers in more than two dozen states are teeing up some big proposals, good and bad, to overhaul the way their states collect revenue to pay for public investments.

In large part due to a change in leadership in a number of states this election season, meaningful and progressive tax reform is more likely than ever in states like California, Colorado, Hawaii, Minnesota, New Hampshire, and Oregon. Policymakers in Kentucky are currently giving close scrutiny to the flaws in their state’s tax system and will recommend changes by the year’s end that are likely to include a new refundable credit for working families and the reduction or elimination of costly itemized deductions.

But there is an equally good chance of lawmakers pursuing harmful tax cuts masquerading as “reform”. Cutting or eliminating the personal and corporate income tax (and replacing some of the lost revenue with other taxes such as the sales tax) is one of the most prominent proposals coming out of a dozen or more states including Iowa, Louisiana, North Carolina, Nebraska, Ohio, Oklahoma and Wisconsin. Lawmakers claim these policies will boost revenues and support economic growth, but on closer inspection, they are little more than vehicles for ideological goals like shrinking the government or cutting taxes for the wealthy and corporations.
Shaping the Debate
Nothing shapes public opinion like the opinion pages of major newspapers, where CTJ and ITEP have a strong presence. Here are some highlights from 2012.

The year kicked off with an editorial in the New York Times that echoed CTJ’s opinion on the Buffett Rule. Yes, the editors wrote, it’s a fine start. But really making things fair and restoring revenues would mean “raising the capital gains tax, which, at 15 percent, is the lowest since the Great Depression.”

On the West Coast, the Sacramento Bee editorialized in February that it was time for a corporate tax code overhaul. Drawing heavily on CTJ’s corporate tax study, the editors wisely concluded that a “simpler, fairer corporate tax system that actually collects revenue is better for the economy and for the nation’s finances.”

By Spring, Republicans in the House had released their annual budget, written by Paul Ryan who went on to become Mitt Romney’s running mate. In the Washington Post, Dana Milbank called the plan “straight out of Dickens” and cited our analysis showing that Ryan would cut spending “by $5.3 trillion, much of which currently goes to the have-nots. He would then give that money to America’s haves: some $4.3 trillion in tax cuts, compared with current policies, according to Citizens for Tax Justice.”

During this political year’s tax season, the Columbus Dispatch editorialized that Americans deserve an honest debate about the issues, and wrote: “Amid the schoolyard-level fight in Washington over whether the wealthy pay their “fair share” in taxes, a new report from Citizens for Tax Justice is a welcome addition.”

In May, House Minority Leader Nancy Pelosi proposed a shocking budget compromise, to extend the Bush tax cuts even to those earning a million dollars a year. We were already running the numbers on it when the Washington Post editors called to ask us about it. Their editorial was published a few hours later with our exact message: “Leader Nancy Pelosi has an interesting definition of what constitutes the middle class. She believes it includes people earning anything less than $1 million a year.”

USA Today also editorialized against Minority Leader Pelosi’s “too cute by half” strategy and relied on the numbers from ITEP’s model showing that “[e]nding the tax cuts for anyone making more than $1 million would cut deficits by only about $480 billion” compared to $849 billion under President Obama’s plan to set the income bar at $250,000.

As the campaign season heated up, we spoke with Gail Collins at the New York Times about claims that small businesses might experience a tax increase if we end tax cuts for the rich. She quoted our director, Bob McIntyre in her column and mused, “It’s sort of metaphysical, when you get right down to it. I am you as you are me and we are one and we are all small businesses. Ich bin ein small business. No wonder politicians want to get on their good side.”

In September, after presidential candidate Mitt Romney uttered the fateful words about the 47 percent of Americans who are dependent takers who don’t pay taxes. We made sure everyone had our numbers, which Nicholas Kristof summarized in his New York Times column. “More relevant is the overall tax bill — including state, local and federal taxes of all kinds. According to Citizens for Tax Justice, the majority of American families pay more than one-quarter of incomes in total taxes — and that may be more than Romney pays.”

The Kansas City Star editors in battleground Missouri got the message out, too. “Citizens for Tax Justice notes that even the lowest-earning fifth of U.S. taxpayers still had a total tax rate of 17.4 percent in 2011. The rates rose along with incomes from there. Middle-income taxpayers had total rates ranging from 25.2 percent to 28.3 percent. And the highest earning fifth had a total rate of 30 percent … Americans pay plenty in taxes, even if their federal income tax liability is zero for any given year.”
News Media Turn To CTJ & ITEP Pre- and Post-Election 2012

In the lead-up to November 6, our research and experts were central to some pre-Election Day stories. A few took a very critical look at GOP candidate Mitt Romney’s personal exploitation of the tax code. Rolling Stone magazine, for instance, ran Mitt Romney’s Tax Dodge in which CTJ’s Rebecca Wilkins explains, bluntly, “The bottom line is that these are ways to reduce your taxes that are only available to rich people.” In The Nation magazine, journalist Ari Berman spoke at length with Rebecca for an extensive feature called, Many Unanswered Questions About Romney’s Taxes, which covered the candidate’s massive IRA and other offshore holdings.

We were also happy to contribute to straight up coverage designed to help voters make their decisions. One was a smart summary in the Boston Globe that compared Obama’s and Romney’s economic proposals side by side.

Another was an inspired interactive feature in the Washington Post online that allowed readers to experiment with making both presidential candidates’ tax plans add up by choosing which tax loopholes to close, deductions to end or rates to raise.

Since the election, there has been some thoughtful coverage of our issues in local outlets that we are so happy to be a part of. For example, an op-ed in the Ironton Tribune (Ohio) drew heavily on our work. In Who Are Society’s Real Takers?, the author, a retired educator, points out that wealthy individuals and corporations get a lot more in services but pay a lot less in taxes than the so-called 47 percent.

Another great local piece ran on an NBC news affiliate in California and used ITEP data to explain exactly how the governor’s newly passed Proposition 30 would affect the state’s taxpayers.

More recently, the not-so-local New York Times published a global story on one of our favorite issues. It explained that European countries are trying to get U.S. companies to pay their EU taxes, and cites some CTJ data on Google’s offshore stash. Could the free ride for these multinational giants finally be coming to an end?

Perhaps. Allow us to conclude these election season highlights on an optimistic note. Shortly after the election, nationally syndicated radio host and self-described conservative commentator, Jerry Doyle, invited CTJ’s Bob McIntyre on to talk about corporate taxes. Why? He’d read CTJ’s study of corporate tax avoidance and wanted to talk about how, in the midst of the fiscal crisis, we could finally fix the rigged system and ask corporations to do the patriotic thing and start paying their fair share.

STAY IN TOUCH WITH CTJ & ITEP

Here is how you can keep up on the latest news and research about tax fairness from Citizens for Tax Justice and the Institute on Taxation and Economic Policy:

CTJ’s Weekly Digest
Sign up to receive CTJ’s Tax Justice Digest, our weekly email summary of state and federal tax fairness news, by visiting www.ctj.org/digest_signup.php

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As Taxes Take the Forefront in 2013 We Need Your Support!

Next year the stakes are high and tax policy is the issue facing policymakers in Washington DC and in state capitals across the country. Our staff is gearing up for an intense 2013 and we need your support to be able to continue inserting commonsense and accurate analyses into a debate that is often full of the sound bites and reactionary policies. Please show your support for our work by contributing to CTJ or ITEP.