

The Role of Revenue in Addressing America's Economic and Fiscal Issues

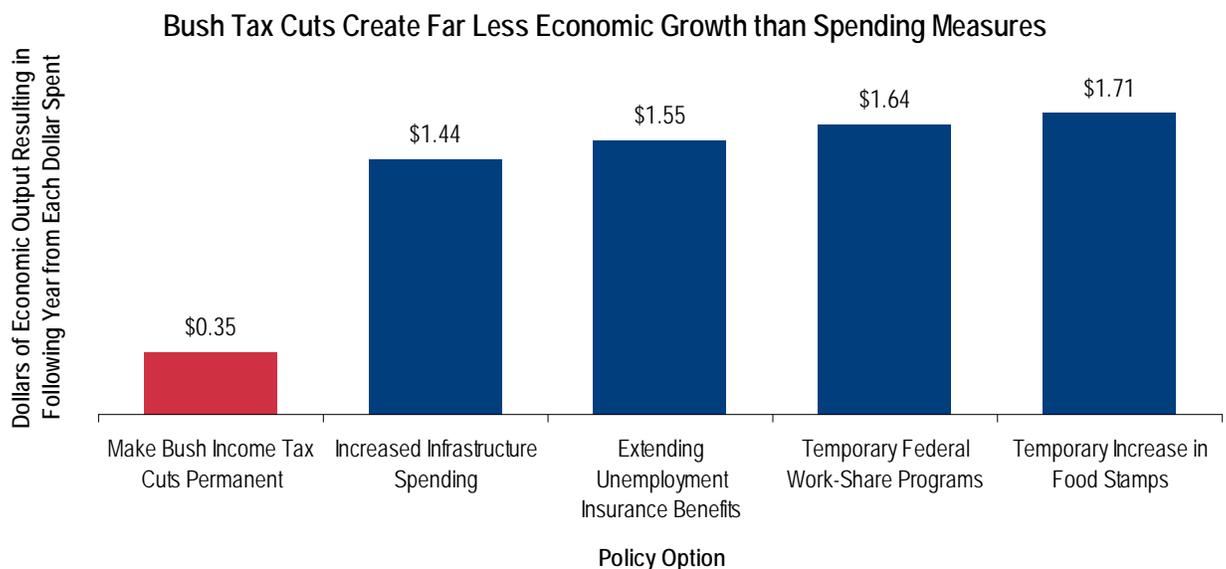
**Testimony before the Congressional Progressive Caucus
September 12, 2012
Steve Wamhoff
Citizens for Tax Justice**

Thank you for the opportunity to speak with you today. My organization, Citizens for Tax Justice, is a non-profit organization that does research and advocacy and has worked for 30 years to promote tax policies that are fair for ordinary Americans.

I want to speak today about the vital need for the federal government to collect significantly more revenue than it does currently.

Tax Cuts Are a Poor Tool to Accomplish Goal #1: Create Jobs

I think all of us here agree that the most important job for Congress right now is to help the economy to create jobs. Tax cuts are one of the least effective tools to accomplish this goal.



Source: Written Testimony of Mark Zandi, Chief Economist and Co-Founder, Moody's Analytics, February 7, 2012.

The economist Mark Zandi, who is also a former adviser to John McCain, has concluded that for every dollar of revenue the federal government would lose from making permanent the Bush income tax cuts, U.S. economic output would increase by only 35 cents in the following year.

On the other hand, he finds that for every dollar the federal government spends on increased food stamps, work share programs, or unemployment benefits, U.S. economic output would increase by \$1.71, \$1.64, and \$1.55 respectively.

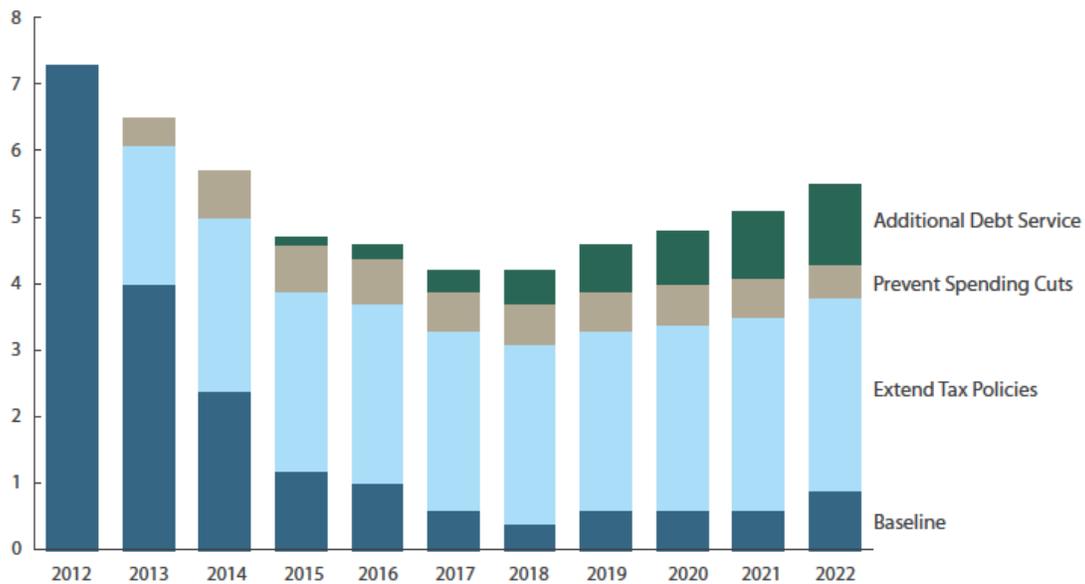
Tax Cuts Make It Impossible to Achieve Goal #2: Reduce the Deficit

After the jobs situation improves, Congress can focus on reducing the budget deficit, and clearly tax cuts do not make that any easier.

You have already seen this graph from the CBO illustrating how the budget deficit would be vastly smaller in future years if Congress simply does not pass any more legislation extending tax cuts.

Deficits Projected in CBO’s Baseline and Under an Alternative Fiscal Scenario
(Percentage of GDP)

August 2012
<http://go.usa.gov/7QY>



Deficits under CBO’s current-law baseline projection average about 1 percent of GDP over the 2013–2022 period. By comparison, under an alternative scenario, in which some changes specified in current law would not occur and many tax and spending policies that have been in effect in recent years would continue instead, deficits over that period would average about 5 percent of GDP.



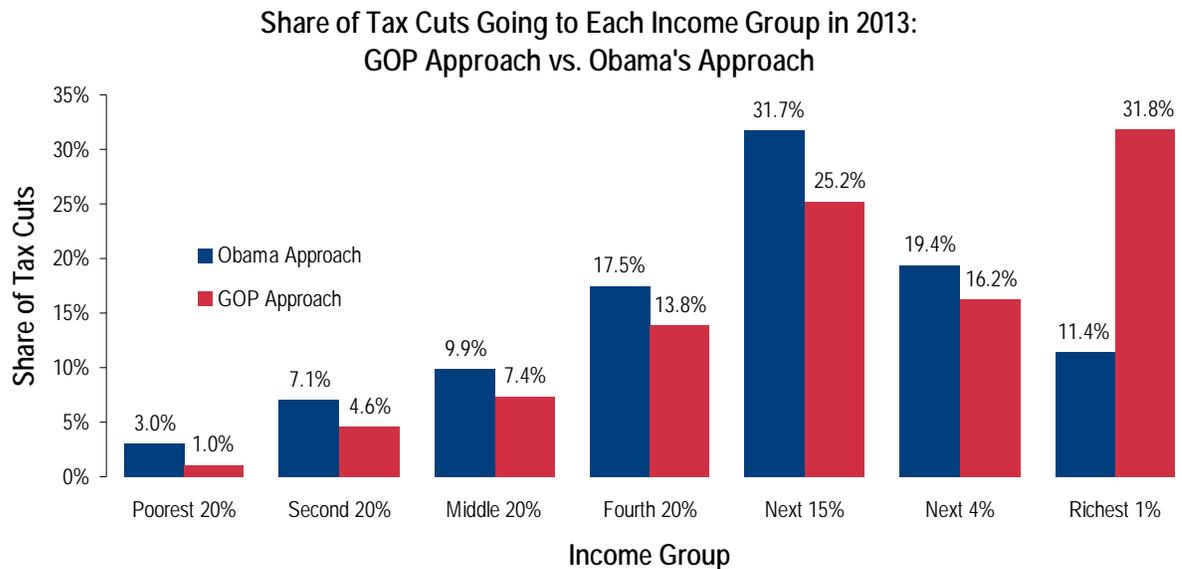
To think of this in a different way, CBO says that under the current law baseline, the deficit over the next decade will be \$2.3 trillion but CBO’s alternative baseline (which

includes all the additional spending and tax-cutting that Congress is likely to do) assumes the deficit will be almost \$10 trillion over the next decade.¹

The increase in the deficit would largely come from extending the Bush tax cuts, which CBO estimates would cost \$5.2 trillion over a decade, including the resulting interest payments. Note that President Obama’s proposal to make most, but not all, of the Bush tax cuts permanent, would cost about a trillion dollars less than this. His approach to the tax cuts would still increase the deficit by over \$4 trillion, including the interest. Other revenue proposals included in the President’s budget would make up about \$1 trillion of this cost.²

Meager Tax Cuts for Low- and Middle-Income Americans Are No Reason to Keep Tax Cuts for the Rich

The graph below uses figures that we have calculated and it shows that only a fraction of the expiring tax cuts would, if extended, go to the Americans who really need help right now. This situation would be marginally better under President Obama’s proposal to extend most, but not all of the expiring tax cuts into 2013.³



Source: Institute on Taxation and Economic Policy (ITEP) tax microsimulation model, June 2012

I don’t point this out to criticize the President’s proposal to extend most of the tax cuts for one year. It may make sense to do that for 2013 given that anti-government

¹ Congressional Budget Office, “An Update to the Budget and Economic Outlook: Fiscal Years 2012 to 2022,” August 22, 2012. <http://cbo.gov/publication/43539>

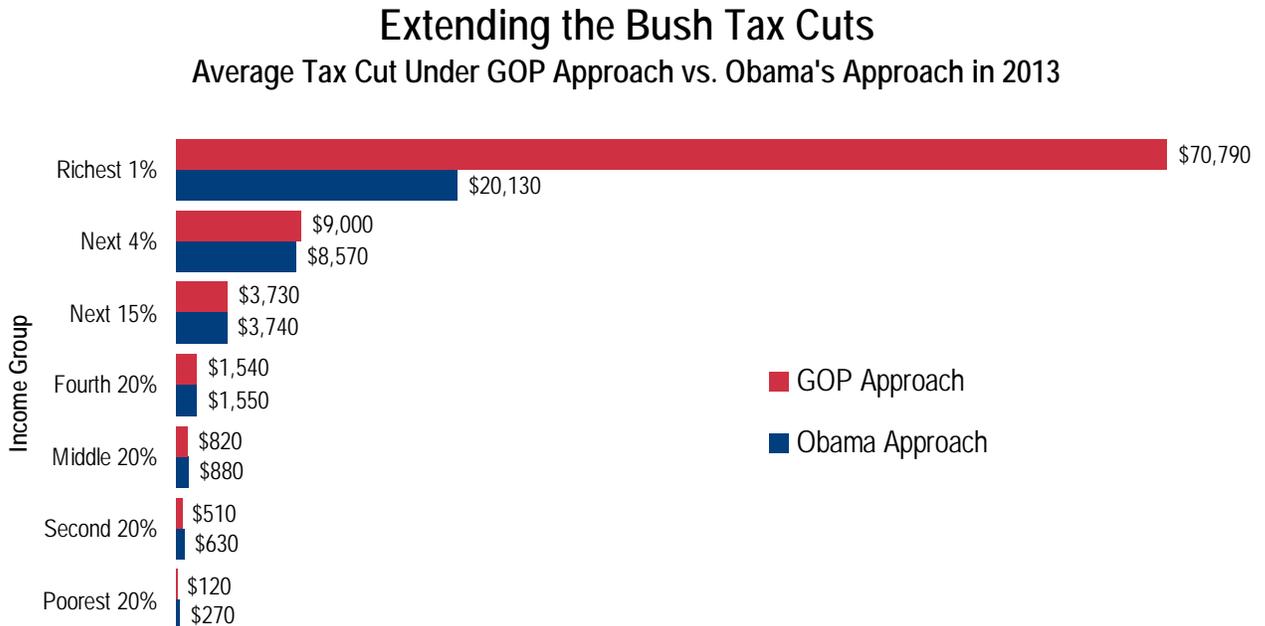
² Citizens for Tax Justice, “President Obama’s 2013 Budget Plan Reduces Revenue by Trillions, Makes Permanent 78 Percent of Bush Tax Cuts,” February 14, 2012. <http://www.ctj.org/pdf/obamabudgetfy2013.pdf>

³ For more information, see Citizens for Tax Justice, “U.S. Taxpayers and the Bush Tax Cuts: Obama’s Approach vs. Congressional GOP’s Approach,” June 20, 2012. <http://www.ctj.org/bushtaxcuts2012/us.pdf>

members of Congress won't pass the far more effective forms of stimulus that involve direct spending by the government.

But clearly when we think about what Congress should do for years after 2013, we need to find a better tax policy.

What is equally clear is that if anti-government lawmakers block President Obama's proposal to extend most, but not all of the expiring tax cuts, then Congress should allow them all to expire.



Figures rounded to the nearest ten dollars. Source: Institute on Taxation and Economic Policy (ITEP) tax microsimulation model, June 2012.

It is true that there are some expiring tax provisions that we strongly support — particularly the expansions of the EITC and Child Tax Credit.⁴

But if the only way Congress will extend these EITC and Child Tax Credit provisions is to also extend the far, far larger tax breaks for the rich, that is simply too great a price to pay.

What Happens After 2013? Avoid the Simpson-Bowles Mistake of Failing to Raise Revenue

One problem with many of the “grand bargains” discussed in Washington is that they would lose substantial revenue compared to “current law” — compared to what would happen if Congress just went home.

⁴ Citizens for Tax Justice, “The Debate over Tax Cuts — It's Not Just About the Rich: Tax Breaks for 13 Million Working Families with 26 Million Children Are Also at Stake,” July 19, 2012. <http://ctj.org/pdf/refundablecredits2012.pdf>

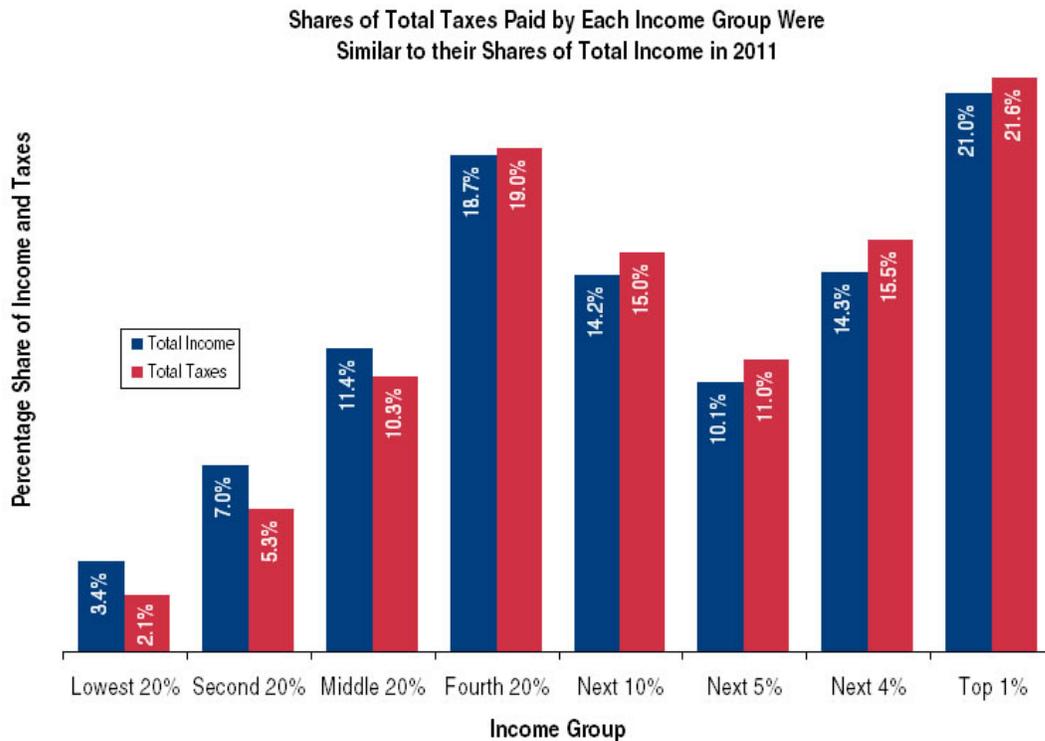
An executive summary of the Simpson-Bowles plan that was distributed to members said, “If CBO scored this plan, it would find net tax relief of approximately \$1.5 trillion.”

That is a euphemistic way of saying that the Simpson-Bowles plan loses revenue compared to doing nothing.

This was also a problem with the various budget plans discussed by President Obama and Republican leaders in 2011, which all actually reduced revenue compared to current law.⁵ The budget put out by the Congressional Progressive Caucus is the only comprehensive budget proposal that increases revenue compared to current law.⁶

If We Need New Revenue, Who Should Pay? Are the Rich Overtaxed?

If you agree with me that we need new revenue, the question is who should pay. Part of the answer is that the richest Americans can afford to contribute more to the society that has made their wealth possible.



Source: Institute on Taxation and Economic Policy Tax Model, April 2012

⁵ Citizens for Tax Justice, “Both Sides of Debt Ceiling Talks Propose Increasing the Budget Deficit,” July 14, 2011. <http://www.ctj.org/pdf/grandbargain.pdf>

⁶ Andrew Fieldhouse and Rebecca Thiess, “The Budget For All: A technical report on the Congressional Progressive Caucus Budget for Fiscal Year 2013,” March 28, 2012. <http://www.epi.org/files/2012/wp293.pdf>

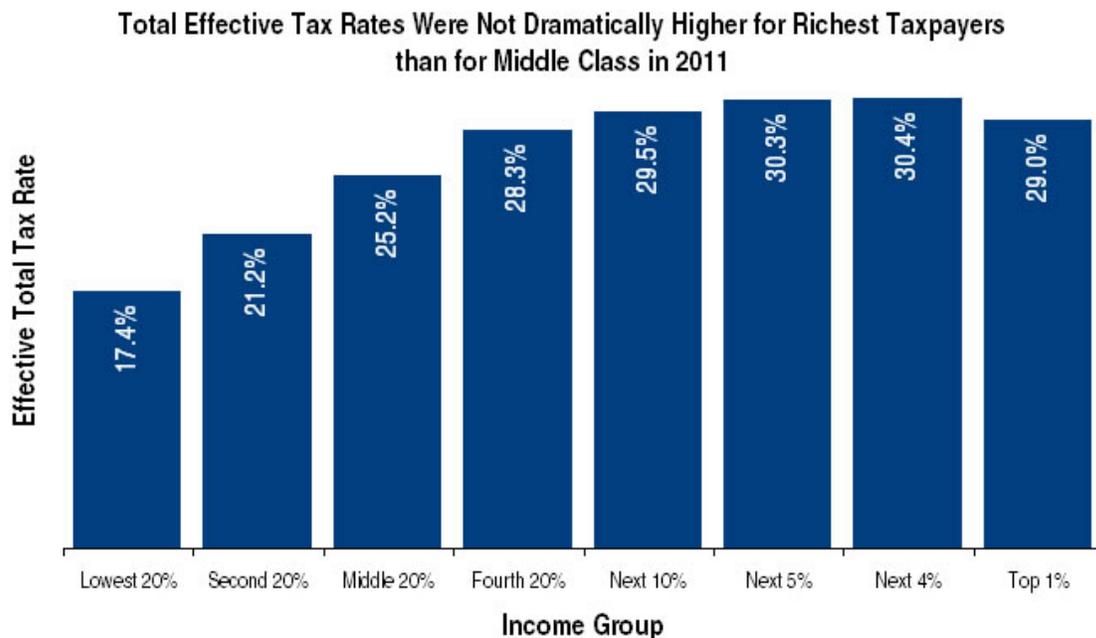
We are hearing a lot from the right side of the aisle that the rich already pay a vastly disproportionate share of the taxes and that a lot of poor and middle-income people are not paying taxes.

These claims are entirely incorrect because they are based on just one of the many taxes that people pay, the federal personal income tax.

We estimated the share of total taxes paid by different income groups. By “total taxes” I mean all the federal, state and local taxes that Americans pay. As illustrated in the graph above, we found that the share of total taxes paid by each income group is similar to that group’s share of total income.

For example, the share of total taxes paid by the richest one percent (21.6 percent) is almost identical to that group’s share of total income (21.0 percent). The share of total taxes paid by the poorest fifth of Americans (2.1 percent) is only slightly less than this group’s share of total income (3.4 percent).

In other words, America’s tax system is just barely progressive.



Source: Institute on Taxation and Economic Policy Tax Model, April 2012

The above graph illustrates our estimates of effective total tax rates, meaning the percentage of income paid in all federal, state and local taxes, for each income group. It shows that the tax system is a lot flatter than people think it is.⁷

⁷ For more information, see Citizens for Tax Justice, “Who Pays Taxes in America?” April 4, 2012. <http://www.ctj.org/pdf/taxday2012.pdf>

Also note that these are averages. While the average effective total tax rate for the richest one percent is 29 percent, we know that for some super-wealthy taxpayers, it's a lot less because they live on capital gains and stock dividends that are taxed at much lower rates under the federal personal income tax.⁸

Note: Closing Corporate Tax Loopholes Is One Progressive Way to Raise Revenue

Several proposals to raise taxes in progressive ways have been debated in detail, so I would like to simply address one of the less-noted progressive revenue options: getting corporations to pay their fair share of taxes.

The owners of corporate stocks and business assets — which are concentrated among the rich — ultimately pay corporate income taxes.

Corporate leaders and their lobbyists argue that corporate taxes are ultimately paid by workers who suffer when corporations leave the U.S. to find lower taxes.

This cannot be true. Corporations would not spend so much time lobbying you to lower their taxes if they did not think their shareholders were the ones ultimately paying them. Several non-partisan analysts have also concluded that the corporate income tax is mostly borne by the owners of corporate stocks and business assets.⁹

Last year we studied most of the Fortune 500 corporations that had been profitable each year for three years straight, and we found that their average effective corporate income tax rate over the three-year period was just 18.5 percent. We also found that 30 of the corporations had a three-year effective tax rate of less than zero percent.¹⁰

We recently updated our data and found that most of those 30 tax-dodging corporations also paid less than zero percent over a four-year period.¹¹

There are plenty of corporate tax loopholes that Congress can close to raise revenue. And the goal of reforming the corporate income tax *should* be to raise revenue. It

⁸ The only real solution to this problem is to simply end the lower income tax rates for capital gains and stock dividends and simply tax all income at the same rates. See Citizens for Tax Justice, "How to Implement the Buffett Rule," October 19, 2012. <http://www.ctj.org/pdf/buffetttruleremedies.pdf>

⁹ Jennifer C. Gravelle, "Corporate Tax Incidence: Review of General Equilibrium Estimates and Analysis," Congressional Budget Office, May 2010, http://www.cbo.gov/ftpdocs/115xx/doc11519/05-2010-Working_Paper-Corp_Tax_Incidence-Review_of_Gen_Eq_Estimates.pdf; Gravelle, Jane G. and Kent A. Smetters. 2006. "Does the Open Economy Assumption Really Mean That Labor Bears the Burden of a Capital Income Tax." *Advances in Economic Analysis & Policy* vol. 6:1.

¹⁰ Citizens for Tax Justice, "Corporate Taxpayers & Corporate Tax Dodgers, 2008-2010," November 3, 2011. <http://ctj.org/corporatetaxdodgers/>

¹¹ Citizens for Tax Justice, "Big No-Tax Corps Just Keep on Dodging," April 9, 2012. <http://www.ctj.org/pdf/notax2012.pdf>

makes no sense to close those loopholes and simply give the revenue back to corporations as a rate cut, as President Obama proposes.¹²

¹² Citizens for Tax Justice, "President Obama's 'Framework' for Corporate Tax Reform Would Not Raise Revenue, Leaves Key Questions Unanswered," February 23, 2012.
<http://www.ctj.org/pdf/obamacorporatetaxframework.pdf>