

## Winners and Losers In Corporate Tax Reform



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Obama and  
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United Against the  
Working Poor

## Obama and the GOP: United Against the Working Poor

By David Cay Johnston

David Cay Johnston is a former tax reporter for *The New York Times* and teaches at Syracuse University School of Law. He has also written two books about taxes, *Free Lunch* and *Perfectly Legal*.

In this article, Johnston asks what the December tax cut bill, which raised taxes on the working poor and cut them for high-income workers, tells us about the “no tax increase” promises of President Obama and Capitol Hill Republicans.

Who says bipartisanship is dead?

On Capitol Hill, the Democrats and Republicans may no longer play cards and drink together, but that does not seem to stop them from working together to shift tax burdens down the income ladder even when it violates their promises on the campaign trail.

Grover Norquist calls bipartisanship the political equivalent of date rape. But there is one group that President Obama, many congressional Democrats, and all congressional Republicans ganged up on in December — the working poor.

The tax compromise passed in December has been hailed everywhere as a payroll tax cut combined with an extension of the Bush tax cuts, despite the fact that it raised taxes on a third of Americans. The killing of Obama’s Making Work Pay tax credit, which the White House called the biggest middle-income tax cut ever, and the replacement of it with the Republicans’ payroll tax cut raised taxes on single workers whose wages come to \$20,000 or less and married couples with less than \$40,000 in wages.

That’s 51 million taxpayers, the Tax Policy Center estimated. (See Table T10-277, Doc 2011-2622, 2011 TNT 26-28.)

Among the poorest fifth of tax units, whose annual cash income is less than \$17,878, two-thirds got hit with a tax increase. On average, their taxes went up \$134, which is 1.3 percent of this group’s total cash income.

Consider a single worker who makes \$6,000. That was the average wage of the bottom third of workers in 2009, the Medicare tax database shows.

Killing the Making Work Pay credit in favor of the payroll tax cut amounted to a tax increase of \$252, or 4 percent of total income.

Looked at another way, some workers will labor for 23 days this year and next just to pay *increased* taxes.

The pattern of the Republican-Obama tax plan is a clear stepladder in which the more you make, the more you benefit, and the less you make, the more you pay. This is a form of socialism: upward redistribution to enrich those at the top.

While two-thirds of the poorest Americans — the ones getting by on less than \$1,500 a month — face a tax increase, the share of people hit with tax increases falls off quickly as you move up the income stepladder.

In the next lowest quintile, taxpayers with cash incomes of under \$35,000, 40 percent saw their taxes rise, while in the middle quintile (under \$64,000), one in five got a tax increase. In the fourth quartile (under \$104,600), one in eight got a tax hike, and in the top quartile, one in 20 did.

At the top, just 1.8 percent of the top 1 percent (more than \$564,600) were hit with a tax increase. Just 1.3 percent among the top tenth of 1 percent (more than \$2 million) got a tax hike. These best-off one in 1,000 Americans got a tax cut worth on average \$45,000 each, all financed with borrowed money.

In raising taxes on the working poor (and the just plain poor), our supposedly socialist president proved himself at one with Ronald Reagan, the subject of all sorts of hagiography this month on what would have been his 100th birthday. Hardly any of the effusive praise points out that while Reagan polished his image as a tax cutter, he was in fact a tax raiser *par excellence* who presided over a massive expansion of government spending that primarily benefited the affluent and rich.

Reagan raised taxes in seven of the eight years he was governor of California, including when he abandoned his “taxes should hurt” rhetoric to impose withholding so he could expand state spending on the Highway Patrol and other policing. In Washington, Reagan presided over 11 increased levies.

The perpetually obsequious Washington press corps let his administration call these tax increases “revenue enhancers.” The late Murray N. Rothbard, a hero to libertarians and self-proclaimed dean of

Cash Income	Number of Tax Units	Total Making Work Pay Tax Credit	Total Social Security Tax Cut	Gain or Loss	Per Taxpayer (actual dollars)
Less than 10	\$19,483	\$4,272,221	\$1,553,918	-\$2,718,303	-\$140
10-20	\$25,829	\$7,616,563	\$4,481,754	-\$3,134,809	-\$121
20-30	\$20,502	\$7,317,993	\$6,576,259	-\$741,734	-\$36
30-40	\$16,325	\$6,497,162	\$7,903,128	\$1,405,966	\$86
40-50	\$12,320	\$5,384,321	\$7,836,398	\$2,452,077	\$199
50-75	\$20,494	\$10,117,455	\$17,689,459	\$7,572,003	\$369
75-100	\$14,456	\$8,133,827	\$17,966,203	\$9,832,376	\$680
100-200	\$18,064	\$9,501,164	\$33,351,895	\$23,850,731	\$1,320
200-500	\$5,300	\$473,588	\$11,979,920	\$11,506,332	\$2,171
500-1,000	\$966	\$55,449	\$2,184,931	\$2,129,482	\$2,204
More than 1,000	\$451	\$13,793	\$1,049,956	\$1,036,163	\$2,298
All	\$155,368	\$59,600,695	\$112,812,734	\$53,212,039	\$342
Less than 30	\$65,814	\$19,206,776	\$12,611,931	-\$6,594,846	-\$100
More than 30	\$88,376	\$40,176,759	\$99,961,889	\$59,785,130	\$676

Source: Tax Policy Center Table T10-278 (Doc 2011-3042).

the Austrian school of economics, called this Reaganism "a nice touch of creative Orwellian semantics."

This same pattern of focusing on tax cuts and ignoring tax increases continues. Ask anyone you know how much Obama cut their taxes in 2009 and 2010. Go ahead, try it. Expect perplexed looks and responses along the lines of "You mean tax increases, don't you?"

Last fall Michael Cooper of *The New York Times* asked North Carolinians at the Pig Pickin' and Politickin' rally about the Obama tax cuts. "Say what?" was the basic response, even though 97 percent of Americans got a tax break that averaged \$1,200 over two years.

One survey found that fewer than 10 percent of Americans were aware of the Making Work Pay tax credit.

That so few Americans understood that Obama provided them with a tax cut is because of two forces. One is the hostile coverage he gets, not just from Fox News and the increasingly politicized news pages of Rupert Murdoch's *Wall Street Journal*, but from the press generally. The other is the major reason that mainstream journalists treat Obama more harshly than his predecessor. The operation Obama put in place to respond to questions from reporters is run entirely by people with no press experience, many of whom act like they work for the candidate, not the office of the president.

The fact that the Making Work Pay tax credit came mostly as a reduction in withholding that put an extra \$8 or \$16 in weekly take-home pay also hurt. Many people saw their take-home pay increase, but had no idea why.

Even the sagacious Floyd Norris, the extraordinarily astute *New York Times* columnist, missed that Obama and the GOP joined forces to raise taxes on the working poor. He wrote in his finance column last month that "nearly everyone with a job got a raise in January, courtesy of Uncle Sam, who reduced payroll taxes."

In a backhanded way, Norris acknowledged in his blog — but not in print where most of his readers are — that a reader who complained that 51 million people got a tax increase "has a point. . . . [The column] should have mentioned that the failure to renew a provision that benefited low-wage workers will hurt many workers."

This pattern of benefits that grows along with income is what got us into this debt mess. It began with Reagan, who turned perennial, insignificant deficits since President Johnson's last budget into buckets of red ink with little to show for it in terms of widespread economic benefit.

From 1980 through 1988, the average income of the bottom 90 percent rose just \$369, or 1.2 percent, in 2008 dollars, ending three decades during which the average incomes of the bottom 90 percent grew faster than those at the top.

Under Reagan, those on the 95th to 99th rungs on the income ladder saw their average income rise by \$23,681, or 16.9 percent. That's 14 times the rate of increase for the bottom 90 percent.

The bottom half of the top 1 percent enjoyed a 32 percent increase, those from 99.5 percent to 99.9 percent a 57.7 percent increase, and the top tenth of 1 percent a 105.6 percent gain.

So under Reagan, the wealthiest Americans saw their incomes grow at more than 100 times the rate

of the vast majority. Of course, that was what was intended by cutting the top tax rate from 70 percent to 28 percent and slashing capital gains taxes — making it less costly to take money out of businesses to enhance the lifestyles of the owners, spawning a huge growth in the prices of unproductive assets, especially multiple mansions and *objets d'art*.

This pattern continued under President George W. Bush. More than half the 10-year cost of the Bush tax cuts benefited the top 5 percent, and 72 percent of that went to the top 1 percent, while the middle fifth of taxpayers got just 7.4 percent of the tax relief, Citizens for Tax Justice calculated (*Doc 2009-20067, 2009 TNT 172-64*).

The cost of the Bush tax cuts cost for the first 10 years, including interest, was almost \$2.5 trillion. That's two and a half times the cost of the health-care law sponsored by Obama. Now ask yourself which spending plan — the Bush tax cuts and their extension or a step toward universal and reliable health insurance — most people think is responsible for our huge budget deficits and national debt?

Amazingly, the people who raised taxes and supported raising taxes on the poor insist they are universal tax cutters.

Last September, Senate Republican Whip Jon Kyl of Arizona said his party's senators had gathered to discuss taxes and that "every Republican was absolutely supportive of the idea that there shouldn't be any increases in taxes."

A week later Senate Minority Leader Mitch McConnell, R-Ky., said, "No one should pay higher income taxes next year."

McConnell spoke as he introduced a bill that extended the Bush tax cuts, but not Obama's. Yet not one reporter asked McConnell about why he was seeking to raise taxes on the working poor. Of course, if the working poor are considered "no one," then what McConnell said makes sense, especially for a man who inherited his wealth, which his disclosure statements put at between \$7.1 million and \$32.8 million.

Or how about House Majority Leader Eric Cantor, R-Va.? "We don't feel that there should be anyone suffering a tax rate increase right now while we've got nearly 10 percent unemployment," Cantor told Bloomberg Television in November. In January he said, "Taxes shouldn't be going up on anybody right now."

But, thanks in good part to Cantor, they did for a third of Americans.

The hard truth is this: All 208 senators and representatives who signed Norquist's "taxpayer protection pledge" broke part two of their pledge in December. Yet Norquist actually praised the pledge

**Table 2. Maximum Tax Savings on Wages Per Taxpayer**  
New Law Favors High Earners Over the Working Poor

	2009 and 2010		2011
Making Work Pay Tax Credit	Married Couple	\$800 at \$12,904	\$0
	Individual	\$400 at \$6,452	\$0
Social Security Tax Rate Cut	Married Couple	\$0	\$4,272 at \$213,600
	Individual	\$0	\$2,136 at \$106,800

Source: Author's calculations based on code.

violators, saying the December tax bill was, for Republicans, "a much bigger victory than people see."

This isn't the first time Norquist and his hilariously misnamed Americans for Tax Reform have looked the other way when members broke the pledge. Remember that 2006 tax increase on teenagers who had jobs and saved money for college? And that tax hike was retroactive. At the time, Norquist told me he had no idea such a bill had been passed, much less that it was sponsored by Republicans. He said he would get on it, but he did exactly nothing, at least publicly.

For those who have not read it, the Americans for Tax Reform signers pledge two things. It is the second part that was not just violated, but ravished, by the pledge signers in December:

ONE, oppose any and all efforts to increase the marginal income tax rates for individuals and/or businesses; and

TWO, oppose any net reduction or elimination of deductions and credits, unless matched dollar for dollar by further reducing tax rates.

In 2009 almost 62 million workers, 41 percent of everyone who had a job that year, made less than \$20,000. And 100.6 million workers, exactly two out of three people with jobs, made less than \$40,000, the Medicare tax database shows. The Obama-GOP tax increase applied to everyone with a job that paid under \$20,000 (\$40,000 for married heterosexual couples).

So while at least 90 percent of Americans are uninformed about this tax increase, you can now contribute to the factual basis of our national tax debate by pointing out to others that Obama and the GOP, along with a lot of congressional Democrats, enacted a bipartisan tax increase on the working poor in violation of their campaign pledges.

Your thoughts? E-mail me at [JohnstonsTake@tax.org](mailto:JohnstonsTake@tax.org).