



## BUILDING ONE ECONOMY WITH TAX REFORM TO REWARD WORK

*“The engine of our economy is not Washington, D.C., or Wall Street. It is the tens of millions of men and women in offices, factories and fields across America who go to work every day trying to do right by their families. When our middle class grows, our whole economy grows.” -- John Edwards*

In America today, families are working harder and struggling to get by. Fundamental changes to our economy – including globalization and technological change – have left wages stagnant for most workers. Aggressive new efforts are needed to share economic growth widely. But corporate interests have never been stronger than they are in George Bush’s Washington today. Drug and insurance companies write our health care laws, oil companies and power utilities write our energy laws and big banks write our lending laws. It’s no coincidence that regular families are finding it harder to get ahead.

John Edwards believes that our country is divided into Two Americas that are growing further apart. Wholesale changes are needed to put our economy and our tax practices back in line with our values and help regular families get ahead. Today, Edwards outlined his plan to reform the tax code to reward work, not the privileges of the insiders, and help regular families get ahead. His plan will (1) create three new tax breaks to honor and strengthen three pillars of America’s middle class: savings, work, and families, (2) require a fair contribution from the wealth of high-income Americans, reversing the shift of the tax code onto middle class wages, and (3) end special tax breaks for insiders.

- **A Generation of Stagnant Wages:** America has always been about building a better life for our children, but we have lost a generation of progress. Men in their thirties today earn less in real terms than men of their fathers’ generation did 30 years ago, requiring families to work harder to make any progress. Only 30 percent of Americans think life will be better for the next generation. [Pew, 2007; Edison Media Research, 2006]
- **An Economy Growing Only at the Top:** Income inequality is at its greatest level since 1928. American families are growing apart: 40 percent of the economic growth over the past 20 years has gone to the top 1 percent of families. In 2005, income grew by leaps and bounds for the top 1 percent – 14 percent in one year – but it was stagnant for the bottom 90 percent. The top 300,000 taxpayers now make more than the bottom 150 million. If all Americans were sharing in economic progress as they were nearly 30 years ago, families in the bottom 80 percent would be earning \$7,000 more a year. [Saez, 2007; EPI, 2006; *NY Times*, 3/26/2007; Summers, Furman and Bordhoff, 2007]
- **A Washington Run by Special Interests:** While families are struggling, powerful special interests in Washington are doing better than ever. The number of Washington lobbyists has tripled to 36,000 since 1996, more than 60 for every member of Congress. Their impact can be seen across our society: a broken health care system, reliance on old sources of energy, the neglect of poverty, unfair terms of credit, and subsidies for corporate agribusiness. [Senate Office of Public Records, 2006]

## TAX REFORM TO REWARD THE WORK OF REGULAR FAMILIES

In the Two Americas, there is no end to the special tax breaks for multinational corporations and wealthy individuals. These taxpayers can afford lawyers to help them exploit weaknesses in the tax code and lobbyists to help them get still more tax breaks. Today, the richest Americans have only a 15 percent tax rate on their investment income, while regular families pay 15 percent in payroll taxes in addition to 10 percent, 15 percent or 25 percent in income taxes. As billionaire Warren Buffett noted, the result is that wealthy investors pay lower rates than their secretaries. Making matters worse, George Bush's tax cuts on wealthy taxpayers' investments have raised the share of the tax burden borne by middle-class wages.

John Edwards will overhaul the tax code with three new tax breaks to strengthen the middle-class pillars of saving, work, and family. He will also reverse the war on work by requiring the most fortunate Americans to pay a fairer rate of tax on their investments and take on special tax breaks for the insiders.

**HELPING REGULAR FAMILIES SAVE AND GET AHEAD:** Savings allow families to build better futures by paying for education, buying homes, starting small businesses, and putting money away for retirement. Savings also allow families to survive challenges like the loss of a job or an illness, without leaving themselves vulnerable to high-cost credit card debt, payday loans, or other abusive loans. However, wealth in America is now highly unequal: the 1 percent of households with the highest incomes own 34 percent of America's net worth, more than all of the bottom 90 percent combined. Only 27 percent of households within 20 years of retirement have adequate retirement savings. [EPI, 2006]

- **Create a "Get Ahead" Credit to Help Millions of Families:** Nearly half of working Americans do not own any type of personal retirement account. Our existing savings incentives work as deductions, which give much larger subsidies to the high-income families in higher tax brackets. Only 2 percent of the \$125 billion in revenue the government forgoes each year to subsidize tax-deferred savings vehicles goes to the bottom 40 percent of workers. Edwards will help millions of families save, invest and build better futures. The Get Ahead Credit will expand the Savers Credit to match savings up to \$500 a year, providing as much as an additional dollar for every dollar of savings. The credit will be refundable to low-income families and be phased out with income and families earning up to \$75,000 would receive a credit. The savings, match and investment earnings could be used for retirement, a college education, a home downpayment or a small business. Families could also tap the account during a financial or medical emergency. [Aspen, 2007; Sperling, 2003; Gale, Gruber and Orszag, 2006]

In addition, Edwards proposed three additional tax breaks to help families save:

- **Boost Low-Income Families' Savings with Work Bonds:** Edwards proposed a new tax credit to give extra help to low-income, working Americans so they can save for the future. More targeted than the Get Ahead credit, Work Bonds will supplement the Earned Income Tax Credit to match the savings of low-income workers up to \$500 per year. Together, the two tax breaks would let the lowest-income families set aside as much as \$1,000 a year. The Work Bonds will be directly deposited into a savings account.
- **Exempt \$250 in Investment Income:** Edwards will exempt from taxes each family's first \$250 in interest, capital gains, and dividends. The exemption will allow a family to get a start on saving tax-free, while greatly simplifying tax filing for families with small amounts of interest income.

Edwards will also give tax credits to financial institutions offering low-fee, low-balance accounts to low-income families.

- **Let Families Use Child Credits to Save for Their Future:** Edwards will allow families to deposit part or all of their child tax credit into a tax-free saving account. The funds could be withdrawn for any use when the child turns 18. A family that deposited the entire \$1,000 every year would have \$31,000 for college and their future after 18 years.
- **Expand the Child Care Credit to Help Middle-Class Families:** More than 11 million children under five are in regular child care; those whose mothers are employed spend an average of 36 hours a week in child care. However, child care is expensive: \$3,000 to \$10,000 a year across the United States, on average. Child care fees for an infant exceed the average amount that families spend on food. Fees for two children of any age exceed median rent. To help millions of families with their child care expenses, Edwards will expand the Child and Dependent Care Tax Credit to pay up to 50 percent of childcare expenses up to \$5,000 and make it partially refundable to benefit low-income working families. He will also allow stay-at-home parents to get the credit to help pay for child care for newborn infants. [NACCRRRA, 2006]
- **Reward Work by Reforming the EITC:** The Earned Income Tax Credit is one of the most effective anti-poverty tools in history. Edwards will expand it to reward low-wage workers:
  - **Triple the EITC for 4 Million Adults without Children:** Working adults without children are the only Americans living in poverty who pay both income and payroll taxes. A single worker at the poverty line pays more than \$800 in federal income and payroll taxes. Edwards will offer more than \$1,200 to poor single workers, tripling the current EITC, and it will give 4 million low-income workers an average tax cut of \$750. [CBPP, 2000 and 2006]
  - **Cut the Marriage Penalty for 3 Million Families:** Marriage is the foundation for strong, economically secure families, but the EITC can penalize married couples by thousands of dollars. Edwards believes that we must cut the EITC marriage penalty. His proposal will cut taxes for 3 million couples by about \$400 a year. [CBPP, 2006]

**REVERSING THE “WAR ON WORK”:** In the past six years, George Bush has cut taxes on capital gains and dividends and started to eliminate taxes on inheritances completely. As a result of his regressive tax policies, the share of the federal tax burden borne by taxpayers in the middle and fourth quintiles is increasing by 0.5 percentage points, while the share of taxes paid by the top 1 percent fell by the same amount. [Tax Policy Center, 2006]

John Edwards believes that innovation and ingenuity are the engine of our economy and our tax code needs to better value and respect work. As president, he will:

- **Restore Fair Taxation of Wealth:** To ensure that the wealthiest Americans are paying their fair share of taxes and to reduce the economic distortions from tax shelters resulting from large capital gains preferences, Edwards will raise the top tax rate on long-term capital gains to 28 percent for the most fortunate taxpayers, the same rate signed into law by President Reagan. The 28 percent rate will ensure that high-income investors will pay taxes on their investment income at a similar rate to what regular families pay on their earned income. [Slemrod and Bakija, 1996; Burman, 1999]

- **Repeal the Bush Tax Cuts for the Highest-Income Households:** More than half of the Bush tax cuts – \$132 billion – will go to the top 1 percent of taxpayers in 2010. Edwards will repeal the Bush tax cuts for the highest-income households. He will also eliminate estate taxes for the middle class, small business owners and family farmers, while keeping these taxes on the few families with large estates above \$4 million in value. [Citizens for Tax Justice, 2007]

### **SHUTTING DOWN SPECIAL DEALS FOR INSIDERS:**

- **Declare War on Tax Havens:** About \$300 billion a year in taxes go unpaid, and about \$1.5 trillion in personal assets of U.S. taxpayers are held offshore. These unpaid taxes increase the share of the tax burden shouldered by honest taxpayers. Edwards will end the abuse of foreign tax havens: low-tax countries that facilitate American corporations and wealthy individuals seeking to avoid U.S. taxes. He will:
  - Extend the time the I.R.S. has to investigate offshore tax havens, reduce the burden of proof of foreign tax evasion, and require U.S. institutions to report the formation of offshore accounts.
  - Crack down on peddlers of tax shelters by increasing penalties, prohibiting contingent fee arrangements for tax advisors, and eliminating the ability to patent tax shelters.
  - Renew cooperation with other OECD countries to fight tax havens' attempts to profit by undercutting other nations' tax bases, an initiative abandoned by the Bush Administration.
  - Fight the tax gap by improving I.R.S. customer service, simplifying tax filing to reduce errors, auditing more large corporations and high-income individuals and requiring more third-party reporting. [Sawicky, 2006; *NY Times*, 5/3/2007]
- **Close the Hedge Fund and Private Equity Loopholes:** Some of the most highly paid people in America are the managers of hedge funds and private equity funds, some of whom make hundreds of millions of dollars or even billions a year. Although most of their income, like other earned income, is nothing more than payment for the work they do, they pay only the 15 percent capital gains rate rather than the ordinary income tax rate. Edwards will close this loophole and also ensure that publicly traded private equity and hedge funds pay corporate taxes.
- **Cap Executive Pensions:** Top executives at large corporations commonly receive deferred compensation packages that allow them to put off indefinitely the payment of taxes on much of their compensation. They have in effect unlimited IRAs or 401(k)s, without the limits that apply to other workers. Edwards will limit the amount of money that can be put into these funds to \$1 million a year. [*Washington Post*, 1/18/2007]