President Obama's FY 2011 Budget:
Moving Toward More Responsible, Accountable and Fair Tax Policies

President Obama's Fiscal Year 2011 budget would begin to restore balance and responsibility to the tax code, after years of lavish and unnecessary tax cuts for too-big-to-fail corporations and the wealthiest individuals. To make the investments needed to promote our economic recovery, expand opportunity, and keep America strong, corporations and the very wealthy must be responsible for paying their fair share of taxes. President Obama proposes several measures to close tax loopholes, curb tax subsidies for the wealthy and corporations, and crack down on tax evasion, including proposals to:

- **Hold Wall Street accountable,** primarily by imposing a new **financial crisis responsibility fee** on the largest banks and financial institutions (assets above $50 billion). The proposal would ensure that taxpayers are fully compensated for the Wall Street bailout and deter the risky practices that contributed to the economic crisis. Estimated revenue: $93 billion over 10 years.

- **Reduce incentives for corporations to shift jobs and profits offshore and crack down on tax havens** where corporations and wealthy individuals evade taxes. Corporations avoid taxes by indefinitely deferring payment of U.S. taxes on income generated abroad while immediately benefiting from tax deductions associated with those activities, or by shifting income earned here to lower-tax countries. Wealthy investors stash money overseas to hide income for tax purposes. The result is that both end up paying much less than they'd otherwise owe. Estimated revenue: $122 billion over 10 years.

- **Close the "carried interest" tax loophole for multi-millionaire managers of private investment funds.** Some wealthy managers of private investment partnerships dramatically cut their tax bills by arranging to receive compensation for managing funds in the form of a percentage of profits ("carried interest") rather than salary. This "carried interest" compensation is taxed as capital gain (maximum tax rate of 15% in 2009) rather than earned income (maximum income tax rate of 35% in 2009, plus payroll taxes), allowing multi-millionaire hedge fund managers to pay a lower tax rate than ordinary working Americans. Estimated revenue: $24 billion over 10 years.

- **Curb tax subsidies for the oil, gas, and coal industry** that discourage investments in clean energy sources and undermine efforts to deal with the threat of climate change. The President proposes to prevent the oil and gas industries from claiming the special "manufacturing" tax deduction for the extraction of oil and gas. The budget fixes two other long time subsidies for the oil and gas industry that allow them to write off the value of the depletion of their oil fields many times over and that allow them to immediately deduct the entire cost of drilling wells rather than spreading it out over the life of the oil field. Estimated revenue: $39 billion over 10 years.

- **Make polluters pay by reinstating Superfund Taxes.** Corporations that contribute to hazardous waste should contribute to the costs of remedying the damage. Estimated revenue: $19 billion over 10 years.

- **Repeal last-in, first-out (LIFO) accounting rules** that enable some corporations to defer tax liability by deducting the higher cost of recently acquired inventory rather than the lower cost of older inventory. This rule has been especially beneficial for oil companies that can reduce their taxable profits when the price of oil and, therefore, the value of inventory, rises. Repeal of the LIFO method would eliminate a tax deferral opportunity and would simplify the tax Code by removing a complex and burdensome accounting method. Estimated revenue: $59 billion over 10 years.

- **Require corporations and the wealthy to pay the taxes they owe.** Wage-earning Americans, whose income is regularly reported and subject to withholding, pay 99 percent of the taxes they owe. But business owners and investors, much of whose income is not reported, pay far less of what they owe, putting an added burden on Americans who pay their taxes. The proposals would expand information reporting requirements, improve tax compliance by businesses, strengthen tax administration, and increase some penalties. Estimated revenue: $26 billion over 10 years.

- **Close estate and gift tax loopholes** by requiring the consistent valuation of assets for tax purposes, adding limits on the use trust funds to avoid taxes, and other reforms. Estimated revenue: $24 billion over 10 years.

- **Ensure the proper classification of workers who are employees, not independent contractors,** to ensure that workers receive the workplace benefits and protections to which they are entitled and employers pay the taxes they owe, including Social Security, Medicare, and Federal Unemployment Taxes. Estimated revenue: $7.3 billion over 10 years.

- **Limit the tax subsidies the wealthiest taxpayers get from itemized deductions** to 28%. Our tax system encourages some activities such as charitable giving by allowing tax deductions. But, because the value of the deduction depends on an individual's tax bracket -- the higher the marginal tax rate, the more the deduction is worth – wealthy taxpayers receive larger tax subsidies than middle-class taxpayers. For example, under current law, for every $1,000 contributed to charity, a wealthy taxpayer in the 35% bracket receives a $350 tax break, while a middle-income taxpayer in the 15% bracket contributing the same $1,000 receives a tax break of $150. The proposal would limit the tax subsidy to 28% for taxpayers with incomes above $250,000 for a couple ($200,000 for an individual). Estimated revenue: $291 billion over 10 years.

- **Reverse some of the 2001 and 2003 income tax cuts for the wealthiest households** (couples making more than $250,000 per year or individuals making more than $200,000). For these taxpayers, the top 2% of the income scale, the proposal would:
    - Restore the 39.6% and 36% top tax rates in effect in the 1990s;
    - Restore the limitations on personal exemptions and itemized deductions;
    - Restore the maximum tax rate on income from long-term capital gains from 15% to 20%;
    - Set the maximum tax rate on income from dividends at 20%. This rate is higher than the 15% rate under the 2001 and 2003 tax cuts, but lower than the rate in the 1990s, when dividends were taxed as ordinary income at rates up to 39.6%.

    Compared to extending current policy, these proposals would preserve $678 billion in revenue over 10 years.

- **Reinstate the estate tax on the largest estates for 2010 and extend it at 2009 levels.** The 2001 tax cut repeatedly reduced the estate tax, repealing it entirely, for one year, in 2010. The budget would restore the estate tax in 2010 and set it at the reduced 2009 levels. This would exempt the first $3.5 million per individual ($7 million per couple), so 99.75% of estates would not be subject to the tax. The taxable portion of estates would be taxed at a rate of 45%. Compared to the cost of extending repeal of the estate tax, reinstating the estate tax to at least 2009 levels would preserve over $315 billion in revenue over 10 years.

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