

President Obama's Budget for Fiscal Year 2010 and Tax Reform

In stark contrast to the budgets of the previous Administration, President Obama's detailed budget for FY 10 begins to restore balance to the tax code by expanding tax assistance for middle- and low-income households, reducing tax breaks for large corporations and very high-income households, and strengthening enforcement.

- **Expanding tax benefits for low- and moderate income families.** President Obama's budget would make permanent a number of refundable tax credits for families included in the American Recovery and Reinvestment Act, including:
 - The expanded refundable Child Tax Credit, with the earnings threshold permanently set at \$3,000.
 - The improved Earned Income Tax Credit for families with three or more children and married couples. Families with three or more children would be eligible for a credit worth 45% of qualifying earnings; for married couples, the point at which the EITC begins to phase out would be \$5,000 more than the threshold for single people.
 - The new, fully refundable Making Work Pay Credit, calculated as 6.2% of earned income up to \$400 for an individual and \$800 for a couple.
 - The newly refundable American Opportunity Tax Credit for higher education expenses, worth up to \$2,500 a year and available for four years of schooling.

However, the President's FY 10 budget does not include two tax improvements supported by President Obama during the campaign: improving the Child and Dependent Care Tax Credit by making it fully refundable and increasing the percentage of expenses that low- and moderate-income households can claim and increasing the Earned Income Tax Credit for adults without qualifying children.

- **Extending expiring tax provisions that benefit households with incomes below \$250,000 and trimming tax cuts for households above that level.** The President's budget would:
 - Permanently extend the provisions of the 2001 and 2003 tax cuts that benefit households with incomes below \$250,000, including the increase in the Child Tax Credit to \$1,000, the increased Child and Dependent Care Tax Credit, the 10% tax bracket, marriage penalty relief, and lower tax rates on capital gains and dividends income.
 - Allow portions of the 2001 and 2003 tax cuts for households above \$250,000 to expire, including the rate cuts for two highest-income tax brackets, the limit on itemized deductions, and the personal exemption phase-out. For the highest-income taxpayers, the maximum tax rate on dividends and capital gains would be 20%. The estate tax would be retained at the 2009 level.
- **Promoting tax fairness and raising revenues to support essential investments and reduce long-term deficits.** The President's budget would close tax loopholes and improve enforcement in a number of areas. For example, it would:

- Strengthen international tax enforcement to combat offshore tax evasion, and reform the way income earned abroad is taxed to reduce incentives for moving jobs and profits offshore.
 - Eliminate several tax preferences for oil and gas companies.
 - Close the “carried interest” loophole that allows private equity fund managers to pay a lower tax rate on much of their compensation than average workers.
 - Reinstate “superfund” taxes.
 - Limit the tax subsidy for itemized tax deductions for very high-income taxpayers to 28%.
 - Reform and close loopholes in the taxation of financial institutions and products, insurance companies and products, tax accounting methods, estate and gift valuation, and the tax credit for alternative fuel mixtures.
 - Improve tax compliance by expanding information reporting, requiring electronic filing by some large organizations and tax preparers, and increasing some penalties.
- **Funding for Tax Enforcement and Taxpayer Services.** President Obama’s budget provides:
 - An increase of over 7% for Internal Revenue Service enforcement activities, to implement expanded initiatives to close the tax gap, including international enforcement.
 - Essentially level funding for taxpayer services compared to FY 09. (While funding for the overall taxpayer services area appears to be \$23 million less in FY 10 than in FY 09, the FY 09 appropriation includes a one-time allocation of \$67.9 million to administer stimulus rebate checks.) Within the taxpayer services category, the budget requests that several programs serving elderly and low-income tax filers be funded at the same level as in FY 2009: \$5.1 million for the Tax Counseling for the Elderly Program, \$9.5 million for low-income taxpayer clinic grants, and \$8 million for Community Volunteer Tax Assistance matching grants. It may be difficult for these programs, with no increase in resources, to meet the increased demands next year, when millions of tax filers will need information and help to claim the new tax benefits for which they are eligible under the American Recovery and Reinvestment Act.