

Obama tax proposal benefits wealthiest Americans while raising taxes on the poor

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When US president Barack Obama introduced his tax proposal on Monday, he presented it as a compromise with Republicans that extended tax cuts for the wealthy as a necessary component of a package that will benefit the “middle class.” In fact, the measure is a boondoggle to the wealthy that will actually raise taxes for many working people.

An analysis of the plan shows that Obama has adopted the bulk of the Republican tax program, while eliminating programs currently in place that benefit lower income earners.

For the more than 40 percent of households with income less than \$40,000 per year, federal taxes will increase under the proposal. This is because Obama’s plan will allow the Making Work Pay tax credit, which gives \$800 per household or \$400 per individual, to lapse.

The new tax breaks included in Obama’s plan will “come to a few dollars a week,” for these workers, Roberton Williams of the Tax Policy Center told the *New York Times*, but will not offset the loss.

However, the tax plan gives a bonanza to the rich, with members of the top income bracket getting on average tax breaks of \$70,000 apiece, according to one estimate.

This includes the renewal of income tax cuts to earners in the top two tax brackets, which will cost \$75 billion over two years.

Obama’s proposed cut to the estate tax will cost a further \$88 billion, which will go almost entirely to the wealthy. The tax, which is applied to the inheritance of wealth, was temporarily repealed in 2010, under the terms that it be reinstated in 2011 at a rate of 55 percent on estates over \$1 million. Obama’s plan calls for cutting this rate to 35 percent on estates over \$5 million.

The proposal also includes hundreds of billions in additional tax cuts to big business. Most prominently, the administration has proposed a \$200 billion program that would allow companies to immediately write off 100 percent of their expenses in equipment and software, which are currently deducted over several years.

Obama also proposes to make permanent the research and development tax credit, a handout to the software and technology sector that has been renewed 13 times since its inception in 1981. The total cost of making the credit permanent is estimated at \$100 billion.

Compared to these cuts, together totaling to \$463 billion, the temporary extension of unemployment benefits is a pittance. The measure, which determines whether millions of people will be able to eat, has been estimated to cost only \$56 billion. The extension lasts a mere 13 months, compared to two years for the high-income tax cut, and the indefinite duration of the R&D credit extension.

Obama has made much about reducing the percentage of workers pay that goes to Social Security, from 6.2 percent of income to 4.2 percent. But this is money that will ultimately have to be matched by lower benefits. Indeed, Republicans heartily approved the cut to Social Security taxes, half-openly admitting that they welcome any opportunity to bankrupt the Social Security fund and force a drastic reduction of the program.

Business and anti-tax groups praised the payroll tax cut, with William Dunkelberg of the National Federation of Independent Business, a pro-business, anti-tax group, saying that the proposal was “something sensible.” Dunkelberg told Bloomberg that, despite approving Obama’s lowering of the payroll tax, he favored its full abolition.

Dunkelberg was one among many anti-tax activists

and business executives who loudly voiced their approval at Obama's tax policy. Bruce Josten, the head lobbyist for the US Chamber of Commerce, told Bloomberg that the measure "is one of the best steps Washington can take to eliminate the uncertainty that is preventing our employers from hiring, investing, and growing their businesses."

Daniel DiMicco, CEO of Nucor Corp, a steel manufacturer, told Bloomberg news, "The president made the right decision for the country and the economy." AT&T finance head Rick Lindner added that he approved the proposal, commenting it would "innocent businesses to grow."

Congressional Republicans also praised the measure, with Senate Minority Leader Mitch McConnell thanking Obama for "creating incentives for economic growth."

The announcement of the \$900 billion tax cut roiled bond markets, sparking the sharpest selloff of US treasury bonds since the collapse of Lehman Brothers in 2008. Yields on 10-year US government debt hit 3.33 percent, the highest level in six months, after jumping 0.39 percent since Obama announced his deal on Monday.

Obama's proposal, which will significantly increase the US debt, is only the prelude to a new round of fiscal austerity to come in 2011. As the *Financial Times* pointed out, "If the deal passes Congress and there are no offsetting budget cuts, the US will be the only large industrialised country not to tighten fiscal policy in 2011."

This is an outcome that Obama and his Republican partners are sure to avoid. Their thinking was outlined by Peter Huntsman, CEO of chemical manufacturer Huntsman Corp, who said in reply to the tax plan, "I can only hope their next battle will be addressing our growing imbalance of revenues and expenditures," meaning, in effect, the gutting of government social programs.

Once the tax cut is secured, the Obama administration will use the inevitable fiscal crisis that it causes to pursue austerity measures. Alan Simpson, co-chairman of Obama's deficit reduction committee, spelled the process out bluntly in November.

"I can't wait for the blood bath in April," he said. "When debt limit time comes, they're going to look around and say, 'What in the hell do we do now?'

We've got guys who will not approve the debt limit extension unless we give 'em a piece of meat, real meat [i.e., cuts in spending.] And boy, the blood bath will be extraordinary."



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