

## TWO VISIONS FOR MIDDLE CLASS TAXES

### *Mitt Romney's Tax Plan Puts Hundreds of Thousands of Floridians at Risk of Higher Taxes*

In this election, there is a clear choice for middle class Americans on their taxes. President Obama has already cut middle class taxes to benefit every working family, saving a typical Florida family about \$3,400 during his first term. He is now calling on Congress to extend middle class tax cuts that would prevent a tax hike on all families earning less than \$250,000 – a total of 7.6 million families in Florida. His plan would prevent a \$2,200 tax hike for the typical family of four, and protect 2.1 million Florida families from facing a cut to their Child Tax Credits or elimination of their credit altogether. While extending middle class tax cuts, his plan would also ask millionaires and billionaires to pay their fair share and let the Bush tax cuts for the wealthiest expire. This is part of the President's balanced plan to cut the deficit by more than \$4 trillion, reduce spending and still ensure we make the investments that strengthen the middle class, create jobs and provide the foundation for economic growth.

In contrast, Mitt Romney would take us back to the top-down economics that failed us in the past. He would enact budget-busting tax cuts for the wealthiest, while cutting investments that grow our economy and our middle class. And Romney claims that these tax cuts wouldn't add to the deficit, which is only possible if he raises taxes on middle class Floridians. It's the same approach he took while governor of Massachusetts, when he raised or created more than 1,000 taxes and fees on the middle class and small business, and cut taxes for some of the state's wealthiest individuals. And it's the same approach that benefited a few but helped lead to the worst economic crisis since the Great Depression.

This report explains how Mitt Romney's approach threatens middle class families in Florida with a tax increase in three different ways. First, Romney has made clear that he will oppose President Obama's plan to extend middle class tax cuts unless we also give millionaires a tax break – which could result in a tax increase for 7.6 million families in Florida. Second, Romney has made it explicitly clear that he would roll back tax cuts President Obama has signed into law and is fighting to extend, a move that would raise taxes on 18 million working families – including 1.2 million in Florida. Finally, in addition to making the Bush tax cuts for millionaires and billionaires permanent, Romney would add another \$5 trillion in new tax cuts weighted to the wealthiest, and says he has a secret plan to close tax deductions and other benefits to pay for it. While the impact of Romney's plan cannot be known for certain, the Florida households earning between \$50,000 and \$200,000 a year that might be impacted by Romney's plan include:

- 1,115,000 Florida households paying off their mortgages;
- 1,124,000 Florida households making charitable contributions;
- 1,319,000 Florida households deducting their state and local taxes; and
- 1,771,000 Florida households who are not taxed on the health benefits they get through their jobs.

### **Mitt Romney's Tax Plan Would Either Raise Middle Class Taxes or Increase The Deficit**

Mitt Romney proposes a new \$5 trillion tax plan – on top of the Bush tax cuts for the rich – which would cut taxes for millionaires by 25 percent. Based on the information his campaign has already released, his plan would raise taxes on 18 million working families and on typical families earning less than \$40,000 a year. But his tax cuts for the wealthy are so big that they would either blow a hole through the deficit or require raising taxes on even more middle class families. Romney claims that he would pay for this plan

by ending tax deductions and other tax preferences, but refuses to name a single one. As a result, Romney's plan threatens to raise taxes on hundreds of thousands of middle class Floridians in order to pay for tax breaks for the wealthiest Americans. Romney is threatening tax increases on middle class families in Florida in three ways:

- **First: Romney Has Refused To Extend The Middle Class Tax Cuts Unless Millionaires Also Get A Tax Break:** Romney has opposed President Obama's call to extend the middle class tax cuts, as the Senate did last week – a plan that would ensure that 98 percent of families and 97 percent of small businesses do not face a tax increase – unless the tax cuts for the rich are also extended. If the middle class tax cuts expired, it would result in a tax hike for 7.6 million families in Florida.
- **Second: Romney's Plan Explicitly Calls for Tax Increases for 1.2 million Working Families in Florida:** Romney has already made clear that he would end President Obama's tax cuts that make college more affordable and help working families with children, which would raise taxes on 1.2 million families in Florida.
- **Third: Experts Agree that Paying for Romney's Tax Cuts for the Wealthy Would Require Higher Middle Class Taxes.** A recent study by the non-partisan Tax Policy Center showed that cutting enough tax preferences to pay for across-the-board tax cuts for the rich like Romney proposes would require cutting "some of the largest tax expenditures, such as mortgage interest, charitable contributions, and employer-provided health insurance." The study notes that the impact of this approach would be a "less progressive tax system" – meaning lower taxes for high-income taxpayers, and higher taxes for the middle class.<sup>i</sup>
  - Erskine Bowles, co-chair of the Simpson-Bowles Commission whose plan Romney has pointed to as a model for tax reform, said that Romney was wrong to imply that he could pay for his tax plan without "affect[ing] people down through the brackets."<sup>ii</sup>
  - According to the Committee for a Responsible Federal Budget, "The Romney campaign has said that there will be significant enough base broadening to make their plan as a whole (including the spending cuts) deficit-neutral. While they have not named any specifics, it is important to note that doing so would require making substantial changes to many tax expenditures, among the largest of which are for mortgage interest, charitable giving, employer-provided health care, and state and local taxes."<sup>iii</sup>
  - In a recent analysis of the similar House Republican plan, the Joint Economic Committee concluded that attempting to close enough tax preferences to pay for such large tax cuts for the wealthy means tax increases for the middle class – potentially by more than \$1,000.<sup>iv</sup>
- **As a result, Romney's Secret Tax Plan Threatens Hundreds of Thousands of Middle Class Floridians:** While Romney won't name which tax deductions and other tax preferences he will eliminate, he has taken off the table the tax preferences for unearned income like capital gains and dividends.<sup>v</sup> As the Joint Economic Committee and others have pointed out, it is not possible to pay for trillions in tax cuts weighted towards the wealthy without cutting or eliminating the remaining large tax preferences, which include provisions that help middle class families pay for mortgages, health insurance, retirement, and state and local taxes. Hundreds of thousands of Floridians benefit from these tax provisions today, and while the impact of the Romney plan on these families cannot

be known for certain, they potentially face much higher taxes to help pay for Romney's tax cuts for the wealthiest.

<b>Romney's Tax Plan: What's at Stake for Florida Middle Class Families<sup>vi</sup></b>			
	\$50,000 to \$75,000	\$75,000 to \$100,000	\$100,000 to \$200,000
<b>Mortgage Interest Deduction</b>			
Number of Households Benefiting Today	387,800	296,200	430,700
Savings for Representative Household Receiving Deduction under Current Policy	\$1,410	\$1,620	\$3,320
<b>Charitable Contribution Deduction</b>			
Number of Households Benefiting Today	385,500	294,400	444,500
Savings for Representative Household Receiving Deduction under Current Policy	\$ 410	\$ 490	\$1,080
<b>State and Local Tax Deduction</b>			
Number of Households Benefiting Today	475,000	346,700	497,600
Savings for Representative Household Receiving Deduction under Current Policy	\$ 560	\$ 690	\$1,640
<b>Health Insurance</b>			
Number of Households Benefiting Today	814,200	481,100	476,100
Savings for Representative Household Receiving Exclusion under Current Policy	\$1,676	\$2,435	\$3,205

- As Governor of Massachusetts, Romney Cut Taxes for the Wealthy and Created or Raised More Than 1,000 Taxes and Fees on the Middle Class and Small Business:** Romney's taxes and fee increases as governor hit middle class families and small businesses the hardest. His tax and fee increases cost taxpayers as much as \$750 million a year on things like milk, gasoline, registering a car, and buying a home. Under Romney, the average Massachusetts resident's taxes rose by \$1,200, an increase of more than 30 percent. Romney also cut taxes for 278 of the wealthiest individuals, costing the state \$78 million.

**President Obama: Rewarding Hard Work and Responsibility by Cutting Taxes for Middle Class Families**

President Obama is calling on Congress to immediately extend the middle class tax cuts scheduled to expire at the end of this year. The President is acting to prevent a tax increase on the 97 percent of small business and 98 percent of families making less than \$250,000 a year and prevent a typical middle class family of four from seeing their taxes go up \$2,200. President Obama believes that if both parties agree that middle class families should not face a tax increase, then there is no reason to delay providing them with the certainty that they will not see a tax hike. Under his plan, those with higher incomes would still receive a tax cut on the first \$250,000 of their income and see their income tax rates remain where they were when President Clinton was in office and when the economy created 23 million jobs. President Obama's proposal is part of his balanced plan to reduce the deficit by more than \$4 trillion, while keeping middle class taxes low and making investments in education, clean energy, innovation and infrastructure that provide the foundation for stronger economic growth and job creation.

- Extending Middle Class Tax Cuts:** Both Republicans and Democrats agree that middle class taxes should not expire for those making less than \$250,000. President Obama is calling on Congress to act without delay to extend these middle class tax cuts before they expire at the end of this year, providing relief to 114 million middle class families and preventing a tax increase of about \$2,200 for the typical family of four.
- Cutting Taxes for Small Businesses:** The President's plan to extend middle class taxes for those making less than \$250,000 would prevent a tax increase for 97 percent of small businesses. The

remaining 3 percent of “businesses” includes many investment managers, law partners, and others who would not classify as small businesses that most Floridians think of – and even those small businesses in this category would face no tax increase on profits they use to hire or make new investments.<sup>vi</sup> In addition, President Obama supports further tax cuts to encourage small businesses to hire and invest now, including the proposal before the Senate this week to provide a tax credit for hiring new workers and allow businesses to immediately deduct new investments.

- **Make Permanent Other Tax Cuts for Working Families:** President Obama enacted the American Opportunity Tax Credit, which cuts taxes on college tuition by up to \$10,000 over four years, and he cut taxes for working families with children. President Obama supports making these tax cuts permanent, while Governor Romney would end them.
- **President Obama’s Balanced Deficit Reduction Plan:** President Obama will let the tax cuts for Americans earning more than \$250,000 to expire at the end of the year, which part of his balanced plan to reduce the deficit by more than \$4 trillion. His plan includes \$2.50 in spending cuts for every \$1.00 in new revenue, and includes spending cuts already signed into law that will bring annual domestic spending to its lowest level in 50 years. President Obama would also reform our tax code to ensure that millionaires do not pay a smaller share of their income in taxes than the middle class, to lower corporate tax rates while closing loopholes and to make sure that companies have incentives to bring jobs back to the United States instead of outsourcing them.

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<sup>i</sup> Hang Nguyen, James Nunns, Eric Toder and Robertson Williams. “How Hard Is It to Cut Tax Preferences to Pay For Lower Tax Rates?” Tax Policy Center Report. 10 July 2012. <http://www.taxpolicycenter.org/UploadedPDF/412608-Base-Broadening-to-Offset-Lower-Rates.pdf>

<sup>ii</sup> Richard Rubin. “Bowles Says Romney Plan Would Require Ending Tax Breaks.” *Bloomberg*. 20 June 2012. <http://www.bloomberg.com/news/2012-06-20/bowles-says-romney-plan-would-require-ending-tax-breaks.html>

<sup>iii</sup> “Primary Numbers: The GOP Candidates and the National Debt.” *A Committee For A Responsible Federal Budget: Budget Watch*. 23 February 2012. [http://crfb.org/sites/default/files/Primary\\_Numbers\\_-\\_Romney\\_add.pdf](http://crfb.org/sites/default/files/Primary_Numbers_-_Romney_add.pdf)

<sup>iv</sup> “Winners and Losers: Understanding the Ryan Plan’s Potential Tax Implications for America’s Workers.” Report by the U.S. Congress Joint Economic Committee Chairman’s Staff. 20 June 2012. [http://www.jec.senate.gov/public/?a=Files.Serve&File\\_id=bc6c837c-cfbd-4212-a85f-9b88695dcb85](http://www.jec.senate.gov/public/?a=Files.Serve&File_id=bc6c837c-cfbd-4212-a85f-9b88695dcb85)

<sup>v</sup> See, for example, Romney’s comments that “raising the capital gains tax rate would only slow down the economy and keep more people out of jobs” on Kilmeade & Friends Radio, February 14, 2012.

<sup>vi</sup> Data on mortgage interest, charitable contribution, and state and local tax deduction based on OFA analysis of IRS Statistics of Income Data, which can be found here <http://www.irs.gov/taxstats/article/0%2c%2cid=171535%2c00.html>. Analysis assumes value of deduction is 15% for those in \$50,000 to \$75,000 and \$75,000 to \$100,000 ranges, and 25% for those in the \$100,000 to \$200,000 ranges. Health insurance exclusion data based on Joint Committee on Taxation, Tax Expenditures for Health Care, JCX-66-08, and apportioned among states from the 2010 American Community Survey.

<sup>vii</sup> Chye-Ching Huang. “Recent Studies Find Raising Taxes on High-Income Households Would Not Harm the Economy.” *Center on Budget and Policy Priorities*. 24 April 2012. <http://www.cbpp.org/cms/index.cfm?fa=view&id=3756>