A Rebuttal to Dick Morris's YouTube Video: “Dick Morris TV: Lunch Alert, Obama’s Second Term Tax Plan”

PRESIDENT OBAMA’S ACTUAL TAX POLICY AND ITS EFFECT ON TAXPAYERS
BY:
SAMUEL C. THOMPSON, JR., *
PROFESSOR OF LAW, AND DIRECTOR, CENTER FOR THE STUDY OF Mergers & Acquisitions,
Penn State Law
AUTHOR: THE OBAMA VS. ROMNEY DEBATE ON ECONOMIC GROWTH (Sept 2012)
October 1, 2012

*I thank my research assistants for their assistance in preparing this presentation.

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The Dick Morris video talks as if President Obama can unilaterally change the tax laws, but this is not true. Only the Congress (the House and Senate) can pass tax laws, generally with the president’s consent.

The Bush tax cuts discussed in this presentation are scheduled to expire on January 1, 2013. If this happens, the tax rates on virtually all taxpayers will be increased.

President Obama, Governor Romney, and other Republicans agree that the Bush tax cuts for low and middle income taxpayers should be made permanent. They disagree on the treatment of taxpayers making more than $250,000, in the case of married taxpayers filing a joint return ($200,000 for single taxpayers).

A fundamental issue is whether the Bush tax cuts should be extended for taxpayers making more than $250,000/$200,000.

This presentation examines each of the assertions by Dick Morris and explains why all of them are wrong.
FAMILIES WITH ANNUAL INCOME OF AT LEAST $250,000
Dick Morris’s Claim

- President Obama is raising the tax rate from 35% to 39.6%, say 40%, for households making $250,000 or more. That will cost a family making $250,000 an extra $12,500 in taxes.
President Obama does support a 40% tax on household income OVER $388,350 and a 36% tax on household income over $250,000, that is, he supports letting the Bush tax cuts expire for high income taxpayers. See Treasury Green Book, p 77 (Feb. 2012).

US taxes are graduated, so the higher 36% rate only applies to income over $250,000. If a household is making exactly $250,000, they will not have any income subject to the 36% rate.

If President Obama is able to extend the Bush tax cuts for those making less than $250,000, as he proposes to do, then there will be no difference in taxes paid on income up to $250,000.

Thus, Dick Morris’s claim that a family making $250,000 will have a $12,500 tax increase is patently false. Here, Dick is either lying or is terribly misinformed.
Previously, there was uncertainty concerning the rates that would be applicable to income in excess of $250,000. It seems clear now that if the Obama proposal were applicable in 2012, the rate structure for high-income taxpayers would be as follows:

<table>
<thead>
<tr>
<th>Taxable Income 2012 for Married Taxpayers filing Joint Returns</th>
<th>Current Rate Under Bush Tax Cuts</th>
<th>Proposed Rate Under President Obama’s Proposal</th>
</tr>
</thead>
<tbody>
<tr>
<td>Over $217,450 but not over $250,000</td>
<td>33%</td>
<td>33%</td>
</tr>
<tr>
<td>Over $250,000 but not over $388,350</td>
<td>33%</td>
<td>36%</td>
</tr>
<tr>
<td>Over $388,350</td>
<td>35%</td>
<td>39.6%</td>
</tr>
</tbody>
</table>

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• Speaking of the family with $250,000 of income, Dick says that right now you only pay Social Security taxes on the first $106,000 of income. He goes on to say that President Obama is going to apply the Social Security tax to your entire income. That creates an additional $8,000 in taxes.
The wage base for Social Security is set to increase from about $106,000 to about $110,000 for 2013.

There was a provision in the Simpson Bowles, Deficit Commission, tax plan to raise the Social Security wage base by 2% each year until 2050, which would increase the wage base to about $228,000 in the year 2050.

Currently, it does not appear that the President supports that provision of Simpson Bowles, that is, under his current proposals, the Social Security wage base will only increase to $110,000.

Thus, Dick Morris's claim that a family making $250,000 will have an additional $8,000 in Social Security tax is patently false. Here, again, Dick is either lying or is terribly misinformed.
Dick Morris’s Claims

• Speaking of taxpayers making $250,000, Dick claims:
• President Obama is going to eliminate the state and local tax deduction.

• President Obama is going to eliminate the mortgage interest deduction.
President Obama proposes that certain itemized deductions be limited for households making over $250,000. See Treasury Green Book, p. 67-68 (Feb. 2012).

There would be no cut-back for households with less than $250,000.

So, for the taxpayers Dick is talking about, there would be no cut-back in itemized deductions.

Simpson Bowles did leave the door open for eliminating these itemized deductions, but the President has not endorsed that plan.
Dick Morris’s Claim

- Resulting from the tax policies just discussed, as a family earning $250,000, you will pay $37,000-$40,000 more in taxes under the President’s tax policy.
A family making $250,000 dollars would expect to see their tax bill change, as a result of the previously mentioned tax policies, by $2,368.

This increase in tax liability is not due to increased taxes proposed by President Obama; this is due almost entirely to the expiration of a temporary payroll tax cut that was extended through 2012.

President Obama’s proposed tax policies have little or no effect on any taxpayer’s income at or below the $250,000 level.
PART 2

FAMILIES WITH ANNUAL INCOME OF LESS THAN $250,000
Dick Morris’s Claim

- If you make less than $250,000, you’ll still have to pay a greater percentage of your income, and you still have to pay the FICA tax.
The President’s Actual Proposal

- President Obama proposes to permanently extend the Bush tax cuts to households making less than $250,000.
- Payroll taxes were given a temporary tax cut in 2012, but presumably, they will revert back to original levels in 2013. So while this may seem like an increase, it’s just a tax cut expiring.
- It should be noted that President Obama fought to extend the payroll tax cut to the middle class in 2012.
Dick Morris’s Claim

- If you make $150,000, you only pay Social Security taxes on the first $106,000. President Obama will raise it to the first $150,000.
President Obama has not proposed to significantly increase the Social Security wage base. It will increase to $110,000 from $106,000.

There was a provision in the Simpson Bowles tax plan that would raise the Social Security wage base by 2% each year until 2050, which would increase the wage base to about $228,000 in the year 2050.

Currently, it does not appear that the president supports that provision of Simpson Bowles, that is, under his current proposals, the Social Security wage base will only increase to $110,000.
Dick Morris’s Claim

- Speaking of the household making $150,000, Dick says that President Obama will reduce the amount of deductions you can take on your mortgage interest, state and local taxes, and charitable contributions.
This is true for income over $250,000 (see discussion above). This is not true for income less than $250,000.

President Obama does seem to have some general support for simplifying the tax code, which could include removing or limiting some of these deductions, but that would be part of a larger tax reform, which would also include lowering rates. The specifics of this plan are not discussed.

Simpson Bowles did leave the door open for eliminating these itemized deductions, but the president has not endorsed that plan.
PART 3

MISC. CLAIMS
Dick Morris’s Claim

- If you sell your home and make more than $250,000, you can’t exempt yourself from capital gains tax. You’ll have to pay capital gains on everything you make.
• Generally a husband and wife selling their family home are not taxed on up to $500,000 of gain.
• So, if a husband and wife purchased a home for $300,000, lived in the home for five years, and then sold the home for $800,000, they would not be taxed on the $500,000 gain (i.e., the difference between (1) what they sold the home for, and (2) the amount they paid for the home. See Internal Revenue Code Section 121.
Dick Morris’s Claim

- President Obama is going to raise the capital gains rate from 15% to 30%.
President Obama does support eliminating the Bush tax cuts for capital gains of high-income taxpayers, which would result in a maximum 20% rate on capital gains, not 30% as Dick says. See Treasury Green Book, p. 72 (Feb. 2012).

The 30% number Dick is referring to may be the President’s proposed “Buffet Rule,” which would require taxpayers making more than $1,000,000 in income to pay at least 30% in taxes.

To emphasize, the Buffett Rule only applies to income over the $1,000,000 threshold. All other income would be subject to the regular rate schedules.
Conclusions

- All of the statements made by Dick Morris were either false or misleading to the point of being false.

- It is important to remember that while the Simpson Bowles Commission made tax reform proposals, they have not been adopted by either President Obama or Governor Romney, the two main contenders in the presidential race.

- The President’s tax policy will have little to no effect on any income under $250,000. Everyone is eligible for more favorable treatment of income at that level.
