

# Tax Arithmetic Shows Top Rate Is Just a Starter

By JACKIE CALMES

WASHINGTON — Despite hints in recent days that President Obama and House Speaker John A. Boehner might compromise on the tax rate to be paid by top earners, a host of other knotty tax questions could still derail a deal to avert a fiscal crisis in January.

The math shows why. Even if Republicans were to agree to Mr. Obama's core demand — that the top marginal income rates return to the Clinton-era levels of 36 percent and 39.6 percent after Dec. 31, rather than stay at the Bush-era rates of 33 percent and 35 percent — the additional revenue would be only about a quarter of the \$1.6 trillion that Mr. Obama wants to collect over 10 years. That would be about half of the \$800 billion that Republicans have said they would be willing to raise.

That calculation alone suggests the scope of the other major tax issues to be negotiated beyond tax rates. And that is why many people in both parties remain unsure that a deal will come together before Jan. 1. Without agreement, more than \$500 billion in automatic tax increases on all Americans and cuts in domestic and military programs will take hold, which could cause a recession if left in place for months, economists say.

“The question is making sure that we hit a revenue target that's required for a truly balanced deficit-reduction plan,” said Representative Chris Van Hollen of Maryland, the senior Democrat on the House Budget Committee. “And when the president and all of us say this is a question of math, we mean it. It's very hard to make the numbers work without the top rates going back to the full Clinton-era levels.”

The top tax rates are taking center stage right now because Mr. Obama believes he won a mandate after campaigning relentlessly on the idea of extending Mr. Bush's tax cuts only for households with annual income below \$250,000. But the two parties also have ideological differences on taxes affecting savings, investment and inheritance, which have flared in battles going back to the Reagan years. To get a deal in the coming weeks, those differences must be

addressed at least in broad terms, even if the details are left to a battle over revamping the tax code next year.

The argument over rates is far from settled. Although the two sides seem close enough on the percentages for easy compromise, principle and politics loom large: Republicans oppose raising rates as a matter of ideology, saying that it kills jobs, and the president insists that he will not keep the Bush-era rates on income above roughly \$250,000 after two campaigns in which he vowed to return them to the levels of the Clinton years.

“Just to be clear, I’m not going to sign any package that somehow prevents the top rate from going up for folks at the top 2 percent,” he said Thursday.

In recent days, comments from some Republicans, including Mr. Boehner, their chief negotiator, have hinted that the party — recognizing its weak hand — might be moving toward a concession on tax rates. Seldom mentioned is that Mr. Obama’s revenue total also reflects four other changes from [Bush-era tax cuts](#): higher tax rates on investment income from capital gains and dividends, and the restoration of two other Clinton-era provisions limiting deductions and tax exemptions for affluent individuals.

Together those changes would raise \$407.4 billion over a decade — nearly as much as the president’s proposal on higher rates, which would raise \$441.6 billion by 2023, for a total of \$849 billion. Another \$119 billion would come from higher [estate taxes](#), opposed by Republicans and some Democrats.

And both the president and Republicans are committed to raising hundreds of billions of dollars by overhauling the tax code to further limit or end the tax breaks that high-income taxpayers can claim, though they differ in how to do that.

Republicans want to raise all \$800 billion from overhauling the tax code, erasing tax breaks for high-income households and using the new revenues both to reduce deficits and to lower everyone’s tax rates. But they have not proposed how to do that, and the president insists it cannot be done without hitting middle-income taxpayers.

Mr. Obama has proposed to keep existing tax breaks but to limit the rate of those breaks for people in higher tax brackets to 28 percent, which would raise \$584 billion in a decade. He has proposed variations of that proposal for four years, only to be ignored by both parties because of opposition from charitable groups, the housing industry, insurers and others to curbing deductions for charitable giving, mortgage insurance and other purposes.

Yet both parties seem poised to confront that opposition because they want a budget deal to commit Congress and the White House to overhaul the tax code next year. That is another reason Mr. Obama wants to have the top rates as high as possible: The lower the rates now, the harder it would be to raise revenues next year in overhauling the code.

Some Republicans inside and outside of Congress agree. “Actually, I would rather see the rates go up than do it the other way because it gives us greater chance to reform the tax code and broaden the base in the future,” Senator Tom Coburn, Republican of Oklahoma, said last week.

Roughly splitting the difference on the top rates — settling at 35 percent and 37 percent — would collect nearly \$200 billion over 10 years, under half the amount that would be raised if the rates reverted to Clinton-era levels, according to data from Citizens for Tax Justice and the Institute on Taxation and Economic Policy, research groups that advocate for a progressive tax code.

In the years of debate over the Bush tax cuts, which predates Mr. Obama’s first election, \$800 billion has been the rough estimate for how much revenue could be raised in the first decade by ending them for the highest-income 2 percent of taxpayers. But most attention focused on the top rates, which account for half of the revenue equation.

The remainder would come from the other four tax changes for Americans with the highest income, two raising taxes on investment income from capital gains and dividends and two restoring restrictions on the itemized deductions and exemptions claimed by high earners.

Under Mr. Obama’s plan, the tax rates for long-term capital gains and dividends, now 15 percent, would revert to 20 percent for capital gains and to 39.6 percent for dividends, the same as for ordinary income. Republicans oppose the increases, and Senate Democrats oppose the proposed tax on dividends; their bill would tax both dividends and capital gains at 20 percent.

People in both parties say that the four tax issues can be readily worked out. Mr. Obama is widely expected to give ground on the main sticking point, the dividends tax. Yet that would mean roughly \$100 billion less in additional revenue over 10 years than his current proposal for the higher dividend tax.

Another dispute is over estate and gift taxes. Here again Democrats are divided within as well as against Republicans, and big money is at stake — \$118.8 billion through 2022 under Mr. Obama’s plan, or \$143.3 billion counting assorted other adjustments.

Currently, a two-year-old bipartisan compromise holds that inheritances are taxed at 35 percent, with an exemption of \$5 million for each spouse. On Jan. 1 that will revert to a 55 percent tax beyond the first \$1 million of inheritance. Mr. Obama is seeking a middle-ground 45 percent rate beyond \$3.5 million, but some Democrats from states with large farms and ranches favor lower estate taxes.

All of these tax issues await some agreement on the core issue of marginal rates. And a final accord on taxes rests on separate questions of spending being settled — Republicans will not give further on raising revenues until they know what Democrats will agree to by way of long-term reductions in spending for [Medicare](#) and other fast-growing entitlement benefit programs.

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