



The McCain and Obama Tax Returns

The Taxes of the McCains and the Obamas under the Bush Tax Cuts and their Own Tax Plans

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Summary

With new calls to make them permanent before they expire in 2010, the Bush tax cuts are once again a topic in Congress. As with most well-off people, since 2000 John and Cindy McCain and Barack and Michelle Obama have seen substantial tax cuts. With the availability of these couples' 2006 tax returns, we can calculate how much they have saved and how much they would save under their own tax plans. The numbers below are based on their 2006 tax returns; if they earn more or less in the future, their benefit would of course change.

	THE MCCAINS	THE OBAMAS
1. Tax Cuts Since 2000 (as of 2006)	\$313,413	\$38,169
2. Tax Cuts Fully Effective	\$361,830	\$47,082
3. Tax Cuts Under President McCain	\$373,429	\$49,392
4. Tax Cuts Under President Obama	\$5,641	\$6,124
5. Additional Cuts Under McCain over Obama	\$367,788	\$43,268

Line 1: This is how much the candidates saved on their 2006 tax returns because of the Bush tax cuts. His tax cuts were not fully phased in at this point (the removal of limitations on the deductions and exemptions for high-income taxpayers had not been fully implemented). So, in 2006, McCain made \$313,413 because of the Bush tax cuts. The Obamas made \$38,169.

Line 2: This is how much the candidates save with the Bush tax cuts fully phased-in—scheduled in law for 2010. The McCains would pay \$361,830 less in tax, the Obamas \$47,082.

Line 3: This is how much the candidates would save from the McCain plan as compared to tax law in 2000. In other words, this is the value of allowing the Bush tax cuts to become fully effective and become permanent, and also providing the added tax relief that McCain seeks (like repealing the Alternative Minimum Tax). The McCains would save \$373,429 under his plan and the Obamas would save \$49,392.

Line 4: This is how much the candidates would save from the Obama plan as compared to tax law in 2000. It appears that by preserving provisions that primarily benefit those making less than \$250,000, he preserves tax breaks for both himself and McCain to the extent those provisions also apply to higher-income taxpayers.

Line 5: This is the difference between the candidates' tax liabilities under their two plans. McCain's plan would give him \$367,788 more in tax breaks than Obama's plan. Obama would save more under McCain's plan as well—\$43,268.

Introduction

The temporary tax cuts passed early in President Bush's presidency are again a hot topic as members of Congress—most prominently Sen. John McCain (R-AZ), the presumptive Republican nominee for president—call for them to be made permanent (they are currently set to expire in 2010). The fact that these tax cuts have been a boon to the wealthy is, of course, no secret. When fully phased in, over half of the tax breaks go to the richest 1 percent of taxpayers and over 70 percent go to the best-off 20 percent. Only 15 percent of the tax cuts go to the bottom 60 percent of taxpayers.¹

These statistics are informative, but it's also good to have examples of the impact of the Bush tax cuts on real taxpayers, and the consequences of making them permanent—in particular, examples of real live wealthy people whose tax returns can be dissected to discern how the various provisions of the Bush tax legislation affected their tax liability. Generally speaking, well-off taxpayers aren't, however, inclined to let anyone see their tax returns, which is why we're often left with just the bare statistics.

Fortunately, however, two prominent married couples have recently revealed a great deal of information from their tax returns: John and Cindy McCain and Barack and Michelle Obama. They've provided enough information that the effect of the Bush tax cuts on these two families can be calculated. McCain and Sen. Obama (D-IL), the presumptive Democratic presidential nominee, have also detailed their own tax proposals to allow us to examine how the McCains and the Obamas would fair under their two tax plans.

In the case of the Obamas we have their complete 2006 and 2007 returns.² For the McCains we have incomplete information for both years—but enough for 2006 for us to accurately estimate a range of possible savings.³ Let's begin the analysis with a look at their current incomes.⁴

So How Rich Are They?

THE OBAMAS TAX RETURN INCOME 2006	
Self-Employment (Author)	\$506,618
Wages	430,700
Other	51,200
Interest	4,590
Dividends	1,188
Capital Gains	-3,000
Total	\$991,296

Neither of these couples is doing badly. The Obamas' return is relatively straightforward. In 2006 they reported total income of \$991,296, and in 2007 \$4,238,165. Almost all of their income in both years was earned—either from their jobs or self-employment. The bulk of the income, in both years, comes from Sen. Obama's success as an author. From his writing (presumably the two books he has

authored) he earned over \$500,000 in 2006, and almost \$4 million in 2007. The Obamas' total tax return investment income was \$5,778 in 2006, and \$47,293 in 2007.⁵

THE MCCAINS TAX RETURN INCOME 2006

Schedule E	\$4,551,901
Capital Gains	743,476
Wages	598,836
Dividends	283,240
Self-Employment (Author)	80,388
Tax Refunds	58,016
Business Asset Gains	49,698
Interest	40,462
Social Security	22,104
Total	\$6,428,121

The McCains' tax returns tell us much about their income, but it's unclear whether we have the entire story. The first problem is that they don't file a joint tax return, opting instead to file "Married Filing Separately," which is unusual for married couples.⁶ Since they haven't disclosed Cindy McCain's return for 2007, and she is the primary breadwinner in the family, we really have only 2006 to look at.

The second issue with the McCains' tax returns is that virtually all of the taxable investment assets are in Mrs. McCain's name. This is evident by the dearth of investment income on Sen. McCain's return—in 2006, there is only a total of \$14 in interest income, although he does receive additional retirement income, including \$22,104 in Social Security income.

The second issue with the McCains' tax returns is that virtually all of the taxable

The third challenge in deciphering the McCains' income is that Sen. McCain has disclosed his entire tax return, but only Mrs. McCain's 1040 form without any schedules and attachments.

And the fourth and final difficulty, and the one that makes all the others matter, is that the largest source of income for Mrs. McCain is income reported on the Schedule E tax form, which includes income from real estate, S corporations (a form of incorporation where profits and losses appear directly on owners' personal income tax forms instead of being taxed at the corporate level through the corporate income tax), partnerships, and several other categories of income. Since the McCains have only made the 1040 form available, not the supporting documents, we only have a single dollar amount for all Schedule E income—with no information on how the amount was calculated.

This is problematic because a great deal of income is sheltered from taxation on Schedule E forms.⁷ Although Cindy McCain reports \$4.5 million in Schedule E income, it is possible that the full amount of income from Schedule E sources is substantially greater before all of the (perfectly legal) tax lawyer gamesmanship takes place. Even with those limitations, however, we can say conclusively from the McCains' tax returns that the couple had *at least* \$6.4 million in income in 2006.

In short, both of these couples are doing very nicely. In 2006 the McCains were in the top tenth of one percent of all tax filers by income. The Obamas ranked in the top half percent.

So How Much Did the Bush Tax Cuts Save the Obamas and McCains?

So how have these exemplars of the better-off in America fared under the tax cuts of the last seven years? Pretty well. In 2006, we estimate that the Obamas saved \$38,169—almost all of it due to the lowering of tax rates. They also benefited from the phasing-out of provisions that had reduced the amount in deductions and exemptions that higher-income taxpayers could take on their returns. There was also a small increase in the credit for child care costs.

HOW BUSH CUT TAXES FOR THE OBAMAS	
Total	\$38,169
Lower Rates	\$32,887
More Deductions	2,917
Higher Exemptions	1,540
Higher Child Care Credit	240

Note: Items do not sum to total because of interactions.

HOW BUSH CUT TAXES FOR THE MCCAINS	
Total	\$313,413
Lower Rates	\$216,421
CG and Dividends	69,090
More Deductions	21,891
Higher Exemptions	2,310

Note: Items do not sum to total because of interactions and AMT effects.

come in already tax-free retirement savings accounts such as 401(k) plans and Individual Retirement Accounts. Still, even if many taxpayers benefit in a small way from such tax breaks, it's those such as the McCains, with their almost \$1 million in tax-preferenced income, who are the overwhelming beneficiaries.⁸

The McCains' tax savings from the Bush tax law could, however, be much, much greater than \$313,413. The Bush tax cuts also included the expansion of tax breaks related to depreciation, an accounting move that allows taxpayers to lower their taxes by writing off the value of certain business-related assets over time as the asset loses value. Schedule E businesses can benefit greatly from this. Without having access to the forms behind Cindy McCain's 1040, it's impossible to tell how much additional tax they saved due to these provisions.

Note that as of 2006, the Bush tax cuts were not fully phased-in. In particular, the limitations on deductions and exemptions for high-income taxpayers that are eliminated under the Bush tax law were only reduced at this point. Had the Bush tax cuts been fully in effect in 2006, the McCains would have saved \$361,830 in taxes and the Obamas \$47,082.

We estimate that the McCains saved \$313,413 in 2006 due to the Bush tax cuts. The lower tax rates were, again, the largest single contributor. Cindy McCain, however, reported \$163,329 in dividends that qualified for a new tax break created under the Bush tax law. She also reported \$743,476 in capital gains, almost all of which appears to have been eligible for President Bush's capital gains tax break. Those two provisions together saved the McCains \$69,090 in taxes.

Advocates for capital gains and dividends tax breaks point out that many Americans, not just the well-off, receive dividends and capital gains. That's true, although for most Americans those forms of income

Looking Forward

That's the past. What about the impact of the tax proposals of candidates Obama and McCain? ⁹ Sen. McCain favors making the Bush tax laws permanent, and also plans to repeal the Alternative Minimum Tax, double the dependent exemption and offer tax breaks on business income.

Sen. Obama favors repealing the provisions that overwhelmingly benefit the best-off taxpayers, and retaining the parts that reduce taxes for middle- and lower-income taxpayers. Obama also wants to offer an additional tax credit for middle- and low-income workers amounting to \$500 per worker.

Specifically, Obama would eliminate most of the Bush tax cuts for those well-off taxpayers making over \$250,000 a year. Higher-income taxpayers would still benefit from some of the provisions of the Bush tax cuts that also benefit middle-income taxpayers, such as the lower marginal tax rates on income below the higher tax bracket amounts and the child and dependent care credit.

Therefore, had Obama's plan been in effect in 2006, he and his wife would still have registered tax savings of \$6,124 relative to before the Bush tax cuts because of the retained provisions of the Bush tax laws. The McCains would also see their taxes cut under the Obama plan—by an estimated \$5,641—entirely due to the retained lower tax rates.

Both the Obamas and McCains would save substantially under McCain's plan. Had McCain's plan been in effect in 2006, we estimate that the Obamas would have paid \$49,392 less in taxes than had the pre-Bush law remained in effect.¹⁰ This reflects the benefits of the fully phased-in Bush tax cuts plus the expanded dependent exemption McCain proposes. That's a pretty good tax break for the Obamas, although probably not enough to get Sen. Obama to concede the presidential contest to McCain.

The McCains would save much more under Sen. McCain's tax plan. We estimate that the McCains would save at least \$373,429 in taxes—benefiting from the full Bush tax breaks plus the elimination of the Alternative Minimum Tax, which Sen. McCain paid in 2006, and the increase in the dependent exemption.

McCain also proposes substantial business tax cuts that would create huge tax sheltering opportunities that could show up mostly on Schedule E. Depending on the nature of Cindy McCain's Schedule E income, tax savings could be 90 percent of her taxes. Without the rest of her tax information, however, we can't know.

In addition, McCain proposes a large cut in the Corporate Income Tax. Although this would not directly appear on the McCain's tax form, it is likely that those with a great deal of investment income such as the McCains—close to \$1 million in 2006—would end up being the primary beneficiaries of this law change—in the form of higher dividends and capital gains realizations.

Conclusion

It's not surprising to find that the wealthy benefit greatly from President Bush's tax cuts, and that their continuation alongside further tax cuts based on the same principles would yield more of the same. This examination of the tax returns of these two prominent wealthy couples shows that both received substantial tax breaks under president Bush. The McCains' returns particularly show how tax breaks on capital gains and dividends benefit the wealthy far more than they possible can for middle-income families.

Such tax breaks, of course, have a cost in lost public investments for the present and the future—investments which could benefit everyone, rich, poor, or in the middle. And these tax breaks targeted at those with higher incomes potentially come at the expense of tax reductions for others.

The McCain and Obama tax plans have very different effects for high-income taxpayers but have in common preserving the middle-class tax breaks passed earlier in this decade. They have something else in common as well—they do not constitute fundamental reform of the tax system. This is understandable—true tax reform is difficult to accomplish and is best achieved not by a single candidate proposing it but by a leader bringing people together to develop it.

In *Responsible Investment: A Budget and Fiscal Policy Plan for Progressive Growth*, The Center for American Progress began to outline the critical elements to true reform. Couples like the Obamas and McCains would not receive a direct financial benefit under these proposals—but they would be better off for living in a country with a tax system that is simpler and fair, values work, and responsibly funds the investments needed to ensure our national prosperity.

Methodology

The methodology for calculating the taxes of the Obamas and McCains under various scenarios was relatively straightforward. In each case the taxes were recalculated under the applicable tax law using information available on the actual 2006 tax returns.

In the case of Cindy McCain's tax return, because the complete filing is not available, certain information had to be extrapolated from the 1040. The most important example of this was that the portion of reported capital gains income eligible for the preferential tax rate had to be determined. By replicating the tax calculations used on her 2006 return, it was possible to determine how much in capital gains were eligible for the tax break in order to match the tax liability on the return.

The tables below outline the differences in tax provisions that were modeled and how the taxes were calculated under the different scenarios. Note that there have been some inconsistencies in how the McCain and Obama tax plans have been described in the press, on their websites, and by analysts. The assumptions here reflect the descriptions on the candidates' websites and what appear to be the most reliable statements by the candidates and their campaigns.

Note that Senator McCain has also proposed an alternative tax system. Taxpayers would have the choice of filing under the current system (with modifications McCain has proposed) or a simpler system. The details of this alternative have not been spelled out. Presumably, if it would reduce their taxes, the McCains and Obamas would file under the simpler system. Thus, the tax cuts could be greater than indicated in this report under the McCain plan.

MODELED RELEVANT DIFFERENCES BETWEEN TAXES—ALL AT 2006 LEVELS

BRACKET STARTS (2006 LEVEL, MFJ—MFS IS HALF OF MFJ)				RATES			
Pre-Bush	Bush '06	McCain	Obama	Pre-Bush	Bush '06	McCain	Obama
\$–	\$–	\$–	\$–	N/A	10.0%	10.0%	10.0%
\$–	\$15,100	\$15,100	\$15,100	15.0%	15.0%	15.0%	15.0%
\$51,186	\$61,300	\$61,300	\$61,300	28.0%	25.0%	25.0%	25.0%
\$123,700	\$123,700	\$123,700	\$123,700	31.0%	28.0%	28.0%	28.0%
\$188,450	\$188,450	\$188,450	\$188,450	36.0%	33.0%	33.0%	36.0%
\$336,550	\$336,550	\$336,550	\$336,550	39.6%	35.0%	35.0%	39.6%
Maximum Tax Rate on Qualifying Dividends							
39.6%	15.0%	15.0%	39.6%				
Maximum Tax Rate on Qualifying Capital Gains							
20%	15%	15%	20%				
High Income Itemized Deduction Limitation ("Pease")—% in Effect							
100%	66%	0%	100%				
Personal Exemption High Income Phaseout ("PEP")—% in Effect							
100%	66%	0	100%				
Dependent and Child Care Expense Credit Maximum Expense							
\$4,800	\$6,000	\$6,000	\$6,000				
Double Dependent Exemption							
No	No	Yes	No				
Eliminate Alternative Minimum Tax							
No	No	Yes	No				

Sources: Tax forms, statutes, <http://www.ctj.org/pdf/gwbpi.pdf> and http://www.taxpolicycenter.org/tpcccontent/tax_plan_matrix.xls.

THE OBAMAS AND THE BUSH, MCCAIN, AND OBAMA TAX LAWS—2006 LEVELS

	TAX CALCULATIONS				CHANGE RELATIVE TO PRE-BUSH		
	Pre-Bush	Bush Law	McCain Law	Obama Law	Bush Law	McCain Law	Obama Law
Tax Return Total Income	\$991,296	\$991,296	\$991,296	\$991,296	\$0	\$0	\$0
Adjustments	7,470	7,470	7,470	7,470	–	–	–
Adjusted Gross Income	\$983,826	\$983,826	\$983,826	\$983,826	\$0	\$0	\$0
Deductions	144,131	152,464	169,131	144,131	8,333	25,000	–
Exemptions	–	4,400	19,800	–	4,400	19,800	–
Taxable Income	\$839,695	\$826,962	\$794,895	\$839,695	-\$12,733	-\$44,800	0
Tax Before AMT & Credits	\$300,616	\$262,687	\$251,464	\$294,731	-\$37,929	-\$49,152	-\$5,884
Alternative Minimum Tax	–	–	–	–	–	–	–
Credits (Child Care)	960	1,200	1,200	1,200	240	240	240
Personal Income Tax	\$299,656	\$261,487	\$250,264	\$293,531	-\$38,169	-\$49,392	-\$6,124

THE MCCAINS AND BUSH TAX LAW—2006 LEVELS

	CINDY		JOHN		COMBINED		DIFFERENCE
	Pre-Bush	Bush Law	Pre-Bush	Bush Law	Pre-Bush	Bush Law	
Tax Return Total Income	\$6,066,431	\$6,066,431	\$358,414	\$358,414	\$6,424,845	\$6,424,845	\$-
Adjustments	-	-	19,605	19,605	19,605	19,605	-
Adjusted Gross Income	\$6,066,431	\$6,066,431	\$338,809	\$338,809	\$6,405,240	\$6,405,240	\$-
Deductions	509,827	569,737	117,569	120,205	627,396	689,942	62,546
Exemptions	-	3,300	-	3,300	-	6,600	6,600
Taxable Income	\$5,556,604	\$5,493,394	\$221,240	\$215,304	\$5,777,804	\$5,708,698	-\$69,146
Tax Before AMT & Credits	\$2,041,666	\$1,730,952	\$71,659	\$61,982	\$2,113,326	\$1,792,934	-\$320,392
Alternative Minimum Tax	-	-	-	6,979	-	6,979	6,979
Credits (tax on foreign investments)	8,669	8,669	-	-	8,669	8,669	\$0
Personal Income Tax	\$2,032,997	\$1,722,283	\$71,659	\$68,961	\$2,104,657	\$1,791,244	-\$313,413

THE MCCAINS AND MCCAIN TAX LAW—2006 LEVELS

	CINDY		JOHN		COMBINED		DIFFERENCE
	Pre-Bush	McCain Law	Pre-Bush	McCain Law	Pre-Bush	McCain Law	
Tax Return Total Income	\$6,066,431	\$6,066,431	\$358,414	\$358,414	\$6,424,845	\$6,424,845	\$-
Adjustments	-	-	19,605	19,605	19,605	19,605	-
Adjusted Gross Income	\$6,066,431	\$6,066,431	\$338,809	\$338,809	\$6,405,240	\$6,405,240	\$-
Deductions	509,827	689,561	117,569	125,476	627,396	815,037	187,641
Exemptions	-	16,500	-	16,500	-	33,000	33,000
Taxable Income	\$5,556,604	\$5,360,370	\$221,240	\$196,833	\$5,777,804	\$5,557,203	-\$220,641
Tax Before AMT & Credits	\$2,041,666	\$1,684,380	\$71,659	\$55,517	\$2,113,326	\$1,739,897	-\$373,429
Alternative Minimum Tax	-	-	-	-	-	-	-
Credits (tax on foreign investments)	8,669	8,669	-	-	8,669	8,669	\$0
Personal Income Tax	\$2,032,997	\$1,675,711	\$71,659	\$55,517	\$2,104,657	\$1,731,228	-\$373,429

THE MCCAINS AND OBAMA TAX LAW—2006 LEVELS

	CINDY		JOHN		COMBINED		DIFFERENCE
	Pre-Bush	Obama Law	Pre-Bush	Obama Law	Pre-Bush	Obama Law	
Tax Return Total Income	\$6,066,431	\$6,066,431	\$358,414	\$358,414	\$6,424,845	\$6,424,845	\$-
Adjustments	-	-	19,605	19,605	19,605	19,605	-
Adjusted Gross Income	\$6,066,431	\$6,066,431	\$338,809	\$338,809	\$6,405,240	\$6,405,240	\$-
Deductions	509,827	509,827	117,569	117,569	627,396	627,396	-
Exemptions	-	-	-	-	-	-	-
Taxable Income	\$5,556,604	\$5,556,604	\$221,240	\$221,240	\$5,777,804	\$5,777,804	\$0
Tax Before AMT & Credits	\$2,041,666	\$2,038,724	\$71,659	\$68,717	\$2,113,326	\$2,107,441	-\$5,884
Alternative Minimum Tax	-	-	-	244	-	244	244
Credits (tax on foreign investments)	8,669	8,669	-	-	8,669	8,669	\$0
Personal Income Tax	\$2,032,997	\$2,030,055	\$71,659	\$68,961	\$2,104,657	\$2,099,016	-\$5,641

Endnotes

- 1 <http://www.ctj.org/pdf/gwbdata.pdf>.
- 2 http://obama.3cdn.net/b8eb8c0a1dc322cbbf_mlbr056ee.pdf, http://obama.3cdn.net/b689982572ef6e7ad4_mlbzaorb2.pdf.
- 3 <http://www.johnmccain.com/mccainfinancial/>
- 4 Earlier year tax returns are also available. We confine our analysis here, however, to the latest returns available.
- 5 Note that earnings in non-taxable retirement and education accounts are not reported on tax forms.
- 6 It is rare for couples to file separately. For tax year 2005 (the latest year for which data are available) over 52 million couples filed jointly while 2.4 million spouses filed separately (presumably representing about 1.2 million couples). The reason for this is that in almost all cases tax liability is greater or equal under the rules for filing separately than the rules for filing jointly. There are four reasons (as far as we know) that couples file separately: (1) the spouses can't, for some reason, communicate regarding the contents of a joint return (one of them is sailing around the world, for example); (2) the spouses can't agree on the content of the filing; (3) tax liability is less filing separately under a narrow set of circumstances. From what we know from the McCains' tax returns it would appear that their taxes are slightly *higher* by virtue of filing separately, but without Mrs. McCain's complete return it's impossible to tell for certain (the limited availability of Cindy McCain's returns is described later); (4) One of the spouses is attempting to hide income for some reason.
- 7 Much Schedule E income is business income and, thus, eligible for a wide range of tax breaks. Provisions that allow businesses to write off investments more quickly than they lose their value and special breaks for real estate investments are among the best known of these.
- 8 In 2005 only 7.4 percent of income tax returns with less than \$200,000 of Adjusted Gross Income reported long-term capital gains potentially eligible for preferential rates—with an average gain of less than \$1,000. Over 84 percent of returns with income over \$5,000,000 reported such gains, with the average gain exceeding \$6 million.
- 9 For details on the proposals see: http://www.taxpolicycenter.org/tpcccontent/tax_plan_matrix.xls; <http://www.johnmccain.com/Informing/Issues/4dbd2cc7-890e-47f1-882f-b8fc4cfec78.htm>; http://www.barackobama.com/issues/economy/Obama_Keeping_Americas_Promise.pdf. Note that there have been some discrepancies in press reports regarding some details of these plans. The assumptions made in this analysis are described in the methodology section.
- 10 This comparison is between (a) the Bush law fully phased in plus the additional tax reductions proposed by McCain, and (b) the law as it existed prior to the passage of the Bush tax legislation. Thus, some of the difference between the analysis of the Bush law's impact in 2006 and the McCain proposal is due to the Bush law being fully phased in by time Senator McCain would extend it permanently. The savings for just the Bush law being fully phased in, relative to the law before the Bush tax changes, is \$361,830 for the McCains and \$47,082 for the Obamas.