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# Obama vs. McCain: It's About Your Money

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As the financial crisis has worsened and the economy has deteriorated, basic pocketbook issues -- taxes, jobs, retirement -- have taken center stage in the presidential race between Democrat Barack Obama and Republican John McCain.



*Scott Pollack*

When the new president "comes to town in January, he'll have to work on the short-term stimulus to the economy, and the longer-term plans may get deferred," says Clint Stretch, managing principal of tax policy at Deloitte Tax. "But the issue isn't the economic-recovery package and what the budget looks like in 2009, but what it will look like come 2012."

With less than two weeks to go before Election Day, Sunday Journal takes a look at the candidates' positions on the issues that will most affect your family's finances. We culled information from party position papers on Web sites, speeches and nonpartisan third-party reports.

## Short-Term Economic Relief

To respond to voters who want immediate economic help, both candidates have proposed specific plans on how to jump-start the economy in 2008 and 2009.

**Sen. Obama** proposes a \$1,000 Emergency Energy Rebate to families (\$500 for individuals) and penalty-free withdrawals of 15% from 401(k)s and IRAs up to \$10,000. He also wants to temporarily suspend minimum distribution requirements for retirement accounts.

**Sen. McCain** proposes cutting the capital-gains rate on stock held for more than a year to 7.5%. He also would increase the amount of stock loss that is deductible against ordinary income from \$3,000 to \$15,000, and would tax withdrawals by seniors from IRAs and 401(k)s no more than 10%.

## Income Taxes

Both candidates pledge to lower taxes overall, but the key point to the debate is who will be paying the bills.

**Sen. Obama** favors tax cuts for middle-class workers and tax increases for top earners -- families that make more than \$250,000 and individuals making more than \$200,000 a year. He wants to extend most of the 2001 and 2003 Bush tax cuts, but raise the top two marginal rates to 36% and 39.6%.

Sen. Obama wants to eliminate taxes on seniors making less than \$50,000 a year and to provide a "Making Work Pay" tax credit of 6.2% of the first \$8,100 in wages (about \$500) for individuals earning less than \$75,000 a year. Outside analysts estimate that the top 1% of wage earners would see an average tax increase of \$19,000.

**Sen. McCain** wants to permanently extend all 2001 and 2003 Bush tax cuts, raise the personal exemption for each dependent from \$3,500 gradually over several years to \$7,000 and keep the top tax rate at 35%, leaving "upper-income taxpayers" with "the most to gain under McCain's plan," according to a report by Deloitte Tax. The nonpartisan Urban-Brookings Tax Policy Center estimates that the top 1% would see a tax cut of more than \$125,000.

## Estate Taxes and AMT

Both candidates support extending the Alternative Minimum Tax's 2007 "patch" exemption levels and index for inflation, and changing the federal estate-tax law to make the \$2 million per-person exemption (\$3.5 million next year) portable or transferable from one spouse to another.

**Sen. Obama** wants to freeze the 2009 estate-tax structure, which taxes roughly 0.3% of estates -- those valued above \$3.5 million per person -- at a top rate of 45%. According to Deloitte Tax, a \$5 million estate would pay a tax of \$675,000 under this plan.

**Sen. McCain** has proposed a 15% estate tax (down from the current 45%) on roughly 0.2% of estates, those valued at more than \$5 million per person. A \$5 million estate would pay nothing under this plan, Deloitte Tax notes.

## Health Care

According to a report by the nonpartisan health-policy analysis and consulting firm Lewin Group, a unit of insurer UnitedHealth Group, average spending on health care in 2010 will be \$4,407 per family. Both candidates want to expand access to affordable health care.

**Sen. Obama** proposes income-related subsidies for health insurance through a new national exchange, along with expanded access to Medicaid and the State Children's Health Insurance Program, and mandatory care for children. He would require employers that don't offer health coverage to contribute a percentage of payroll toward the national plan, with small businesses being exempt (and eligible for refundable tax credits on 50% of premiums).

Under this plan, premium payments for families would fall by about \$185 and direct payments for health services by \$253. The Lewin Group projects the Obama plan would reduce the number of uninsured by 26.6 million people in 2010, from 48.9 million.

**Sen. McCain** wants to replace the current income-tax exemption for health-insurance premiums paid by employers with a refundable tax credit of \$5,000 per family (\$2,500 for individuals). Any unused credit could be deposited into a Health Savings Account. His Guaranteed Access Plan (GAP) would allow

people denied coverage to obtain insurance through state-run high-risk pools administered by private insurers, according to a report issued by the Joint Center for Political Economic Studies. Sen. McCain wants to allow people to purchase insurance across state lines, which could reduce the effectiveness of state regulations.

Under this plan, premium payments for families would increase by about \$379 and direct payments for health services by about \$105. "This would be more than offset by a net increase in tax subsidies of \$1,570" and wage gains resulting from employer savings, the Lewin Group says.

The Lewin Group projects that the McCain plan would reduce the number of uninsured by 21.1 million people.

## **Investments**

Both candidates offer plans to support small businesses, but they offer different strategies for capital gains, dividends and retirement savings that will affect investors.

**Sen. Obama** wants to eliminate all capital-gains taxes on start-ups and small businesses but raise the top long-term capital-gains rate on securities and qualified dividends from 15% to 20% for families making more than \$250,000 a year (\$200,000 for individuals). He wants to tax carried interest as ordinary income.

**Sen. McCain** calls for maintaining the 15% top tax rate on dividends and long-term capital gains.

## **Retirement & Social Security**

Both candidates have moved to temporarily suspend the requirement that people over age 70½ tap their retirement accounts, but neither candidate has offered a substantial long-term plan to overhaul the way Americans save for retirement.

**Sen. Obama** wants to institute a 2% to 4% payroll tax on incomes above \$250,000, split between employer and employee. It would take effect in 10 years or more. He also proposes a retirement-security plan to automatically enroll workers in a workplace pension plan.

Employers that don't offer a retirement plan would be required to enroll employees in a direct-deposit individual retirement account. Sen. Obama also proposes a saver's credit to match 50% of the first \$1,000 of savings for families earning less than \$75,000.

Sen. McCain favors privatizing Social Security in programs that allow younger workers to place a portion of their payroll taxes into personal accounts invested in the market.

**Courtesy of JB Goodwin**