



Insight

Ooops

GORDON GRAY | JANUARY 29, 2015

Ooops. That's probably what the folks over the Treasury Department said after the Tax Policy Center released an [analysis](#) of the president's "middle class economics" plan that actually amounts to a net tax increase (albeit a small one) on the middle class. For the folks in the middle of the income distribution (the 3rd of 5 income quintiles), President Obama's plan will amount to an average tax increase of \$7 dollars. To be sure, this is hardly a soaking of those in the middle, but it's a far cry from a sweeping agenda for the middle class. There are several moving pieces to the president's plan, and some in this quintile would benefit – about a quarter of the taxpayers in the middle quintile would see their taxes cut. But more, approaching 50 percent of this group would see their taxes go up. On net it's mostly a wash – more people would see their taxes go up than down, but a little more than half would see no change at all.

The lowest income quintile would see the largest benefit under this plan, but hardly a windfall. The lowest quintile would on average see a tax cut of \$174 for the year. Every little bit helps, but one wonders if this is worth the imposition of new taxes on financial institution and capital gains that will harm overall economic growth. Moreover, there are other parts of the president's policy approach that will almost entirely wipe out the gains that the lowest income quintile will see under this tax plan. The president's new rules on greenhouse gas emissions, for example, will raise energy prices by [10.3 percent](#). The average monthly electrical bill (as of 2012) was [107.28](#). A 10.3 percent increase would translate into annual increase of \$132 out consumers' pockets – or more than three quarters of what the lowest income quintile will see under Obama's new tax plan.