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Committee on the Budget
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An Action Plan to Grow the Paychecks of All, Not Just the Wealth of a Few

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This is an action plan to help tackle the challenge of our time – a growing economy with more widely shared prosperity. We must sharpen our global competitive edge and ensure that Americans who work hard and play by the rules are rewarded with a fair share of a growing economic pie. What our country needs is a growing economy that works for all Americans, not just the wealthy few.

Democrats have put forward initiatives to help workers struggling to make ends meet – increasing the minimum wage, making sure that women receive equal pay for equal work, ensuring earned paid sick leave, and providing student loan relief. Investing in key areas like education, infrastructure, and scientific research is also a critical component of Democratic plans to strengthen economic growth and build ladders of opportunity. These ideas are an important start, but we need to go further.

The tax code is now skewed in favor of people who make money off of money and against those who make money off of work. It also provides tax breaks for things like corporate jets and racehorses. Surely we can change the tax code to incentivize corporations to give employees bigger paychecks and reward people who earn money through hard work.

This is a plan to grow the paychecks of all, not just the wealth of a few. This proposal attacks the chronic problem of stagnant middle-class incomes from both directions – it promotes bigger paychecks and lets workers keep more of what they earn.

Today, I am proposing policies that will raise wages, increase personal savings, and grow the economy. These policies are on top of the tax relief and tax fairness proposals in last year's Democratic budget resolution, which would extend important tax credit improvements for working families and students, expand the Earned Income Tax Credit, and raise revenue to lower deficits and help put us on a sustainable fiscal course.

1) ***Increase the after-tax take-home pay of middle-class Americans by establishing a new Paycheck Bonus Tax Credit of $1,000 each year for every worker.***

Our current tax code imposes higher tax rates on income earned through hard work while providing preferential treatment to unearned financial gains and allowing billions of dollars of stock profits and other capital gains to pass tax-free to heirs of multi-million-dollar fortunes. Taken together, the preferential tax treatment of certain kinds of non-work, unearned income has contributed to a startling result: 17 percent of the major tax expenditures in the tax code flow to households with the top 1 percent of incomes. That translates into roughly $150 billion in tax breaks for the very wealthy each year. We need to do more to even the playing field and ensure that the tax code increases the take-home income of working Americans and does not just reward wealth.

That is why I am proposing a new Paycheck Bonus Tax Credit of $1,000 per worker per year, or $2,000 for a two-earner couple. This Paycheck Bonus Tax Credit would phase out at an income of $100,000 per individual ($200,000 per working couple), indexed for inflation. Over a 40-year career, the Paycheck Bonus Tax Credit would raise a typical worker's income by $40,000 – which, if consistently saved and invested, would grow to between $110,000 and $150,000 per person, or up to $300,000 per couple, given reasonable growth assumptions.

2) ***Build savings with a Saver's Bonus of $250 for each year that an individual directs at least $500 of his/her Paycheck Bonus Tax Credit or Earned Income Tax Credit into a tax-preferred savings account.***

We need to make it easier for working Americans to use their tax returns to build savings. Specifically, I propose a "Saver's Bonus" of $250 for each person who applies at least $500 of his or her $1,000 Paycheck Bonus Tax Credit (or Earned Income Tax Credit) toward a tax-preferred savings plan. Studies show that even a small financial incentive can have a meaningful impact on the number of people who choose to participate in these plans. We also need to make it easy for taxpayers to do this, so I propose to let employees who do not have access to a tax-favored savings plan establish a myRA when they file their tax return and immediately direct funds into the account (the Treasury Department is moving to implement the myRA plan that provides a cost-free way for employers to allow workers to put some of their paycheck directly into a designated myRA account).

3) ***Boost employee paychecks by incentivizing corporations to raise employee pay and/or provide employees with ownership and profit-sharing opportunities.***

The gap between CEO pay and worker pay has skyrocketed. In 1979, CEOs took home 30 times the pay of the average worker; in 2013, CEOs were paid 300 times more.

- **CEO-Employee Paycheck Fairness Act**

To encourage corporations to pay their employees more, I introduced the CEO-Employee Paycheck Fairness Act, which prevents big corporations from claiming tax deductions for CEO and other corporate compensation over $1 million unless their workers are getting paycheck increases that reflect increases in worker productivity and the cost of living. Corporations also could not claim these deductions if they are laying off employees. Currently, corporations can claim tax deductions for CEO salaries up to a limit of $1 million but can deduct an unlimited amount for bonuses and "performance pay." I do not think taxpayers should subsidize CEO bonuses if the CEOs are cutting the real wages of their employees or laying off workers.

- **Incentives for employee ownership and profit-sharing**

Research shows that firms in which employees are given an ownership or profit stake not only compensate workers better, but also perform better. At many firms, however, employees have no stake or voice in the company, and stock options and other forms of incentive compensation are limited to top executives. Congress should condition tax breaks for executive stock options and incentive packages on such pay packages being made available to all employees and otherwise strengthen tax incentives for employee ownership. The CEO-Employee Paycheck Fairness Act could be revised to allow corporations to deduct CEO and executive compensation in excess of $1 million if the corporations provide their employees with ownership and profit-sharing plans meeting certain standards.

4) ***Sharpen skills and boost pay by providing tax benefits to businesses that invest in apprenticeship or other training programs that result in higher skills and better pay.***

Apprenticeships are a proven model to open paths to successful careers and higher incomes for workers while making U.S. businesses more competitive. Yet apprenticeships are underutilized in the United States compared with other countries with which we compete. We should provide tax credits to those businesses that establish apprenticeships or other job training partnerships.

5) ***Increase the take-home pay of two-earner families through a Second-Earner Tax Deduction.***

Our existing tax code creates a disincentive for second earners in a household – most often women – to be part of the workforce because their earnings are taxed beginning at the rate on the last dollar of income earned by their spouses. To combat that, we should provide a 20 percent tax deduction for second earners with dependents on up to $60,000 of their income. This rewards work and makes the tax code fairer for second earners and their families, boosting the take-home incomes of over 7 million households. A two-earner family, with one spouse earning $60,000 and the other earning $30,000, would shave $900 off their taxes from the Second-Earner Tax Deduction.

6) ***Modernize the Child and Dependent Care Tax Credit by raising the amount of eligible expenses, indexing the caps for inflation, and making the credit refundable.***

Child care is one of the most significant expenses for working families, and costs have continued to rise. Since 2003, average child-care expenses have increased dramatically, but the amount eligible for the federal Child and Dependent Care Tax Credit has stayed capped at $3,000 for one child and $6,000 for two or more children. The credit is also poorly designed: it phases down starting at lower income levels, essentially meaning that no one is able to access its highest level of benefits.

We should modernize the credit by raising the amount of eligible expenses to $8,000 for one child ($16,000 for two or more) and providing a 20 to 25 percent flat credit that phases out for households above $200,000. The credit should also be made refundable, ensuring that millions of families who struggle the most to pay for child care will be able to benefit from this credit.

This plan is fully paid for. We will provide tax benefits for middle-class workers and those working their way into the middle class by limiting the disproportionate share of tax expenditures that flow to the top 1 percent of household incomes, and, in coordination with the European Union and other financial markets, by levying a tiny fee on financial trading to curb unproductive speculation by "high rollers."

We can pay for these new tax benefits for working Americans by changing the ways our current tax code is rigged in favor of those who make money off of money, and against those who make money from work. I propose two types of changes.

1) ***Curb tax breaks that favor portfolios over paychecks.***

The Congressional Budget Office has determined that the top 1 percent highest-income households receive 17 percent of the benefit of major "tax expenditures," including special tax exemptions and deductions, for a total of $150 billion each year. That is more than $1.5 trillion over ten years. Without even changing marginal tax rates, we can change this allocation of tax expenditures and dedicate the resulting revenue to raising the income of middle-class workers and those working their way into the middle class.

2) ***A "high roller" fee to curb financial speculation.***

The United States can curb the kind of financial speculation that creates no value for the economy by implementing a tiny fee on financial market transactions, and then use the revenue to provide tax relief to American workers and their families. The United States already has an infinitesimal fee on stock transactions that funds the Securities and Exchange Commission, and many other countries – including the United Kingdom, France, Singapore, and Hong Kong – have financial market trading fees. The European Union is moving toward a trading fee of 0.1 percent that would raise as much as €37 billion (roughly $44 billion) per year. For comparison, the UK already applies a fee that is five times higher (0.5 percent) on stock trades. American financiers and high rollers have claimed that financial trading would migrate to other countries if the U.S. imposes a financial market trading fee – but as the EU nations join the many other countries with financial centers that have trading fees, there is no reason why the United States should not also move forward in concert with others.

Such a financial market trading fee, which could raise tens of billions of dollars each year, would be imperceptible to average investors, who already bear transaction costs on every trade that by some estimates are over three times higher than the fee the EU is proposing. At the same time, however, it would rein in the kind of computerized high-speed trading that skims value from regular investors while adding no value to the economy. As financial observers have pointed out, the profits currently being pocketed by front-running high-frequency traders already amount to a kind of hidden trading fee on ordinary investors. A properly structured financial market trading fee would put an end to much of this economically counterproductive activity and replace it with a source of revenue to pay for middle-class tax relief.