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HEADLINE: KERRY TO UNFURL PLAN TO HALT BUSH TAX CUTS AT OHIO LUNCHEON,
SENATOR TO PUSH FOR PAYROLL TAX REBATE

BYLINE: By Glen Johnson, Globe Staff

BODY:

WASHINGTON - Senator John F. Kerry is kicking off his presidential campaign with an economics speech today that will flesh out his proposal to freeze Bush administration tax cuts in favor of a payroll tax cut for workers and new investment incentives for businesses.

The centerpiece of the Kerry plan, which will be the subject of his luncheon speech at the City Club of Cleveland, is a proposal for a one-year rebate of some of the payroll taxes that workers now provide to support the Social Security and Medicare systems. He also is expected to propose general tax reforms, as well as incentives to encourage immediate capital investment by corporations.

Currently, everyone who works is taxed 6.2 percent of their first \$84,900 in earnings to support the Social Security retirement trust fund. They are also taxed 1.45 percent of everything they earn to support the Medicare health-care fund. Both payments are matched by employers. The details of Kerry's plan were being withheld until his speech, but similar proposals have been made by Senator Mary L. Landrieu, a Louisiana Democrat who is in a runoff election, and The Business Roundtable, a Washington, D.C., trade association for the chief executive officers of major corporations. Under their plans, all workers would receive a one-year rebate equal to the payroll taxes paid on their first \$10,000 in income. That amounts to roughly \$600 for each worker.

Kerry's plan would also freeze further implementation of the 10-year \$1.3 trillion tax cut passed by Congress last year. That cut, the centerpiece of the Bush administration's economic policy, did not apply to workers who do not earn enough to pay income taxes, roughly those making less than \$30,000 per year. Taxpayers received an immediate rebate of \$300 per filer during the first year of the plan, but the bulk of the tax cuts do not go into effect until the period of 2004 to 2010.

By 2010 the wealthiest 1 percent of taxpayers will receive 52 percent of the administration tax cuts, according to Citizens for Tax Justice, a watchdog group based in Washington, D.C.

On Sunday, when Kerry announced he would file papers this week to begin the process of running for president formally, the Massachusetts Democrat said: "We need to give, I think, a tax break now, today, now, to move our economy forward in the form of a payroll tax." Yesterday in Boston, he told reporters, "It puts more money in people's pockets than the president's plan, which is mostly [for] the wealthy people and mostly down the road."

Because there is political danger in doing something that could be seen as jeopardizing the stability of the **Social Security trust** fund, the proponents of a payroll tax cut favor a mechanism of providing relief in the form of a rebate, which would be distributed via the federal income tax system. Under such accounting, payroll taxes would still flow into the

Social Security and Medicare trust funds at the current rate, but the rebates would come from the general treasury account where taxes are paid and overpayments refunded.

The cost of a one-year payroll tax rebate, like the one that Landrieu and The Business Roundtable are proposing, is pegged at \$100 billion.

"That's a lot of money, but that's temporary," said Robert McIntyre, director of Citizens for Tax Justice, a nonprofit advocacy group based in Washington, D.C. He said that if Kerry were elected president and could persuade Congress to freeze the implementation of future Bush income tax cuts, "that would pick up \$400 to \$500 billion over the rest of term."

McIntyre said a payroll tax cut "will have a modest, stimulative effect." The rebate "is a lot for people making \$25,000 or \$30,000, and it's in after-tax money, the best kind," he added.

The Business Roundtable supports a payroll tax cut - but favors an acceleration, as opposed to a freeze, of the income-tax rate reductions outlined in the Bush plan. In addition, the group proposed changes in dividend taxation as part of a \$300 billion economic stimulus plan it unveiled last month.

"Of all the options that exist, we felt that the temporary reduction [in the payroll tax] was both the quickest and hit the broadest of the economic strata in the country," said John Castellani, the Roundtable's president.

The concensus among chief executives, Castellani said, was that consumers needed incentives to spend, which would allow businesses to burn off excess production capacity and then start investing to create new production capacity.

While Kerry posits his plan as a more attractive alternative to Bush's proposal, the Roundtable views it as a complement.

"The first gets money into the system very quickly," Castellani said. "The second gives you surety of tax rates that will continue to stimulate the economy well after the [one-year] holiday."

Glen Johnson can be reached at johnson@globe.com.

GRAPHIC: PHOTO, Senator John F. Kerry is expected to propose a one-year rebate. / AP PHOTO

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[◀ prev](#) Document 7 of 415 [next ▶](#)