

# ISSUE BRIEF

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## Preventing Taxmageddon Is Congress's Summer Job

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Conventional wisdom says that Congress and the President will get nothing done in 2012 until after the elections. Conventional wisdom appears to be at least mostly correct, but in one respect Congress should not fall prey to conventional wisdom: preventing Taxmageddon.

Too much is at stake for families, jobs, and restoring limited government: Congress should heed the advice of House Speaker John Boehner (R-OH) and Senator Jon Kyl (R-AZ) to act before the November election—and preferably this summer—to prevent Taxmageddon, the nearly \$500 billion tax hike bearing down on America's families and businesses.<sup>1</sup>

### **Defying Conventional Wisdom.**

One of Washington's most apt expressions is the "lame duck Congress." This is a failed or feckless Congress that must finish its work

for the year after an election. Having squandered the 10 preceding months, and with almost two years to go before another, Congress then finally takes on the tough jobs it should have completed earlier. In a lame duck, Members who have retired, Members who have been defeated, and others who have moved on to other offices must finally complete the nation's business in an environment of holiday- and transition-laden chaos.

Conventional wisdom says that Congress will wait until the lame duck to finish its work on spending bills, short-circuiting a sequester that would devastate national security spending, likely yet another debt ceiling vote, and preventing Taxmageddon.

Much of conventional wisdom may well be correct. There will be no budget resolution, even though the House has met its responsibility, because under Senate Majority Leader Harry Reid (D-NV) the Senate, once again, did not bother. Congress is likely to take a pass on entitlement reforms. Unless derailed by the Supreme Court, Obamacare is almost certain to survive the year. Kill the sequestration? Sadly, perhaps not. Tax reform? No way.

The one area in which Congress could and should break with

conventional wisdom is with regard to Taxmageddon, or as Federal Reserve Board chairman Ben Bernanke labeled it, the "fiscal cliff." Congress should not wait. Congress should pass legislation this summer at least delaying Taxmageddon for a year or longer.

### **What Is Taxmageddon?**

Taxmageddon is a \$500 billion tidal wave of tax hikes—not over 10 years but in a single year and continuing thereafter. It is an average tax hike of nearly \$3,800 per taxpayer.<sup>2</sup>

Unlike a tidal wave, however, Taxmageddon is not an act of nature but arises out of past acts of Congress and the President. The 2001/2003 tax cuts, originally set to expire at the end of 2010, were then extended for two years until January 1, 2013. The same holds for Alternative Minimum Tax relief, death tax reforms, and a passel of provisions known as "the extenders."<sup>3</sup> Early in 2012, Congress extended through this December a lower payroll tax hike. All of these extensions expire at the same time: December 31, 2012.

At the same time, one of Obamacare's worst tax provisions—a 3.8 percent income tax hike operating through the Medicare payroll tax mechanism—goes into effect. Its implementation should be delayed

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until such time as Obamacare can be repealed in toto.

### **Prevent Taxmageddon**

**Now.** There are at least five good reasons for Congress to prevent Taxmageddon as soon as possible:

1. Families and small businesses should not be threatened by their own government with a devastating tax hike.
2. A massive tax hike would obviously devastate the economy in 2013 and beyond, but the uncertainty about how, when, and even whether Congress will prevent Taxmageddon is already adding to the large cloud of uncertainties hanging over the economy, threatening to slow job growth even further.<sup>4</sup>
3. Congress has no excuse for threatening families and the economy

with this tax hike with the entire summer legislative schedule wide open for business.

4. Many Members of Congress of both parties agree with President Obama on the need for fundamental tax reform. Allowing Taxmageddon to go into effect would raise tax rates while increasing the tax on saving and investment—the opposite of tax reform’s results. Even though positive reforms are extremely unlikely in 2012, Congress can prevent a severe case of sound policy backsliding and create more opportunities for exploring positive options for tax reform in the balance of the year by preventing Taxmageddon quickly.
5. Elections are referendums on past decisions and on the future direction of the country. Voters should

be able to judge performance of their Members on more than just vague assurances. Those favoring raising taxes should have the opportunity to vote their beliefs while challengers announce their fidelity to higher taxes, and likewise for those favoring low taxes and limited government. Citizens can vote their beliefs based on solid information.

**No Summer Vacation.** With certainty, Taxmageddon is coming soon. Only congressional action can prevent it. Members of Congress are not like college students; they cannot take the summer off. Preventing Taxmageddon is Congress’s summer job.

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1. See Jake Sherman and Manu Raju, “John Boehner: Let’s Have Debt Fight Right Now,” Politico.com, May 16, 2012, <http://www.politico.com/news/stories/0512/76360.html> (accessed May 16, 2012); and Senator Jon Kyl, “Time to Stop Taxmageddon,” May 7, 2012, <http://kyl.senate.gov/record.cfm?id=336703> (accessed May 15, 2012).

2. See Curtis S. Dubay, “Taxmageddon: Massive Tax Increase Coming in 2013,” Heritage Foundation *Issue Brief* No. 3558, April 4, 2012, <http://www.heritage.org/research/reports/2012/04/taxmageddon-massive-tax-increase-coming-in-2013>.

3. See J. D. Foster, “Tax Extenders Review Needs a Framework,” Heritage Foundation *Issue Brief* No. 3586, May 1, 2012, <http://www.heritage.org/research/reports/2012/05/tax-extendere-review-needs-a-framework>.

4. For an excellent discussion of the immediate economic effects of delay, see Mohammed El-Erian, “The Fiscal Cliff Cometh,” *The Washington Post*, May 4, 2012, [http://www.washingtonpost.com/opinions/congress-shouldnt-delay-in-addressing-the-fiscal-cliff/2012/05/03/gIQAx3FOzT\\_story.html](http://www.washingtonpost.com/opinions/congress-shouldnt-delay-in-addressing-the-fiscal-cliff/2012/05/03/gIQAx3FOzT_story.html) (accessed May 16, 2012).