

ISSUE BRIEF

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Top Five Reasons Taxmageddon Is Destroying Jobs

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Taxmageddon is the one-year \$494 billion tax increase that is poised to strike the economy on January 1, 2013.¹ It consists of expiring tax policies such as those set in 2001 and 2003 and the 2010 payroll tax cut. Taxmageddon also includes five Obamacare tax increases.

Congress should not let Taxmageddon occur. It will devastate the economy and job creation. Below are the top five reasons Taxmageddon destroys jobs.

1. It Hurts Job Creators.

Taxmageddon will raise marginal income tax rates on small businesses, investors, and entrepreneurs. Higher tax rates will take money away from these job creators that they otherwise could have invested to create new jobs. Higher rates will decrease their incentives for taking on new risk, which will also deter job creation.

If all of Taxmageddon hits, it will deliver a terrible blow to jobs, but even letting it occur for incomes over \$200,000 (\$250,000 for married filers), as President Obama proposes, would have a severe effect. A recent study by the widely respected firm Ernst and Young found that President Obama's tax increase would destroy more than 700,000 jobs.² This is hardly surprising, as the tax increase would fall on the most successful small businesses that employ the most workers.³

2. It Creates Uncertainty.

There is no doubt that Taxmageddon would devastate jobs if it strikes in 2013, but as troubling is the mounting evidence that it is slowing job creation today.⁴

Businesses and investors do not know what their tax rates will be next year. Without this vital information, they cannot gauge the profitability of investments they could make now. Until they know what their taxes will be next year and can determine the profitability of those potential investments, they will delay.⁵ The jobs that those investments would create are likewise put on hold.

3. It Lowers Investment.

Taxmageddon will raise the tax rates on capital gains and dividends. The

capital gains tax would rise from 15 percent to 23.8 percent and the tax on dividends from 15 percent to 43.4 percent.

These higher tax rates will raise the cost to businesses and entrepreneurs of undertaking new investment to pursue promising new opportunities. A higher cost of investment will cause businesses and entrepreneurs to invest less, which will slow job creation.

4. It Begins Obamacare Taxes.

Taxmageddon marks the start of five of the 18 tax increases in Obamacare. Two of those taxes—the 3.8 percent surtax on investment income and the excise tax on medical devices—are major job killers.

The investment surtax, like the higher taxes on capital gains and dividends, will lower investment. The medical device tax will force medical device manufacturers to reduce their workforces. In fact, layoffs have already occurred at some manufacturers in anticipation of the tax.⁶

5. Imperils Family-Owned Businesses. Taxmageddon would raise the death tax rate to 55 percent with just a \$1 million exemption, up from its current 35 percent rate and \$5 million exemption.

The death tax is often portrayed as a tax that only rich heirs pay. In

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reality, the death tax hits family-owned businesses hardest.⁷ These businesses are valuable on paper because they have many assets that they need to make and sell their products.

But the businesses' book values are not representative of the families' liquid assets. When a family member passes on, these families often have to sell all or part of the business to raise the cash to pay the death tax. This slows the growth of these

businesses and in some cases forces them to lay off existing workers. If Congress and President Obama allow the death tax to rise, job creation will suffer as more families would have to sell their businesses to pay the death tax bill.

Stop Taxmageddon Now.

There are almost 13 million Americans out of work today. If Congress and President Obama allow Taxmageddon to occur, more Americans will be added to that

figure. Those who are already searching for work will find it even harder to find new jobs.

Congress and President Obama should not make it more difficult for the unemployed to find work and should prevent more Americans from joining the unemployment rolls by stopping all of Taxmageddon now.

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 2. Robert Carroll and Gerald Pranted, "Long-Run Macroeconomic Impact of Increasing Tax Rates on High-Income Taxpayers in 2013," Ernst and Young LLP, July 2012, <http://www.nfib.com/LinkClick.aspx?fileticket=OMV7uZczVaM%3d&tabid=1083> (accessed July 19, 2012).
 3. See Curtis S. Dubay, "Obama's Taxmageddon Tax Increase Would Hurt Job Creation," Heritage Foundation *Issue Brief* No. 3658, July 9, 2012, <http://www.heritage.org/research/reports/2012/07/obama-s-taxmageddon-tax-increase-would-hurt-job-creation>.
 4. See Curtis S. Dubay, "Taxmageddon Is Slowing the Economy Now," The Heritage Foundation, *The Foundry*, June 20, 2012, <http://blog.heritage.org/2012/06/20/taxmageddon-is-slowing-the-economy-now/>.
 5. Mohamed A. El-Erian, "The Fiscal Cliff Cometh," *The Washington Post*, May 3, 2012, http://www.washingtonpost.com/opinions/congress-shouldnt-delay-in-addressing-the-fiscal-cliff/2012/05/03/gIQAx3F0zT_story.html (accessed July 19, 2012).
 6. See Curtis S. Dubay, "Delaying Obamacare Tax Increases Key Part of Stopping Taxmageddon," Heritage Foundation *Issue Brief* No. 3637, June 13, 2012, <http://www.heritage.org/research/reports/2012/06/delaying-obamacare-tax-increases-key-part-of-stopping-taxmageddon>.
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