

ISSUE BRIEF

No. 3725 | SEPTEMBER 11, 2012

Congress Should Finish Its Summer Job: Stop Taxmageddon

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Now that Labor Day is past, Congress has returned to Washington after its summer vacation. Regrettably, it failed to complete its summer job before it left: stopping all of Taxmageddon. Hopefully, Members of Congress are well rested, because the dreadful August jobs report¹ heightened the urgency of preventing these tax increases.

Unprecedented Tax Increase.

Taxmageddon is a massive tax hike (\$494 billion for one year alone) that is on track to occur on January 1, 2013.² A tax increase of this size for one year is unprecedented. Taxmageddon will happen unless Congress gets to work now to stop it.

Taxmageddon is mostly the result of many tax policies expiring at the same time. Chief among them are the Bush-era tax policies. The payroll tax cut, the AMT patch, and a host

of other policies expire at year's end as well. Taxmageddon also includes the beginning of five new Obamacare taxes, including the economically devastating 3.8 percent surtax on investment.

Prior to its summer vacation, the House of Representatives did a large portion of its job by voting to stop almost all of Taxmageddon. The Senate passed a bill also, but it stopped a smaller portion of Taxmageddon. The most troubling part of the Senate bill is that it continues the Bush tax policies only for those taxpayers earning less than \$250,000 a year. In other words, the Senate voted for a tax *increase* on job creators as the unemployment rate remains over 8 percent and more than 12.5 million Americans are without jobs.

The Senate's bill, which mirrors President Obama's budget, would act as a further impediment to those 12.5 million Americans for going back to work and would add even more Americans to this already-too-large number.³ Congress should be working to alleviate the burden of bad policy on job creators, not add to it with job-killing tax increases.

Economically Devastating. It is imperative that Congress act as soon as possible to stop Taxmageddon,

because the effect it would have on the economy would be devastating. The economy is already at stall speed. An unprecedented tax increase the size of Taxmageddon would drive it further into the doldrums. In fact, the Congressional Budget Office estimates that, unless stopped by Congress, Taxmageddon will push the economy into a new recession.⁴

The most damaging policies would be higher tax rates on working, investing, and taking on risk. The higher rates would act as a deterrent to engaging in these activities, which are the basic ingredients of economic growth and are already largely absent from the economy.

The devastating impact Taxmageddon would have means that Congress cannot delay any longer. The uncertainty it is causing is already slowing the economy today. Businesses, investors, and entrepreneurs have no idea what their tax rates will be in a few months. Without this vital information, they cannot determine the profitability of investments that they could be making right now. And without knowing how profitable their actions could be, they cannot make the investments that could create jobs the economy so desperately needs. Those jobs will remain on hold until Congress

This paper, in its entirety, can be found at <http://report.heritage.org/ib3725>

Produced by the Thomas A. Roe Institute for Economic Policy Studies

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stops Taxmageddon. Worse, if Taxmageddon occurs, they will never materialize.

The list of prominent economists, market shapers, and well-respected foundations and institutions calling on Congress to stop Taxmageddon to avoid an economic catastrophe and relieve the economy of the uncertainty plaguing it now is long and growing.⁵ It is long past time for Congress to listen to them.

Reasons to Act Now. The list of reasons Congress should stop Taxmageddon now is almost as long the list of well-known figures calling for it to do so. The top three reasons Congress should act now are:

1. Stop the uncertainty. Congress needs to remove the uncertainty that Taxmageddon is causing as soon as possible. The recent spate of soft economic data is partially attributable to this uncertainty. The recent August jobs report was abysmal. It showed that the economy is not creating enough jobs to keep up with population growth and that too many unemployed Americans are giving up looking for jobs. Until the uncertainty is gone, the economy will not get back on track and job growth will

not pick up to levels necessary to repair the labor market.

2. It is in Congress's self-interest. By stopping Taxmageddon now, Congress could make its life easier in any post-election session. There are several issues that will demand congressional action after the November election. Among them are the debt limit, preventing the effects of sequester cuts in defense that would imperil the nation's ability to defend itself, the expiration of unemployment benefits, and steep cuts in payments to Medicare providers. These issues demand that Congress take action before year's end. Taking care of Taxmageddon now would mean one fewer issue for Congress to deal with as year's end approaches.

3. Capitalize on work already done. Even though there are many important issues for it to tackle, the decision has already been made for Congress to address most of them after the election. The exception is Taxmageddon, because it is the one on which Congress has made the most progress. There is no

reason why Congress should not capitalize on the small progress it has made and stop Taxmageddon now while there is little else on its plate.

Jobs Situation Demands Action Now. The August jobs report is the latest in a series of gloomy jobs reports. Well under projections, the economy added a paltry 96,000 new jobs in August, and July and June employment was revised downward. Most alarming were the nearly 400,000 workers who left the workforce in August, bringing the labor force participation rate to its lowest point in 30 years. GDP growth is also showing a trend of deceleration.⁶

The mounting evidence shows that the economy cannot withstand a major tax increase in a few months. Rather than continue to subject the economy to Taxmageddon's crippling uncertainty, Congress should take that burden off of America's job creators now. Until it does so, we can expect further troubling economic data, including weak job numbers.

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1. U.S. Department of Labor, Bureau of Employment Statistics, "The Employment Situation—August 2012," September 7, 2012, <http://www.bls.gov/news.release/pdf/empstat.pdf> (accessed September 7, 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 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. Congressional Budget Office, "An Update to the Budget and Economic Outlook: Fiscal Years 2012 to 2022," August 22, 2012, http://www.cbo.gov/sites/default/files/cbofiles/attachments/08-22-2012-Update_to_Outlook.pdf (accessed September 10, 2012).
5. Curtis S. Dubay, Peyton Miller, and Alex Entz, "Who Wants Washington to Prevent Taxmageddon?," The Heritage Foundation, *The Foundry*, July 24, 2013, <http://blog.heritage.org/2012/07/24/who-wants-washington-to-prevent-taxmageddon/>.
6. William Beach, "It's Not Getting Better: GDP Grows at a Sluggish 1.7 Percent Rate," The Heritage Foundation, *The Foundry*, August 29, 2013, <http://blog.heritage.org/2012/08/29/its-not-getting-better-gdp-grows-at-a-sluggish-1-7-percent-rate/>.