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Tax Day 2013: No More Tax Increases Shall Pass

Curtis S. Dubay

Right now, Americans are enduring the pain of filling out confusing tax forms before the April 15 deadline for completing their 2012 income taxes. The frustration they feel today will be even worse next year, however. That is when they will feel the sting of recent tax increases resulting from the fiscal cliff deal Congress struck earlier this year[1]:

- **Higher marginal tax rates.** The fiscal cliff deal raised the top income tax rate from 35 percent to 39.6 percent for incomes over $450,000 per year ($400,000 for single filers).

- **Personal exemption phase-out (PEP).** The deal phased down, and eventually out, personal exemptions starting at incomes over $300,000 per year ($250,000 for singles). Larger families with more exemptions will face larger tax increases.

- **Itemized deduction phase-down.** The so-called "Pease" provision also included in the fiscal cliff deal reduces itemized deductions. It does so starting at the same income level as PEP begins.

- **Higher taxes on investment.** The deal raised tax rates on capital gains and dividends from 15 percent to 20 percent starting at the same income levels as the income tax rate hike.

These tax increases are slowing economic growth and job creation because they fall heavily on small businesses and investors. Americans at all income levels are feeling their negative impact.

Obamacare Tax Hikes Came First. The fiscal cliff tax hikes were not the first time Washington raised taxes since President Obama became President. That came by Obamacare, which raised taxes by $1 trillion over 10 years.[2]

That additional revenue comes from the 18 tax increases included in the law.[3]

The biggest tax hike in that group is an increase of the hospital insurance (HI) portion of the payroll tax. Like the fiscal cliff hikes, it began this year, but taxpayers will not see the full pain it inflicts on their checkbooks until next year's tax season.

The HI tax increase has two components: First, it raises the HI tax rate on wages from 2.9 percent to 3.8 percent. Second, it applies that 3.8 percent rate to investment income, including capital gains and dividends. This is the first time the payroll tax has been applied to investment income, setting a dangerous precedent.[4]

Because the HI tax on wages applies to every dollar of income, the full top income tax rate is now 43.4 percent (39.6 percent plus 3.8 percent). The total rate on capital gains and dividends is now 23.8 percent (20 percent plus 3.8 percent).

The portion of the tax increase that falls on wages will reduce work incentives. The 3.8 percent

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The Heritage Foundation
214 Massachusetts Avenue, NE
Washington, DC 20002
(202) 546-4400 | heritage.org

surtax on investment will reduce investment.[5] Both effects mean slower growth and less job creation for Americans at all income levels, including middle- and low-income Americans.

No More Shall Pass. Together, the fiscal cliff and the Obamacare tax increases raise revenue by more than $1.6 trillion over the next 10 years.

The Congressional Budget Office estimates that, as a result of these tax increases, tax revenue will be 18.7 percent of gross domestic product (GDP) in 2023, the end of the current 10-year budget window. It assumes that all current tax policies remain in place.[6] That is well above the historical average of 18.5 percent of GDP the tax code has raised since the end of World War II. Nevertheless, President Obama, congressional Democrats,[7] and liberal millionaires such as Warren Buffett still want more tax increases.

There will be plenty of revenue coming into Washington over the next 10 years. Additional tax hikes would not address the problem of excessive spending but instead give *more* money to Congress and President Obama to spend.

The mantra going forward of all Members of Congress who believe in limited government should be, to paraphrase a well-worn expression, "no more shall pass."

Higher Taxes Means Less Opportunity. Congress should stop additional tax increases not just because they would grow government even larger but also because more unnecessary tax increases would be most harmful to middle- and low-income workers.

Additional tax increases would likely come through "closing loopholes" for high-income taxpayers. Closing loopholes is Washington-speak for eliminating deductions, exemptions, and credits and is the tax increase of choice in Washington today.

Higher taxes on the rich from loophole closing, far from simply soaking the rich, would hurt middle- and low-income workers because they would further slow economic growth and job creation. This reduced opportunity would be on top of already diminished opportunity these families and workers are experiencing from the fiscal cliff and Obamacare tax increases.

For many in the middle class, another round of tax increases would slow economic growth, making it harder to find better paying, more rewarding jobs that would help them better provide for their families. Without that higher income, they would be less able to move to better neighborhoods with better schools for their children.

What low-income workers need most is to gain skills and experience that will help them move up the career ladder. But less economic growth means less opportunity for them to land jobs that allow them to gain these skills, which makes it harder for them to begin their ascent up the income scales.

Stopping Tax Increases Is the Right Thing to Do. Taking the stance that no more tax increase should pass is not obstructionism. Nor is it thwarting President Obama's constant call for a "balanced approach" to deficit and debt reduction that is anything but.

Standing athwart additional tax increases is the right position for those who want to stop taxes from creating an even bigger barrier blocking middle- and low-income workers from rising based on their ability and initiative.

—***Curtis S. Dubay*** *is a Senior Analyst in Tax Policy in the Thomas A. Roe Institute for Economic Policy Studies at The Heritage Foundation.*

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2. Congressional Budget Office, "Letter to Speaker John Boehner," July 24, 2012, http://www.cbo.gov/sites/default/files/cbofiles/attachments/43471-hr6079.pdf (accessed March 21, 2013).
3. See Curtis S. Dubay, "Obamacare: Impact on Taxpayers," Heritage Foundation *Backgrounder* No. 2402, April 14, 2010, http://www.heritage.org/research/reports/2010/04/obamacare-impact-on-taxpayers.
4. See Curtis S. Dubay, "Student Loan Payroll Tax Increase: Another Attack on Small Business," Heritage Foundation *Issue Brief* No. 3595, May 8, 2012, http://www.heritage.org/research/reports/2012/05/student-loan-payroll-tax-increase-another-attack-on-small-business.
5. 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.
6. Congressional Budget Office, *The Budget and Economic Outlook: Fiscal Years 2013 to 2023*, February 2013, http://www.cbo.gov/sites/default/files/cbofiles/attachments/43907-BudgetOutlook.pdf (accessed March 21, 2013).
7. See Curtis S. Dubay, "Senate Democrats Want Unnecessary $1.5 Trillion Tax Increase," The Heritage Foundation, *The Foundry*, March 14, 2013, http://blog.heritage.org/2013/03/14/senate-democrats-want-unnecessary-1-trillion-tax-increase/.