# The Obama Tax Bill Comes Due

By: David A. Patten – January 6th, 2013

A growing chorus of economists is warning that Congress' last-minute fix to dodge the fiscal cliff could drain much more cash from the taxpayers' wallets than generally recognized – as much as $2.2 trillion over 10 years – and may significantly slow economic growth.

Reflecting the progressive nature of the new tax structure, the Tax Policy Center estimates that workers earning between $50,000 and $75,000 will pay an about $822 more in taxes this year. Compare that to a taxpayer with an income of $1 million, who is expected to shell out an additional $170,000.

Perhaps the biggest surprise for taxpayers: Despite both parties' promises during the campaign that taxes would not go up for middle-income wage earners, The Tax Policy Center reports taxes will rise for more than 77 percent of American households. Most of this stems from the expiration of the so-called payroll tax holiday.

While the number crunching continues in earnest, the tax wallop of the 157-page American Taxpayer Relief Tax Act of 2012 that Congress passed last week is gradually emerging. It includes:

- About $160 billion of revenue this year due to the expiration of the payroll tax "holiday," which increases the payroll tax that helps pay for Social Security from 4.2 percent to 6.2 percent. According to the Tax Policy Center, this increase will hit lower- and middle-income taxpayers harder, in percentage terms.

- $62 billion annually due to hiking the top marginal income-tax rate paid by the wealthy from 35 percent to 39.6 percent. This applies to the less than 1 percent of American households who earn $450,000 annually, and to single filers earning $400,000.

- $15 billion a year from limiting, via a "personal exemption phase out," or PEP, the exemptions and deductions that wealthier families can claim. For a couple earning $400,000 that averages about $50,000 in deductions each year, the tax bill would rise by about $1,000 according to a Wall Street Journal calculation.

- $5.5 billion garnered by increasing the tax rate for capital gains and dividends from 15 percent to 20 percent (in addition to the 3.8 percent surcharge on investment income for the wealthy, which will kick to help defray the cost of Obamacare).

- Another $2 billion annually will be collected by increasing the top rate for gift and estate taxes from 35 to 40 percent.

The bottom line of the new taxation: Less economic growth. "Compared to what the economy would have been had we extended all tax policies," Heritage Foundation Senior Policy Analyst and tax expert Curtis S. Dubay tells Newsmax, "we're going to have a slower growing economy, we're going to have fewer jobs, less opportunity for Americans of all income levels."

But the fiscal-cliff taxes are only part of the story. That's because the taxes that Congress approved as part of the Patient Protection and Affordable Care Act, a.k.a. Obamacare, are also kicking in this year as well. They include:

- A nine-tenths of 1 percent increase in the hospital-insurance (Medicare) payroll tax paid by couples earning more than $250,000 a year, or $200,000 per year for single filers [raising $21 billion in additional 2013 tax revenue].

- A 3.8 percent surcharge in the tax rate for capital gains and dividends -- in addition to the "fiscal cliff" compromise that hiked taxes on capital gains and dividends from 15 to 20 percent – that will apply to married couples earning more than $250,000 per year, or single filers earning $200,000 [approximately $11 billion, estimated].

- Elimination of corporate deductions for retirees' prescriptions, raising tax costs to employers [$4.5 billion].

- A 2.3 percent excise tax on manufacturers and importers of medical devices, which is expected to be passed along in higher costs to consumers [$2 billion].

- A reduction in the amount that middle-class families facing high medical expenses can deduct from their income taxes if they incur high medical expenses [$2 billion annually].

- A $2,500 limit on tax-free flexible spending accounts, which employees use to help defray medical expenses [$1.3 billion].

Combine the tax hike stemming from health-care reform, the post-holiday increase in the payroll tax, and the tax increases stemming from the fiscal-cliff bill, and the drain on the economy could exceed $2.5 trillion over the next decade.

So what will that do to the economy? Opinions vary widely on how a lackluster economy, already struggling with 7.8 percent unemployment, which only added 155,000 jobs in December, will react to the tax deal that former House Speaker Nancy Pelosi, D-Calif., described as "a happy start to a new year."

The Committee for a Responsible Federal Budget (CRFB) has estimated that the fiscal-cliff deal will reduce GDP in 2013 by about 1.3 percent. Still, that's less than the 2.9 percent GDP would have plummeted without the compromise, according to Congressional Budget Office calculations.

If lawmakers push the looming sequestration into 2014, the decline in GDP would drop further, perhaps to .7 percent, according to the CRFB.

Another big unknown is how the nation's most prosperous taxpayers will respond to the spike in taxes.

The small-business owners who account for most job creation in the United States often organize their businesses as "Chapter S" corporations, or S-corps. These entities do not pay corporate taxes, but rather distribute their profits each year among the partners. S-corps' profits appear on the partners individual tax returns, and are therefore vulnerable to the higher marginal rates.

Prior to the fiscal-cliff deal, the National Federation of Independent Business small-business optimism index showed a 5.6 percent decline in December — one of the sharpest declines in the survey's history. Reaction to the November elections was cited as the major reason.

NFIB President and CEO Dan Danner welcomed some aspects of the fiscal cliff deal. But he added: "It's hugely disappointing to the small-business community that the legislative bridge to avert the 'cliff' did not address our country's most pressing economic issue: unchecked spending that leads to crushing deficits and debt."

There are indications the economic ripples of the jump in taxes may be broadly felt. Approximately 750,000 small businesses that are organized as S-corp partnerships would be impacted by raising taxes on incomes above $500,000, according to a 2011 Treasury Department report.

Heritage Foundation economist Romina Boccia tells Newsmax the higher taxes on capital gains and dividends will make start-up capital harder to find.

"The large tax increase on dividends and capital gains makes it more difficult for startup firms to get financing," she says. "This means fewer opportunities for innovation and increases in productivity — the engines of economic growth.

"Moreover, together with the increase in marginal income taxes for investors and small businesses, this deal is bad news for the 12 million Americans out of work, because it will dampen job creation from new and existing businesses."

That means fulfilling the president's campaign promise to hike taxes on the top 1 percent could come with a steep price tag indeed.

CATO budget analyst Tad DeHaven tells Newsmax that the administration's focus on raising tax rates on wealthier Americans addressed neither the nation's spiraling deficits, nor the job-killing uncertainty that many believe has been holding back the economy.

"Here we are with this latest so-called crisis averted," says DeHaven. "But now we have another debt-ceiling breech coming up; the continuing resolution [to fund the government] expires in March; sequestration has to be dealt with two months from now.

“So the uncertainty lingers, and you have the administration and Democrats in Congress saying we’re not done with tax increases on what I like to call productive households yet. So the uncertainty remains,” he adds.

Says DeHaven: “The administration has been very successful in convincing an extremely ignorant public that our fiscal imbalances can be solved by merely having the wealthier people pay their fair share. And it’s simply nonsense. The amount of revenue that they are going to generate from this tax increase is not a heck of a lot, relative to how much is going to be spent.”