Obama's $264 Billion Tax for 2013 May Spark New Recession

By: David A. Patten – January 7th, 2013

With the fiscal cliff deal and many Obamacare taxes taking effect, Americans will be slammed with an estimated $264 billion in new taxes this year alone — making 2013 memorable for delivering one of the largest one-year tax increases in American history.

The math breakdown of the new taxes is simple: Key parts of the Bush tax cuts will expire as a result of the new fiscal cliff legislation, hitting American taxpayers with taxes of about $39.5 billion each year for the next decade.

In addition, the expiration of the so-called “payroll-tax holiday” will fill federal coffers with another $160 billion each year, on average, over the next 10 years.

And finally, several new Obamacare taxes begin this year, costing Americans an estimated $41.8 billion of additional taxes.

In the wake of this tax tsunami, a growing chorus of economists is warning that Congress’s last-minute effort to dodge the fiscal cliff — which added some $2.2 trillion in new revenue over 10 years, could function as a massive "anti-stimulus" — pushing a teetering economy into a full-blown recession within the next 12 to 18 months.

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.

In 2013 alone, the new tax revenues would include:

- **$160 Billion Hike in Payroll Taxes.** This is due to the expiration of the payroll tax “holiday,” which increases the payroll tax that helps fund Social Security from 4.2 percent to 6.2 percent. According to the Tax Policy Center, this increase will actually hit lower- and middle-income taxpayers harder, in percentage terms, than the wealthy. Commentators often say “it’s just a 2 percent increase” — it’s actually a 48 percent increase over the tax rate wage earners paid for each of the past two years.
- **$39.5 Billion in Income-Tax Rate Hikes.** President Obama and the Democratic Senate insisted on letting the Bush tax cuts lapse on high-income earners. Such earners making more than $400,000 ($450,000 for married couples) will see their marginal income-tax rates rise from 35 percent to 39.6 percent. That shift is projected to garner $395 billion in taxes over the next 10 years. The tax affects less than 1 percent of American households — but also impacts many high-spending

professionals and successful small business owners who pay taxes on the personal returns.

- **$15 Billion from Limiting Deductions.** The new law calls for a “personal exemption phase out,” or PEP, affecting the exemptions and deductions that wealthier families can claim. It affects individual filers at $250,000, and $300,000 for joint filers. The tax bill for a couple earning $400,000 averaging about $50,000 in deductions each year will rise by about $1,000 according to a Wall Street Journal calculation.
- **$5.5 Billion in Capital Gain and Dividend Taxes.** The new tax rate for capital gains and dividends will rise from 15 percent to 20 percent (this figure doesn't include an additional 3.8 percent surcharge on investment income for high-income earners, which will kick in during 2013 to help defray the cost of Obamacare).
- **$2 Billion in Estate Taxes.** The law increases the top rate for gift and estate taxes from 35 to 40 percent.

Despite President Obama's promise during both of his campaigns not to raise taxes on middle-income wage earners, The Tax Policy Center reports taxes will go up for over 77 percent of American households.

The bottom line of the new taxation: Economists predict less economic growth as cash is sucked out of the economy to cover the burgeoning federal deficit. And some see a worse scenario: greater likelihood of a new recession.

Many news outlets are reporting the tax impact of the fiscal cliff deal to be in the neighborhood of $620 billion over 10 years. This overlooks the larger impact, however, of the expiration of the payroll tax holiday, which will rise from 4.2 to 6.2 percent – a one-year increase in that tax of 48 percent.

The payroll tax reduction was originally expected to last for one year, but it was extended for a second year. Some economists have questioned the wisdom of allowing the payroll tax to increase in the middle of a sluggish economy.

Moody’s chief economist Mark Zandi issued a projection that the tax burden will cut GDP growth by three-quarters of 1 percent, causing the creation of 600,000 fewer jobs in 2013. But the general consensus among economists is that the impact will be much worse — about a 1.5 percent loss of GDP growth. Such a serious dip could push an already lackluster economy close to the brink of actual contraction.

But the impact of the fiscal-cliff taxes are only part of the story. That’s because several of the taxes that Congress approved as part of the Patient Protection and Affordable Care Act, dubbed Obamacare, are also kicking in this year.

Based on the average per-year cost of those taxes, they will net the federal government an additional $41.8 billion in new tax revenue in 2013.
The cost of the new Obamacare tax hikes coming in 2013:

- **$21 Billion in Medicare Taxes.** The healthcare law calls for 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.

- **$11 Billion from Surcharge on Capital Gains and Dividends.** Married couples earning more than $250,000 per year, or single filers earning $200,000 will be slapped with 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.
- **$4.5 Billion in Limiting Deductions**. Obamacare eliminates corporate deductions for retirees' prescriptions, raising tax costs to employers.
- **$2 Billion in Excise Fees.** 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 in Limiting Healthcare Itemized Deductions.** This reflects 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.
- **$1.3 Billion from Limiting Flexible Savings Accounts**. A $2,500 limit will go into effect on tax-free flexible spending accounts, which employees use to help defray medical expenses.

The tax burden associated with healthcare reform will climb even higher next year, when the tax penalty for not complying with the mandate to purchase healthcare insurance begins to kick in.

Some experts predict millions of Americans may opt to pay the tax penalty, rather than comply with the mandate.

The CBO estimates the U.S. Treasury will get $167 billion in such fines over the next 10 years.

Some observers also argue that the rising private insurance premiums due to Obamacare mandate are a hidden tax that will directly hit insured individuals and companies.

Overall, the House Ways and Means Committee has estimated that all 21 tax increases associated with the healthcare law will bring in over $675 billion over the next decade — an average of over $67 billion each year.

Small Business Targeted

One big unknown is how the nation's most prosperous taxpayers, notably small business owners, will respond to the spike in taxes.

A 2011 Treasury department report found that 750,000 small businesses would be impacted if taxes were raised on individuals making more than $500,000.

Many 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 to partners who then declare income directly through the partners' individual tax returns. Those returns are now vulnerable to the high marginal tax rates of 39.6 percent,

limitations on deductions, and the Obamacare surcharge on capital gains and dividends. Those earning more than $450,000 would see their tax rates rise to close to 45 percent. That would mean high-income earners could see close to a 20 percent increase in their tax rates starting in 2013.

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.”

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. . . . . it will dampen job creation from new and existing businesses.”

Recession Risk

“In isolation, it poses a major risk of putting us in a recession,” says Robert A. Wiedemer, economist and co-author of the best-selling “Aftershock." Wiedemer predicted the housing and subprime meltdown of 2007 and '08.

With GDP growth hovering around only 2 percent, and with consumers already skittish about the economy, Wiedemer predicts that the post-cliff tax jolt will “have a negative effect on the stock market, on real estate markets, and on consumer spending.”

Wiedemer emphasized that ax jolt may be mitigated by the Federal Reserve which could offset the fiscal contraction from the new taxes by further increasing the the money supply, which he argues will create a new set of problems.

Economist Chris Edwards, director of tax policy studies at the CATO Institute, says the short-term impact of the tax hikes will be negative, but warns the long-term impact will be even more negative.

“The more regulation, and the higher the tax rates we have,” he says, “the less flexible the economy becomes, and the longer it will take to recover from any negative blow.”

“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.”

Edward Leamer, a UCLA professor of economics who serves as director of the UCLA Anderson Forecast, tells Newsmax that the real concern in targeting the wealthy with additional taxes is the economic drag it causes over the long term.

Leamer believes estimates that the increased taxation will hurt GDP by as much as 1.5 percent next year are greatly exaggerated, because they are based on flawed Keynesian economic models. The real impact will come later, he says.

Leamer rates the current chance of recession as “very small.”

Traditionally, he says, U.S. recessions stem from weak consumer demand for automobiles and homes. With strong liquidity and low rates provided by the Federal Reserve, there is no indication any such recession is on the horizon, he says.

But he warns the fiscal-cliff deal, by giving taxpayers the erroneous impression that higher taxes on the wealthy can solve the nation’s financial problems, make another, more serious type of economic downturn more likely: that the bond market will say “enough is enough” in response to spiraling U.S. debt.

“That would be a very severe recession,” he says, warning that no one can predict when that day might come.

Britain's Tax Example

President Obama and congressional Democrats pressed for the new taxes to close the nation's $1.1 trillion deficit.

But some analysts contend that increasing taxes on high-income earners could actually yield far less revenue for government coffers, and, if a recession hits, actually widen the deficit.

After the financial crisis hit Europe, Britain raised tax rates in 2009 from 40 to 50 percent on its highest-income earners.

But the new taxes raised much less revenue than officials hoped, in part because British citizens voted with their feet and relocated to other countries. The Daily Mail reported that after the tax hike, government revenues from high income earners actually fell by about 50 percent, from 13.4 billion pounds to 6.5 billion pounds in 2010/11.

Faced with a massive decline in revenues, Britain decided to drop the top tax rate back down to 45 percent in March 2012.

High tax policies have also kept Britain bogged down in its longest double-dip recession since at least 1955. Germany’s economy, by contrast, grew by 4.2 percent in 2010, and 3 percent in 2011. Britain's economic growth slowed to 0.75 percent last year.

Britain's example demonstrates that president’s realized goal of hiking taxes on the top 1 percent could carry a steep price indeed for the entire U.S. economy.