'Fiscal Cliff' Will Bring $500 Billion Tax Hit in 2013, TPC Says
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Taxes will rise by more than $500 billion in 2013 if Congress does not extend any of the tax provisions set to expire December 31, according to a Tax Policy Center (TPC) report released October 1.

For the average household, taxes will go up by almost $3,500 next year; households in the middle of the income distribution will face a $2,000 tax increase. Average marginal tax rates will rise by 5 percentage points on labor income, by 7 points on capital gains, and by more than 20 points on dividends. Overall, 90 percent of households will see their taxes go up as almost every tax cut enacted since 2001 disappears, the report says.

The report gives an overview of the tax component of the so-called fiscal cliff, the scheduled set of tax increases and spending cuts that many economists have warned could tip the economy back into a recession. (For the report, see *Doc 2012-20390*.)

Most of the increase will result from the expiration of the payroll tax cut and of the two Bush-era tax cut packages, the Economic Growth and Tax Relief Reconciliation Act of 2001 (EGTRRA) and the Jobs and Growth Tax Relief Reconciliation Act of 2003 (JGTRRA).

Enacted in 2010, the payroll tax cut reduced employees' Social Security taxes by 2 percentage points, to 4.2 percent. Allowing the cut to lapse would generate $115 billion next year, or 22 percent of the total projected revenue increase from the fiscal cliff, the TPC report says. (For prior coverage, see *Doc 2012-15987* or *2012 TNT 145-5*.)

Meanwhile, the expiration of the Bush tax cuts will raise rates on ordinary income as well as on capital gains and dividends.

Chuck Marr of the Center on Budget and Policy Priorities said the TPC report shows that Congress needs to refocus the tax debate on extending the payroll tax cut. Renewing that provision would do more to help the economy next year than extending the EGTRRA and JGTRRA tax cuts, he said.

Lawmakers from both parties, however, have said they want to let the payroll tax cut end. In late September, House Minority Leader Nancy Pelosi, D-Calif., told reporters she favors letting the provision expire so Congress can work on simplifying the tax code.

Chris Edwards of the Cato Institute gave the TPC credit for including the effects of higher marginal tax rates in the report. Marginal rates drive economic behavior, Edwards said, so it is good to see those effects covered in the report.

But Edwards disagreed with the report's $500 billion top-line figure. He said the payroll tax cut was meant to be temporary and should not be reflected in that number.

In addition to the payroll tax cut and the Bush tax cuts, Congress has thus far failed to renew several tax extenders set to expire in 2013, along with some tax cuts enacted in the American Recovery and

Reinvestment Act of 2009. Also, millions of taxpayers filing their tax returns in April may find they owe alternative minimum tax, which Congress has not patched for 2012.

Finally, several new taxes associated with the 2010 healthcare reform law, the Patient Protection and Affordable Care Act, will take effect next year, adding to the rising tax burden. (For related analysis, see *Doc 2012-20387*.)

The tax increases come with a silver lining, TPC reported: "Those changes would reduce the federal deficit significantly in 2013 and subsequent years, slowing America's build-up of debt and reducing debt as a share of gross domestic product." However, the report agreed with the broad consensus among economists that the sudden, sharp increase in taxes would harm economic growth in the short term