The Washington Times

www.washingtontimes.com

Obama's Imaginary Tax Cuts

By Richard W. Rahn
Published October 26, 2010

Democrats could leave Americans hurting for the holidays

How many times have you heard the president and the congressional Democrats say Americans who make less than $200,000 a year have not had, and will not have, any of their taxes increased? Unfortunately, it is not true, and it is likely to become a whole lot worse.

The 111th Congress has already enacted $352 billion in net tax increases and may, in the upcoming lame-duck session, enact the largest tax increases in history, which will hit every man, woman and child - as well as every business in America. The good folks at Americans for Tax Reform (ATR) have put together the data on what the current Democrat-controlled Congress has done already. I have summarized their analysis in the accompanying table.

Net Change in Taxes 111th Congress (in billions of dollars)		
Legislation (bill number)	**Gross Tax Cuts Enacted**	**Gross Tax Increases Enacted**
H.R. 2 S-Chip	0	65.5
H.R. 1 "Stimulus"	217.6	0
H.R. 3590/4872 "Obamacare"	144.0	652.2
H.R. 5297 "Small Business"	12.0	8.0
Totals	**373.0**	**725.7**

The tax increase of $725.7 billion dwarfs the tax cuts of $373 billion, leaving a net tax increase of $352 billion. But it gets worse. Just $107.6 billion of the tax cuts are permanent - the rest are temporary - but all of the $725.7 billion increases are permanent.

The S-Chip bill was funded by an additional $65.5 billion in tobacco tax increases. These increases are paid primarily by lower-income people. Obamacare is funded with a variety of individual and employer mandates, excise tax increases and fees, including a tax on "tanning salons," adding up to $652 billion in tax increases, before deducting $107 billion in "exchange credits" and $37 billion in small-business tax credits. The vast majority of these tax increases fall on middle- and lower-income people. As with all of the revenue estimates prepared by Congress' Joint Tax Committee, most of the behavioral effects of these tax changes are ignored - e.g., how many tanning-salon customers will now opt for the sun rather than pay the tax?

The president and most congressional Democrats have been claiming they will make sure no one making less than $200,000 per year will face a tax increase when all of the "Bush tax cuts" expire on midnight Dec. 31. Given they have not been truthful about the tax increases they already have enacted, why should anyone believe these new claims?

The specific claim Democrats are making now is that they are going to enact the pledged and necessary tax reductions during the upcoming lame-duck session of Congress. Ask yourself, "If Democrats are being truthful, why did they not enact the tax cuts before adjourning to campaign for re-election, when such an act would have been to their political advantage?" The answer is that they did not have a majority of Democrats who could agree on any specific tax-cut measure.

Remember, the lame-duck Congress will contain the same members who have been serving, even though, perhaps, 50 or 60 of them will have lost the election. What incentive do they have at that point to agree suddenly to tax cuts they previously opposed? Yes, the people might have spoken in favor of the cuts through the electoral process, but many of these defeated members will be more interested in returning home well before Christmas rather than spending time in Washington, debating tax-cut legislation. They also would be beholden to the president for appointments to new jobs.

Restoring all of the tax cuts will not be a simple process, nor one that most of the retiring and defeated members will be able to agree upon readily. The issues include:

- Which income levels to exclude from the tax increase.
- Whether the marriage penalty should be allowed to return.
- Should the dependent care tax credit be renewed.

- Should the death tax be allowed to return and, if so, at what rate.
- Should the capital gains tax and dividend tax rates be allowed to increase.
- Should the alternative minimum tax be allowed to ensnare another 24 million families.
- Should small-business capital investment expensing be abolished, and should depreciation be made more expensive for all businesses.
- Should the research-and-development tax credit and other business tax credits and deductions be renewed.
- Should existing tax benefits for education be renewed.
- Should charitable contributions from IRAs be continued.

The current conventional wisdom is that the lame-duck Congress will just vote to extend all of the existing lower rates, tax credits, etc. for a year or two - but it will not be that simple. Congress first has to deal with the budget because government spending authority expires on Dec. 3. Congress did not pass a budget and the required appropriation bills - and this must be done for the government to continue to operate. Congress also has a few other vital issues to deal with before it gets around to the tax cuts. The lame-duck session begins in mid-November, adjourns for Thanksgiving, and then reconvenes. Congress must enact the tax cuts by Dec. 10 for the tax withholding tables to be adjusted in time for January payrolls, or every man, woman, child and business will have a tax increase in January.

If there is a new Republican Congress, it will take some weeks after it convenes in January to straighten out the mess it was left - and it is not at all certain that President Obama will sign the necessary legislation, repealing the tax increases. The bottom line is that the exiting Congress may continue to be irresponsible by not doing what is necessary to avoid a huge tax increase in January. Such a tax increase will almost certainly cause a double-dip recession and market chaos. Take heed.

Richard W. Rahn is a senior fellow at the Cato Institute and chairman of the Institute for Global Economic Growth.

http://www.washingtontimes.com/news/2010/oct/25/obamas-imaginary-tax-cut/