U.S. Chamber of Commerce

100 Years Standing Up for American Enterprise

Fiscal Cliff

BACKGROUND

Without congressional action, the following will occur at the end of 2012:

- All marginal individual rates increase.
- The capital gains tax rate goes up.
- The dividend tax rate skyrockets.
- The death tax reverts to 2000 levels.
- The AMT patch ends.
- Marriage penalty relief expires.
- The child tax credit is cut in half.
- Annual business "extenders" end.

Unless Congress acts before January 1, 2013, here's what happens:

- **Expiring 2001 and 2003 Tax Cuts**—On December 31, the set of tax cuts enacted in 2001 and expanded in 2003 and 2010 will expire. As a result, the top individual rate will rise from 35% to 39.6%, and other rates will rise in kind. The 10% bracket will disappear. In addition, capital gains will be taxed at 20%, and dividends will be taxed as ordinary income. The "Pease" limitation on itemized deductions automatically kicks in, which will raise both the top capital gains rate and individual rate an additional 1.2%. The estate tax will return to the parameters of a $1 million exemption and a 55% top rate. The child tax credit will be cut in half and will no longer be refundable. Finally, marriage penalties will increase, and various tax benefits for education, retirement savings, and low-income individuals will disappear.
- **The End of AMT Patches**—Congress generally "patches" the Alternative Minimum Tax (AMT) every year to help it keep pace with inflation. As a result, just over 4 million taxpayers currently pay the AMT. If a new patch is not enacted retroactively for 2012, that number will increase to more than 30 million for that year and will exceed 40 million by the end of the decade.
- **The Expiration of Various "Tax Extenders"**—Various normal "extenders," such as the research and experimentation tax credit and the state and local sales tax deduction, expired at the end of 2011. Others, such as the production tax credit, will expire at the end of 2012.

On January 1, a provision of Obamacare imposes a 0.9% surtax on salary income over $200,000 ($250,000 per couple). Obamacare also slaps a 3.8% surtax on all forms of investment income received by "high income" individuals (over $200,000 per individual and $250,000 per couple), including capital gains and dividends income, resulting in a total top rate of 25% on capital gains and 44.6% on dividend income.

At nearly $500 billion, these tax hikes will by far amount to the largest tax increase in the history of our country.

POSITION

Congress must act now to prevent the largest tax increase in U.S. history from taking effect next year. Congress also needs to enact fundamental tax and spending reform that will drive American competitiveness and growth in the long term.

LINKS

- US Chamber Fiscal Cliff Countdown (http://www.friendsoftheuschamber.com/fiscal-cliff)
- CBO Report on Economic Effect of Fiscal Cliff (http://www.cbo.gov/publication/43262)
- Toward the Abyss, Dr. Martin Regalia Op Ed (http://www.freeenterprise.com/economy-taxes/toward-abyss)