DEMOCRATS' TICKING TAX BOMB, PART IV

How Seniors Will Be Affected
If the 2001 and 2003 Tax Reductions Are Not Extended

As described in Part I of this series, when the clock strikes midnight on December 31, 2012, the low-tax policies originally enacted in 2001 and 2003 – and extended, at Republicans' urging, by a Democrat Congress and President Obama in 2010 – are again scheduled to expire. This will result in higher taxes for every American who pays income taxes, as well as for small businesses, the engines of job creation. House Republicans have announced plans to hold a vote prior to the August recess on legislation to extend all of these low-tax policies again, while also establishing a pathway to comprehensive tax reform next year. President Obama and the Democrats who control Washington, meanwhile, have made it clear that they are prepared to allow all of these tax hikes – totaling more than $4 trillion over the next decade – to take effect at the end of this year. Part II of this series provided some examples showing how much more in taxes typical taxpayers can expect to pay as a result of this looming tax hike, while Part III detailed how these tax increases will affect middle-class families.

This document explores how these looming tax increases will directly affect seniors. Without Democrat action, in 2013, seniors will experience significant tax increases when:

- **The 10 percent bracket will be eliminated**, raising the lowest tax rate to 15 percent and costing 88 million taxpayers – including every senior who pays income taxes – an average of $502 in higher taxes in 2013 according to the non-partisan Joint Committee on Taxation (JCT).
- **The tax rates on capital gains and dividends will rise significantly**, imposing an average tax hit of $1,700 on 9 million seniors according to new JCT data.
- **The death tax will be increased** with rates as high as 55 percent.

Here are some further details about these looming tax hikes on America's seniors.

10 Percent Bracket Eliminated

Currently, the lowest tax bracket is 10 percent, and that bracket applies, in 2012, to the first $8,700 of taxable income for single filers (including seniors) and to the first $17,400 of taxable income for married couples filing jointly (including married seniors). In 2013, however, the 10 percent rate will disappear, meaning that the very first dollar of taxable income earned by all Americans, including seniors, will be taxed at a higher 15 percent rate. In fact, that higher 15 percent rate will apply to the first $8,900 of taxable income earned by single seniors and to the first $17,800 of taxable income earned by married seniors. JCT estimates that the elimination of the 10 percent bracket will cost 88 million taxpayers – including every senior who pays income taxes – an average of $502 in higher taxes next year.

<table>
<tr><th colspan="3">10 Percent Bracket Eliminated in 2013</th></tr>
<tr><th>For All Taxpayers, Including Seniors</th><th>The Lowest Tax Rate in 2013 Without Democrats' Tax Hike</th><th>The Lowest Tax Rate in 2013 With Democrats' Tax Hike</th></tr>
<tr><td>For single filers, the first $8,900 of taxable income would be taxed at the lowest rate</td><td rowspan="2">10 percent</td><td rowspan="2">15 percent</td></tr>
<tr><td>For married couples filing joint returns, the first $17,800 of taxable income would be taxed at the lowest tax rate</td></tr>
<tr><td colspan="3">Democrats' 2013 Tax Increase from Eliminating the 10 Percent Bracket:
Up to $445 for Single Seniors
Earning As Little as $8,900 in Taxable Income and
Up to $890 for Married Seniors
Earning As Little as $17,800 in Taxable Income</td></tr>
</table>

Dollar amounts are based on JCT estimates reflecting expected inflation adjustments for 2013.

Higher Taxes on Seniors' Retirement Savings Portfolios

Impending tax increases on capital gains and dividends – detailed in the table below – will hit seniors particularly hard. Seniors will feel the impact not just in terms of the higher taxes paid on realized capital gains and dividends, but also in terms of depressed values of stocks – whether held directly, held through taxable mutual funds, or held through tax-advantaged IRAs and 401(k)s – upon which seniors rely to supplement their Social Security benefits. These higher taxes – and evaporated wealth[1] – will cost many seniors the income they depend upon to pay for housing, food, medical care, and other monthly bills.

According to two 2010 Tax Foundation studies of IRS data taken from 2008 tax returns (which can be found **here** and **here)**, Americans over the age of 65 earn the bulk of all dividend and capital gains income, considerably more than any other age group. Specifically, the Tax Foundation found that, in 2008, seniors:

- Earned more than $77 billion in dividend income, a figure representing 48 percent of total dividend income earned by all Americans that year; and

- Earned more than $150 billion in capital gains income, a figure representing 30 percent of total capital gains income earned by all Americans that year.

New estimates from JCT confirm just how hard the Democrats' 2013 tax hikes on investment income will hit the retirement savings portfolios of America's seniors. According to JCT, 9 million tax returns filed by seniors will face higher taxes on investment income as a result of Democrats' 2013 tax hike. This represents half of all tax returns filed by seniors, each of whom will have to pay an average of $1,700 in higher taxes – a particularly onerous burden for seniors living on fixed incomes. According to JCT, those 9 million returns from seniors will represent more than one-third of the 26 million total returns facing higher investment taxes next year.

Higher Taxes on Seniors' Retirement Savings Portfolios		
Seniors' Retirement Savings Incentive	**2013 Without Democrats' Tax Hike**	**2013 With Democrats' Tax Hike**
Top rate on long-term capital gains	15 percent (18.8 percent when also accounting for the 3.8 percent ObamaCare surtax on net investment income, which would be repealed separately under two other bills – H.R. 2 and H.R. 6079 – that have already passed the House)	20 percent (25 percent when also accounting for the 3.8 percent ObamaCare surtax on net investment income, and the additional hidden rate of approximately 1.2 percent from the reinstatement of the Pease limitation)
Rate on long-term capital gains otherwise taxed at 10 percent or 15 percent	0 percent	10 percent
Top rate on qualified dividends	15 percent (18.8 percent when also accounting for the 3.8 percent ObamaCare surtax on net investment income, which would be repealed separately under two other bills – H.R. 2 and H.R. 6079 – that have already passed the House)	39.6 percent (44.6 percent when also accounting for the 3.8 percent ObamaCare surtax on net investment income, and the additional hidden rate of approximately 1.2 percent from the reinstatement of the Pease limitation)
Rate on qualified dividends otherwise taxed at 10 percent or 15 percent	0 percent	15 percent
Seniors Directly Affected by Democrats' 2013 Tax Increase on Capital Gains and Dividends: 9 Million		

Significant Increase in the Death Tax

For 2011 and 2012, the estate tax has featured an exemption amount of $5 million and $5.12 million, respectively (the exemption is indexed for inflation), with the assets of taxable estates subject to a top rate of 35 percent. Unless the Democrats who control Washington act, however, the reach of the estate tax will be dramatically expanded next year, with an exemption amount of only $1 million (not indexed for inflation) and a top rate of 55 percent. In many cases, the estate tax represents double or even triple taxation: the taxpayer paid tax when the income was earned, paid tax again on dividends or interest when that after-tax income was later invested, and then the estate must pay tax on the assets purchased with that previously-taxed income before those assets can be passed on to the taxpayer's heirs.

Many seniors have spent their entire lives working, saving, and investing their assets to be able to pass along the fruits of their labor to their children and grandchildren. But if the Democrats' 2013 tax hike is allowed to take effect, seniors who have accumulated assets of only a dollar more than $1 million – including seniors whose primary asset is a home that happens to have appreciated significantly in value over time – will once again find their estates subject to the death tax.

Higher Death Taxes on Seniors' Assets		
Estate Tax Provision	**2013** **<u>Without</u> Democrats' Tax Hike**	**2013** **<u>With</u> Democrats' Tax Hike**
Exemption amount	$5.23 million* (indexed for inflation)	$1 million (not indexed for inflation)
Top rate	35 percent	55 percent
Democrats' 2013 Death Tax Increase: Estate Tax Will Again Take More than Half of Some Seniors' Taxable Assets		

** JCT estimate reflecting the expected inflation adjustment for 2013.*

While the effect of the Democrats' tax increases on any particular senior will depend on that taxpayer's specific facts and circumstances, it is clear that this is a massive tax hike that America's seniors simply cannot afford. For more detail about the effect of the Democrats' ticking tax bomb on other specific kinds of taxpayers – e.g., small businesses and investors – stay tuned for further documents in this series, coming soon.

[1] Dr. Allen Sinai and Dr. Margo Thorning, for instance, have estimated that, absent enactment of changes to current tax law scheduled to take effect in 2013, "the stock market very likely would sell off sharply, estimated at nearly 18% per year over 2013 to 2017," meaning that even seniors whose investments are limited to tax-preferred accounts would feel the effects (see, e.g., http://www.forbes.com/sites/realspin/2012/06/28/the-horrific-accident-awaiting-us-over-the-fiscal-cliff/).