



DEMOCRATS' TICKING TAX BOMB, PART III

Middle-Class Families Will Be Hit Hard 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As described in [Part I](#) of this series, when the clock strikes midnight on December 31, 2012, the low-tax policies originally enacted in 2001 and 2003 – and extended, at Republicans' urging, by a Democrat Congress and President Obama in 2010 – are again scheduled to expire.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.

This document explores more specifically how millions of middle-class married couples and parents will be targeted for even higher tax increases than other Americans starting next year. According to new [data](#) from the non-partisan Joint Committee on Taxation (JCT), a number of significant family-related tax increases will take effect on January 1, 2013, including:

- The **child tax credit** will be cut in half, from \$1,000 to \$500 per child, costing 31 million families an average of \$1,028 in higher taxes next year.
- The **marriage penalty** in the standard deduction and the 15 percent bracket will be reinstated, costing 32 million married couples an average of \$591 in higher taxes in 2013.
- The **10 percent bracket** will be eliminated, raising the lowest tax rate to 15 percent, costing 88 million taxpayers an average of \$502 in higher taxes next year.

Here are some further details about these looming family-related tax increases:

Child Tax Credit Cut In Half

The U.S. Department of Agriculture recently released a study on the cost of raising children born in 2011.¹ The study found that for a family of four, annual per child expenses ranged from \$8,760 to \$24,510, depending on pre-tax household income and the age of the children.² This study also found that, for a middle-income, two-parent family, the total average expected expenditures on a child from birth through age 17, has reached \$234,900 – nearly a quarter of a million dollars.

Recognizing both this ever-increasing cost of raising children and the contributions that children make to our society, Congress in 2001 doubled the child credit from \$500 per child to \$1,000 per child. Thus, for example, an eligible family with three children can currently claim \$3,000 per year in child credits, whereas before 2001 they could only claim \$1,500.³ In 2013, however, the Democrats’ failure to act will cause the child credit to revert to \$500 per child, resulting in a \$1,500 tax increase on a family of five. In addition, the 2001 and 2003 tax relief allowed families to take the child credit against their alternative minimum tax (AMT) liability, if any. In 2013, if the Democrats fail to act, families subject to the AMT could, depending on their particular circumstances, see the value of even this lower \$500 child tax credit reduced or eliminated entirely. The Joint Committee on Taxation (JCT) has estimated that, overall, 31 million families would pay an average of \$1,028 in higher taxes next year because of Democrats’ tax increase on parents.

Child Tax Credit in 2013		
Child Credit Feature	2013 Without Democrats’ Tax Hike	2013 With Democrats’ Tax Hike
Amount of credit (per child under age 17)	\$1,000	\$500
Allowed against AMT?	Yes	No
Democrats’ 2013 Tax Increase on Parents: \$500 per Child		

Marriage Penalties Reinstated

According to JCT, “[a] ‘marriage penalty’ exists when the combined tax liability of a married couple filing a joint return is greater than the sum of the tax liabilities of each individual computed as if they were not married.” The tax code imposes such penalties – including several new ones resulting from certain tax increases in Democrats’ 2010 health law – because particular tax parameters for married couples filing jointly are set at amounts that are less than twice the amounts applicable to single filers. The tax relief enacted in 2001 and 2003 eliminated the marriage penalty for many low- and middle-income families by increasing both the standard deduction for joint filers and the upper limit of the 15 percent bracket for joint filers to twice the amounts applicable to singles.

If Democrats permit these marriage penalties to be reinstated, the standard deduction for joint filers will drop significantly in 2013 (subjecting more income to tax), and the income range covered by the 15 percent bracket will narrow considerably (subjecting more income to a higher, 28 percent tax rate). JCT has estimated that the reinstatement of these marriage penalties will cost 32 million married couples an average of \$591 more in taxes in 2013.

Marriage Penalties in 2013

For Married Couples Filing Jointly, the Marriage Penalty Is Reinstated With Respect To...	2013 <u>Without Democrats'</u> Tax Hike	2013 <u>With Democrats'</u> Tax Hike
The Standard Deduction	<p>Singles: \$6,050</p> <p>Married: \$12,100</p> <p><u>No marriage penalty</u> because the standard deduction for married couples is <u>exactly twice</u> the standard deduction for singles</p>	<p>Singles: \$6,050</p> <p>Married: \$10,150</p> <p><u>Marriage penalty is reinstated</u> because the standard deduction for married couples is <u>less than twice</u> the standard deduction for singles</p>
The last dollar of income taxed at the 15 percent rate (instead of at the next highest rate in effect – 25 percent without Democrats' tax hike, or 28 percent with Democrats' tax hike)	<p>Singles: \$36,100</p> <p>Married: \$72,200</p> <p><u>No marriage penalty</u> because the last dollar of income taxed at 15 percent (instead of at 25 percent, the next highest rate) for married couples is <u>exactly twice</u> the corresponding amount for singles</p>	<p>Singles: \$36,100</p> <p>Married: \$60,350</p> <p><u>Marriage penalty is reinstated</u> because the last dollar of income taxed at 15 percent (instead of at 28 percent, the next highest rate) for married couples is <u>less than twice</u> the corresponding amount for singles</p>

Democrats' Marriage Penalties in 2013: At Least \$2,087 (for Certain Married Couples with \$72,200* or More in Taxable Income)

Dollar amounts listed in the table above for 2013 are JCT estimates reflecting expected inflation adjustments.

**Based on policies in effect in 2012.*

10 Percent Bracket Eliminated

While the preceding discussion shows that many married couples will face higher taxes due to the expiration of the marriage penalty relief, the increased burden on families from the Democrats' tax hike is even more severe because of the elimination of the 10 percent bracket. Prior to 2001, the lowest tax bracket was 15 percent. The 2001 tax relief reduced the lowest tax rate by creating a new, inflation-adjusted 10 percent bracket that applies, in 2013, to the first \$17,800 of taxable income for married couples filing joint returns. This lower 10 percent rate effectively provides a 5-percentage-point rate cut on those first dollars of taxable income. In 2013, however, the 10 percent rate will disappear, and the higher 15 percent rate again will apply to the very first dollar of taxable income. JCT has estimated that the elimination of the 10 percent bracket would cost 88 million taxpayers an average of \$502 in higher taxes next year.

Lowest Tax Bracket in 2013		
For All Married Couples Filing Joint Returns...	The Lowest Tax Rate in 2013 <u>Without</u> Democrats' Tax Hike	The Lowest Tax Rate in 2013 <u>With</u> Democrats' Tax Hike
The first \$17,800 of taxable income would be taxed at the lowest tax rate	10 percent	15 percent
Democrats' 2013 Tax Increase from Eliminating the 10 Percent Bracket: Up to \$890 (for Married Couples Earning As Little as \$17,800 in Taxable Income)		

Dollar amounts are based on JCT estimates of various tax parameters reflecting expected inflation adjustments for 2013.

Note that the elimination of the 10 percent bracket will similarly expose all single filers who pay income taxes to a 15 percent rate, rather than a 10 percent rate, on their first \$8,900 of taxable income.

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

¹ This study is available at: <http://www.cnpp.usda.gov/Publications/CRC/CRC2011.pdf>.

² Expenses tend to rise with a child's age and with a household's income.

³ The child credit phases out for married couples with incomes between \$110,000-\$130,000 and for single parents with incomes between \$75,000-\$95,000.