



Impending Tax Increases

If Congress Takes No Action....

April 2012

Many tax increases will soon automatically occur. Curtis Dubay of The Heritage Foundation estimates that in 2013 alone, there will be \$494 Billion in tax increases.

Here is an abbreviated list* of taxes changes that will automatically occur unless the President and Congress act soon prevent them:

2013:

- The one-year employee-share payroll tax cut of 2% will expire.
- The marginal income tax rates will increase as follows:
 - 35% bracket will increase to 39.6%
 - 33% bracket will increase to 36%
 - 28% bracket will increase to 31%
 - 25% bracket will increase to 28%
 - 10% and 15% brackets will condense to 15%
- The standard deduction for couples as a percentage of the standard deduction for singles will decrease from 200% to 167%--restoring the marriage penalty.
- The personal capital gains tax will increase to 20% and 10% (from 15% and 5%).
- Dividends will no longer be taxed at the capital gains rate for individuals, thereby increasing the double taxation of dividends by as much as 164%.
- The “death” tax using the “stepped up” basis will return with a 55% maximum rate (including surtax) and a \$1 million exemption, after years of decreasing “death” tax rates, increasing exemptions, complete repeal in 2010, and then the 2010 tax compromise’s 35% tax rate with a \$5 million exemption.
- The child tax credit will decrease from \$1,000 to \$500.

- The dependent care tax credit will decrease from \$3,000 to \$2,400.
- The adoption tax credit will decrease from \$10,000 to \$5,000
- Several provisions of the [student loan interest deduction](#), the increase in the phase-out range, the repeal of the limitation on number of months interest is deductible, and the allowance for voluntary, deductible payments of interest will expire.
- The maximum contribution to [educational IRAs](#) will decrease from \$2,000 to \$500, the expanded list of allowable distributions will expire, and the marriage penalty for the phase-out range will be reinstated.
- The [American Opportunity Tax Credit](#), a partially-refundable expansion of the Hope Scholarship Credit, will expire.
- The repeal of overall limitations on itemized deductions for high income individuals will expire.
- The [additional depreciation](#) of 50% of basis on qualified property will expire.
- The tax credit for the production of Indian coal will expire.
- The [cellulosic biofuel producer credit](#) will expire.
- The credit of 25% of costs for [employer-provided child care](#) will expire.
- The election to claim the energy credit in lieu of the electricity production credit for wind facilities will expire.
- Taxpayers will no longer be eligible to exclude a [discharge of indebtedness](#) on their principal residence from their gross income.
- The special depreciation allowance for cellulosic biofuel plant property will expire.
- The reduced rate of 15% for the [accumulated earnings tax](#) will expire.
- The work opportunity tax credit specifically targeted to hiring veterans will expire.

2014:

- Transfers of [excess assets](#) in a definite benefits plan to a health account for retirees will no longer be allowed.
- Accelerated depreciation over three years of [race horses](#) less than 2 years old will expire.
- The placed-in-service date limit will be reached for the [electricity production credit](#).

- The election to claim the [energy credit](#) in lieu of the electricity production credit for wind facilities will expire.
- The deduction of \$1.80 per square foot for [energy efficient commercial buildings](#) will expire.

Tax Increases Taking Effect in 2012 (Note—these tax increases have just occurred, but in many cases may not have impacted taxpayers quite yet):

- State and local [general sales taxes](#) will no longer be deductible.
- Tax-free distributions from individual retirement plans [for charitable purposes](#) will no longer be allowed.
- The [Work Opportunity Tax Credit](#), which allows employers to credit up to 40% of the first-year wages of a new employee, will expire.
- The above-the-line deduction for [qualified tuition and related expenses](#) will expire.
- Premiums paid for [qualified mortgage insurance](#) will no longer be considered deductible as interest on a mortgage.
- The deductions for donation of “[apparently wholesome food inventory](#),” [books to public schools](#), and [computer technology to schools and libraries](#) will expire.
- The additional \$3,170 credit for [adoption of children with special needs](#) will expire (\$10,000 credit will remain).
- The exemption for the [Alternative Minimum Tax](#) (AMT) will decrease from \$46,700 to \$33,750 for single filers and from \$70,950 to \$45,000 for married couples filing jointly.
- The \$250 deduction for elementary and secondary school teachers to [purchase supplies](#) for use in the classroom will expire.
- Facilities that produce “[refined coal](#)” will no longer qualify for the renewable energy production credit.
- The \$1,500 credit for [qualified energy efficiency improvements](#) will expire.
- The \$2,500 credit for a [plug-in electric vehicle](#) will expire.
- Credits for qualified fuel cell motor vehicles will expire.
- The \$30,000 credit for a non-hydrogen refueling property will expire.
- The credits for the production and blending of [ethanol](#) and [alcohol fuel mixtures](#), and [outlay payments](#) for the same, will expire.

- Credits for biodiesel [producers and blending](#), and [excise tax credits](#) and [outlay payments](#) for the same, will expire.
- The [Indian employment tax credit](#) – 20% of wages and benefits up to \$6,000 – will expire.
- The [new markets tax credit](#) which provides a credit of up to \$5 million on investments in community development entities will expire.
- The [railroad track maintenance credit](#) of 50% of track maintenance expenditures will expire.
- The [new energy efficient home credit](#) of \$2,000 will expire.
- The [energy efficient appliance credit](#) (varying amounts) will expire.
- The [mine rescue team training credit](#) of \$10,000 will expire.
- The [credit for 20% of differential wage payments](#) paid to employees put on active-duty as military reservists will expire.
- The limitation will drop to \$0 for [zone academy bonds](#).
- The allowed amount of certain [commuter benefits](#) allowable as a fringe benefit will drop from \$175 a month to \$100.
- Accelerated depreciation for [qualified business property on an Indian reservation](#) will expire.
- The \$15 million deduction for [film and television productions](#) will expire.
- The [alternative fuel and fuel mixture credits](#), other than liquefied hydrogen, and [outlay payments for the same](#) will expire.

Source for the above information: Joint Committee on Taxation.

*This list is not exhaustive. For a more exhaustive list, see this webpage:
<http://www.jct.gov/publications.html?func=startdown&id=4383>

Note: This document is for informational purposes only and should not be seen as supporting or opposing any particular tax provision.

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