WILL THE BUSH-ERA TAX CUTS BE SAVED?

What might happen if they went away?

Provided by Timothy C. Hucks, CEP, President, Rising Tide, Inc.

In July, Treasury Secretary Timothy Geithner said that very few taxpayers would be affected if the landmark tax cuts of 2001 and 2003 expired. "I do not believe it will affect growth," he calmly commented on ABC's *This Week.*[1] Many legislators and observers on Wall Street and Main Street are far less calm about their potential end.

Why should they end now? The federal government undeniably needs more revenue to help shrink the deficit, and Geithner feels that letting these tax cuts go would not trigger a double-dip recession, as they affect only 2-3% of U.S. taxpayers.[1] However, many Republicans and more than a few Democrats see danger here as the richest Americans are also the most influential in job creation.

Deutsche Bank says "don't do it". Analysts at the banking titan recently offered their opinion: letting the Bush tax cuts expire would exert a drag of anywhere from 1.1% to 1.5% on U.S. GDP.[2] The analysts warn that letting the tax cuts sunset as the federal stimulus winds down could create an economic scenario in the U.S. akin to the one Japan experienced back in the 1990s.

Grassroots momentum gathering. A new website created by the conservative League of American Voters (ReviewTheTaxCuts.com) is gathering signatures in conjunction with a TV ad campaign starring ex-presidential candidate Fred Thompson. This effort comes on the heels of Rasmussen and Gallup polls showing increased concern about taxes. In a mid-July Rasmussen Reports poll, 68% of Americans surveyed said taxes had become a "very important" issue. In April, 63% of Americans surveyed by Gallup felt their taxes would rise in 2011, the largest percentage to respond this way since 1977.[3]

A battle this fall in Washington. Republicans on Capitol Hill ardently want the tax breaks to remain in place. Democratic leaders in the Senate are striving to introduce a bill in September that would seek to preserve the cuts for the middle class only. Most Democrats seem to favor letting the tax cuts expire for households earning more than $250,000. House Speaker Nancy Pelosi (D-CA) is among the voices contending that they didn't aid the economy much in the first place. Closer to the White House, Secretary Geithner feels that letting the cuts expire would send a message to the world that America is serious about tackling its deficit.[3]

This is an election year for many members of Congress, and it wouldn't be surprising if some seats changed hands as a result of the influence of this issue.

More voices. Former Federal Reserve vice-chairman Alan Blinder favors letting the cuts expire. "We couldn't afford them then (and knew it), and we can't afford them now (and know it)," he recently told the *Washington Post.* "What might be the argument for retaining the tax cuts even though the long-run budget is deeply in the red? That America needs more income inequality? Seems to me we have enough."[4]

MoodysEconomy.com chief economist Mark Zandi calls for moderation. Zandi feels the 2001 and 2003 cuts "should be extended permanently for families with annual incomes of less than $250,000 and should be phased out slowly for those making more than that."[4]

If the sun sets on these cuts, taxes revert to pre-2001 levels. EGTRRA gave us six tax brackets (10%, 15%, 25%, 28%, 33% and 35%). If EGTRRA went away, so would the 10% tax bracket (the lowest bracket would become 15%) and the 25%, 28%, 33% and 35% rates would be respectively bumped up to 28%, 31%, 36% and 39.6%. (Households earning more than $379,650 would pay taxes at the 39.6% rate.)[5]

Then we have capital gains, of course. The ceiling on capital gains tax rates would move back up to 20% if these cuts expired. Additionally, qualified dividends would again be taxed at a taxpayer's regular rate … which could be as high as 39.6% (see above).[5]

The death of EGTRRA would also wipe out the child tax credit, restore the "marriage penalty" (married joint filers wouldn't be able to take 2x the standard deduction allowed for single filers) and bring back the phase-out for the personal exemption and itemized deductions.

There is much to consider. This will, most likely, become one of the hottest issues on Capitol Hill and across the country as we get closer to November.[5]

Timothy C. Hucks, CEP, is a Certified Estate Planner, Registered Investment Advisor and President of Rising Tide, Inc. He may be reached at www.risingtideinc.com, 919-968-8675, or tim@risingtideinc.com. Securities offered through Capital Investment Group, Inc. Corporate Office: 17 Glenwood Avenue, Raleigh, NC 27603 • 919.831.2370. Member FINRA/SIPC.

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