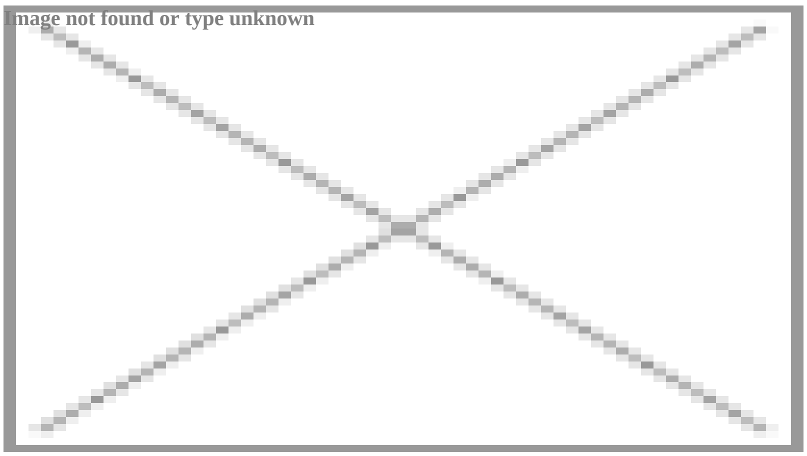
Insight

10 Worst Tax Policies in the President’s Budget

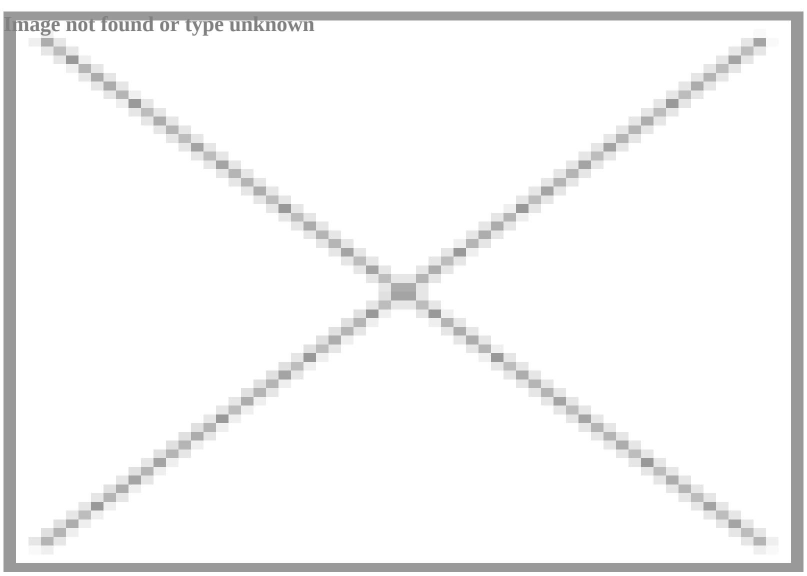
GORDON GRAY | APRIL 11, 2013

1. **Tax on Future Generations ($25 Trillion)**



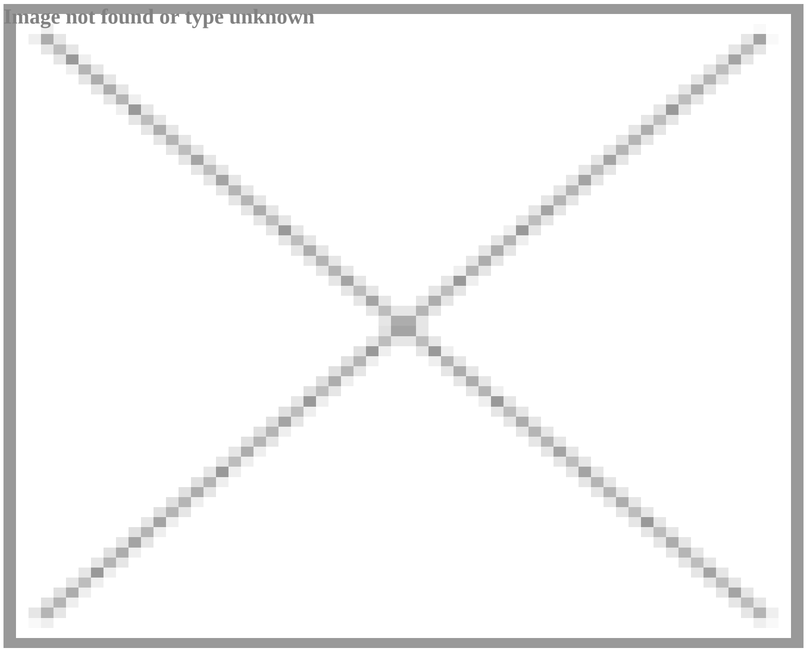
Under the President’s FY2014 Budget, the national debt would grow to over $25 trillion, or 97 percent of GDP, by 2023. This would slow the economy and threaten the possibility of a sovereign debt crisis. Without meaningful reforms to spending programs future generations will inherit a massive debt that will take significant tax increases to mitigate.

2. **New Income Taxes ($529 billion)**



The largest tax increase would effectively limit the maximum value of income tax expenditures to 28 percent and raise $529 billion in the process. This policy is misguided for two key reasons – it would raise taxes during a sluggish economy to chase higher spending and remove a key base-broadening measure from the overall tax reform effort.

3. **New Spending in from Tax Policies ($100 billion)**

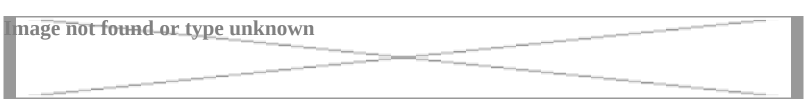


A number of tax policies include elements that increase spending, such as subsidies for bonds and refundable tax credits. The President's Budget includes 11 tax provisions that would increase spending by a combined $100 billion over ten years.

4. **"Business Tax Reform" ($95 Billion)**

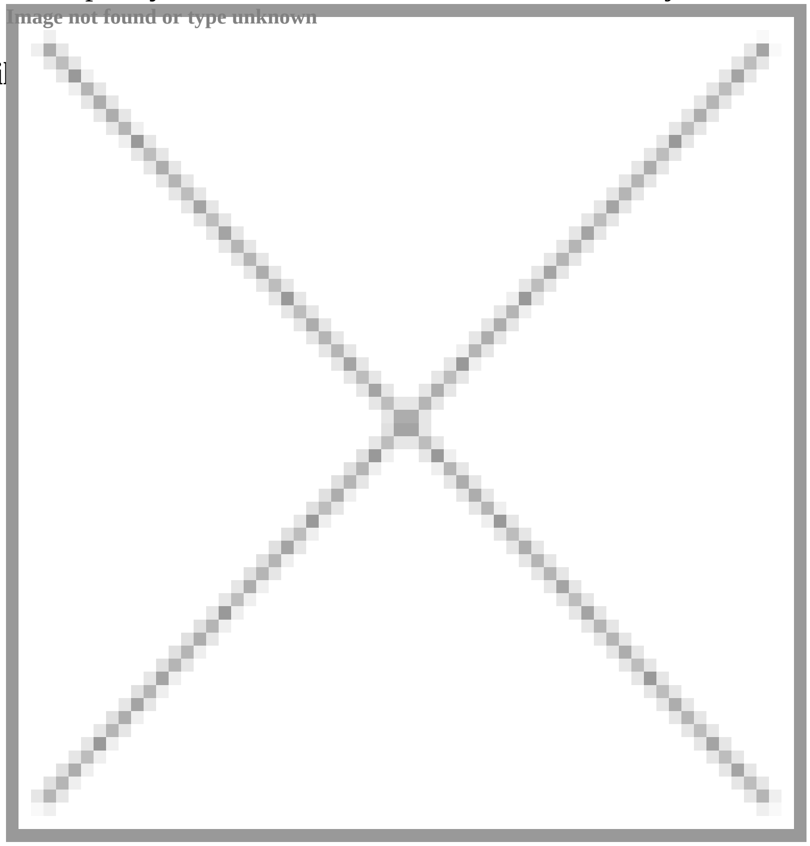
The President's Budget includes a disappointing placeholder for corporate tax reform. This collection of proposals includes over $335 billion in base broadeners on U.S. employers that could be devoted rate reduction, a critical element of tax reform while the United States endures the highest corporate tax rate among major economies. Unfortunately the reform package also includes $241 billion in new narrow tax proposals that reduce available the $335 billion in budget resources that would otherwise be available for rate reduction down to $95 billion. The cost of reducing the corporate rate by a single percentage point exceeds $100 billion. Accordingly, the president's "tax reform" would yield no meaningful rate reduction.

5. **New Death Taxes ($79 billion)**



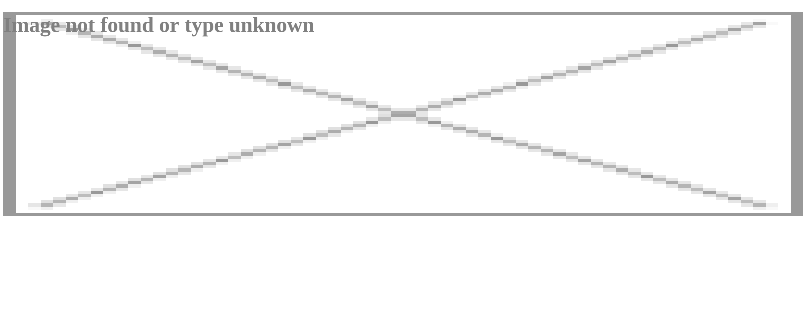
The President's Budget walks away from the bipartisan tax deal enacted at the beginning of this year and seeks to raise rates and lower exemptions with respect to estate taxation. The proposal would lower the size of the exemption to $3.5 million and raise the death tax rate to 45 percent. Coupled with taxes on gifts and estates, this proposal would raise $79 billion over 10 years. Research has suggested that such a policy would lead to the loss of thousands of jobs.

6. **Tobacco Tax ($78 bil**



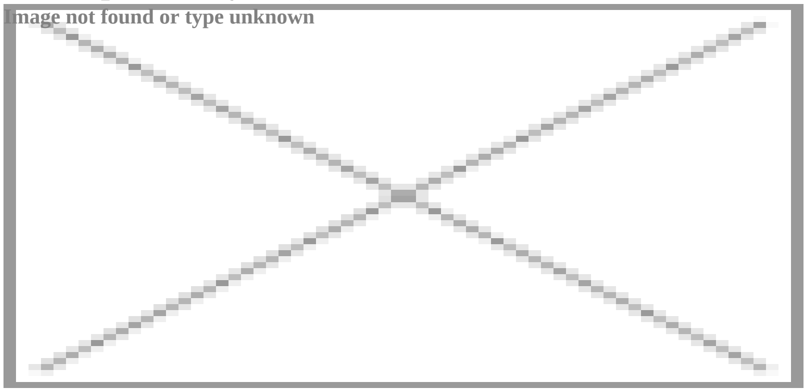
At present, federal excise taxes on cigarettes amount to $1.01 per pack. The administration would raise that to about $1.95 per pack, increase all other excise taxes on tobacco products and cigarette papers and so-called "tubes" by roughly the same proportion beginning in 2014, and index the levy for inflation thereafter. This would raise $78 billion over ten years, ostensibly to be devoted to a new early-child education program. Irrespective of the merits of the education program, the financing structure perversely relies on funds from new and continuing smokers at a time when the administration is separately promoting smoking cessation programs.

7. **Buffett Rule ($53 billion)**



The President's Budget includes the campaign-era pledge of impose a new "Fair-Share Tax" (FST) beginning on income over $1 million. The proposal is predicated on the false notion that high income earners face a lower effective tax rate than middle and lower income individuals. IRS tax information disproves this notion, and reveals that the rich pay more, and pay a larger share of their income, in taxes than middle and lower income taxpayers.

8. **Impose a financial crisis responsibility fee ($59 billion)**

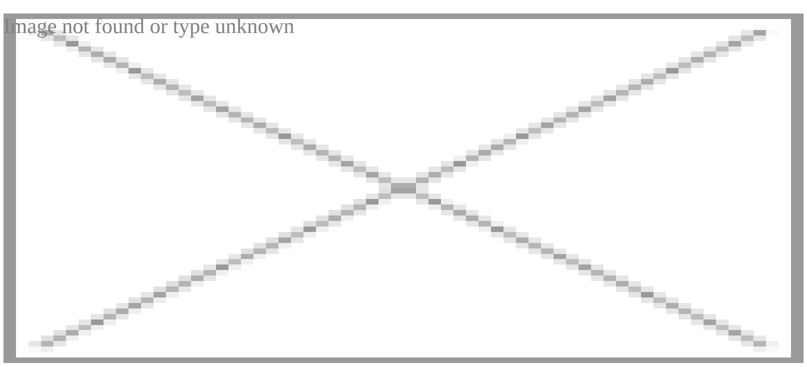


For 4 years running the administration has included a "Financial Crisis Responsibility Fee" on certain financial institutions. At a time when the administration is seeking higher liquidity and lending in capital markets, imposing a fee on major participants in financial markets is misguided and may exacerbate the tendency of the administration's current efforts to weaken underwriting standards.

9. **Carried Interest ($16 billion)**

The current administration has sought to raise taxes on certain partnership income since 2009. This tax would fall on venture capital, real estate investment, and other important sectors of the economy at a time when the United States should be pursuing tax policies that incentivize rather than harm growth and investment.

10. **New Limitations on Saving ($14 billion)**



The President's Budget would impose new limitations on the size of tax preferred savings accounts (IRA's, 401(k)s, etc). The budget also imposes a new requirement that non-spouse beneficiaries of a deceased individual must liquidate tax preferred savings accounts within 5 years. These two proposals raise comparably small amounts of revenue but introduce new limitations on savings and investment, which ultimately drive long-term economic growth.