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Fiscal Fact

Taxmageddon Looms, Potentially Pushing Tax Freedom Day Later than Ever

By

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While Tax Freedom Day¹ is just around the corner, on April 17 this year, try to enjoy it. If Congress fails to act, “Taxmageddon”—the roughly \$500 billion tax increase scheduled to occur January 1, 2013—could push Tax Freedom Day to the end of April or beyond.

Taxmageddon, as Curtis Dubay² and others³ have described it, is the result of a litany of expiring tax provisions, all occurring at the end of this year. The biggest expiring provisions are the Bush tax cuts, the payroll tax holiday, and the Alternative Minimum Tax (AMT) patch.

The table below shows the effect of all expiring provisions in terms of days added to America’s total tax burden. While this year it will take Americans 107 days to pay the total tax burden, these federal tax increases will add another 11 days, pushing Tax Freedom Day to the end of April. Add to this the fact that state and local tax collections are surging and it means that Tax Freedom Day next year could easily be a record breaker.⁴ The all-time latest Tax Freedom Day occurred on May 1, 2000, after huge stock market gains produced huge capital gains tax collections.

The table breaks Taxmageddon down according to the major tax types. The biggest effect is on the federal individual income tax, the burden of which would increase more than 5 days unless these tax increases are halted. This is mainly the result of expiration of the Bush tax cuts and the AMT patch, which would each add more than 2 days to the burden. Another partial day would be added by the expiration of various “tax-extendors,” most of which affect businesses, and are included here to the extent that they are used by pass-through businesses, such as S-corporations, partnerships, and sole proprietorships, that file under the

¹ See William McBride, *Tax Freedom Day 2012*, Special Report No. 298, <http://taxfoundation.org/news/show/28074.html>.

² See Curtis Dubay, “Taxmageddon: Massive Tax Increase Coming in 2013,” *Heritage Foundation Issue Brief* (Apr. 4, 2012), <http://www.heritage.org/research/reports/2012/04/taxmageddon-massive-tax-increase-coming-in-2013>.

³ Ezra Klein, “‘Taxmageddon’ in one table,” *Washington Post* (Mar. 30, 2012), http://www.washingtonpost.com/blogs/ezra-klein/post/taxmageddon-in-one-table/2012/03/30/gIQA1GkEIS_blog.html.

⁴ State tax collections are up 9 percent in 2011 over the year before. See Joseph Henchman, *State Tax Collections Rise 9 Percent*, Tax Foundation Tax Policy Blog, <http://taxfoundation.org/blog/show/28125.html>.

individual code.⁵ The largest tax extender by far is bonus depreciation, which this year allows companies to write off 50 percent of the cost of investment.⁶

The corporate income tax burden would increase more than 3 days, partly as a result of these expiring tax-extendors. Besides bonus depreciation, some of the other large tax-extendors that primarily affect C-corporations include the R&D tax credit, Subpart F for active financing income, and the alcohol fuel tax credit. Additionally, corporate profits are projected to continue their recent ascent as the economy recovers, adding to the tax burden.

More than 2 days would be added by expiration of the payroll tax holiday. Finally, expiration of the Bush tax cuts would increase the estate tax burden considerably, but because the estate tax is such a small part of the total burden, it would add only a partial day.

Tax Burden Due to Increase More than 11 Days if Congress Fails to Act	
Individual Income Tax	5.3
Bush Tax Cuts	2.6
Alternative Minimum Tax	2.2
Tax-Extendors	0.4
Corporate Income Tax	3.4
Payroll Tax	2.5
Estate Tax	0.2
Total	11.3
<p><i>Note: The methodology⁷ is the same as that for Tax Freedom Day,⁸ but it should be noted that these projections are less accurate since they are one more year out, into 2013, based on CBO⁹ estimates of GDP and tax collections.</i></p> <p><i>Totals may not sum due to rounding.</i></p>	

⁵ More than half of business income is taxed under the individual code. For a break-down of how various tax-extendors and other tax expenditures effect standard C-corporations versus pass-through entities. See Robert Carroll & Gerald Prante, *The Flow-Through Business Sector and Tax Reform*, Ernst & Young LLP, Apr. 2011, <http://www.s-corp.org/wp-content/uploads/2011/04/Flow-Through-Report-Final-2011-04-08.pdf>.

⁶ Congressional Budget Office, *The Budget and Economic Outlook*, Jan. 31, 2012, <http://cbo.gov/publication/42905>. See the section on expiring tax provisions.

⁷ Tax Freedom Day: A Description of Its Calculation and Answers to Some Methodological Questions, Working Paper No. 3, <http://www.taxfoundation.org/news/show/23039.html>.

⁸ William McBride, *Tax Freedom Day 2012*, Special Report No. 198, <http://taxfoundation.org/news/show/28074.html>.

⁹ Congressional Budget Office, *CBO Releases Updated Budget Projections for Fiscal Years 2012 to 2022*, <http://cbo.gov/publication/43079>.

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