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by Steven A. Montalto

In his letter to Jean Baptiste Le Roy, Benjamin Franklin wrote, "[I]n this world nothing can be said to be certain, except death and taxes."[1] In fact, taxation and the debate regarding its role in federal government has remained at the core of American civic discussion since the Boston Harbor rebellion in 1773.[2]

Despite enduring taxation discussion, without Congressional action addressing the 'fiscal cliff,' and principally the outlook of the Bush tax cuts, Mr. Franklin would accept another certainty: the American middle class and global economy bear the risk of impending financial hardship.[3]

Correlation between the 'Fiscal Cliff' and the Bush Tax Cuts

The 'fiscal cliff' refers to a series of tax increases and spending cuts effective December 31, 2012, unless Congress meets established deficit reduction benchmarks.[4] On the tax side, the 'fiscal cliff' references, among others, an expiration of the payroll tax holiday and the alternative minimum tax patch.[5] Yet, totaling $180 billion, "[T]he tax cuts enacted during President George W. Bush's term represent the biggest slice of the ['fiscal cliff'] pie."[6]

The 2001 and 2003 Bush tax cuts enacted comprehensive tax reductions for most American taxpayers.[7] The cuts included, "[M]arginal rate reductions, the introduction of a new 10 [percent] tax bracket, an expansion of the child tax credit, and a variety of other provisions."[8]

In December 2010, Congress passed, and the President signed, a two-year extension of both Bush tax cuts.[9] The extension included an automatic expiration on December 31, 2012.[10]

Defining American Middle Class

The term American middle class lacks precise definition.[11] In 2011, the U.S. Census Bureau reported median U.S. annual household income at $50,000.[12] Accordingly, the Census divided the U.S. population into five income-based categories, each comprising 20 percent of the population. "If the middle 20 percent is truly the 'middle-class,' then middle class households make between $38,500 and $62,400 per year."[13]

Congressional Inaction and its Effect on the American Middle Class

Congressional inaction in addressing the expiring Bush tax cuts will immediately impact the American middle class through an increase in annual tax liability and a subsequent reduction in disposable income.[14]

If allowed to fall off the 'fiscal cliff,' at least 90 percent of American taxpayers will see taxes rise.[15] In 2013, the American middle class, defined as Americans with income between $38,500 and $62,400 per year, will see taxes increase at least $2,000.[16] "For most taxpayers, the bulk of the increase would be triggered by the expiration of tax cuts enacted in 2001 and 2003 during the George W. Bush administration."[17]

The Bush tax cuts provided a middle class family of four a $1,825 annual saving.[18] Yet, if allowed to expire, federal income tax brackets revert to pre-2001 levels for American middle class taxpayers.[19] Connecticut residents will see the highest 2013 tax increase with an additional $5,783 in tax liability.[20] Mississippi residents will be least impacted, with an anticipated 2013 increase of $1,310.[21]

Further, the Bush tax cuts offered middle class taxpayers a $1,000 tax credit per child.[22] An expiration would revert the tax credit to $500 per child.[23] In essence, this relapse acts as an additional tax hike by increasing pre-tax personal income by $500 per child.[24]

Quantifying this effect, a Bush tax cut expiration, "[W]ill reduce [middle class] after-tax income by about 4 percent . . . if you're spending every dollar you've got makes a noticeable dent in your budget."[25] Thus, if a middle class taxpayer earned equal personal income in 2012 and 2013, an expiration of the Bush tax cuts will simply result in less to spend in 2013.[26]

Therefore, Congressional inaction will immediately impact the American middle class through an increase in federal income tax liability and subsequent reduction in disposable income.[27] However, a Bush tax cut expiration, by way of the 'fiscal cliff,' will span outside domestic borders.[28]

Congressional Inaction and its Effect on the Global Economy

Congressional inaction in addressing the Bush tax cuts will further impact the global economy through both a reduction in U.S. domestic growth and a subsequent decline in global manufacturing and investment.[29]

Economists estimate Congressional inaction will draw between $400 billion and $720 billion from U.S. domestic growth.[30] Growth reduction of this magnitude will mean as much as 4.6 percent of gross domestic product could be lost.[31] An economist at the Tax Foundation stated the U.S. is, "[T]eetering on zero growth," and that, "This sort of domestic policy would immediately impact demand and really shock investors."[32]

Quantifying the global risk, it has been estimated that the, "[D]ramatic fiscal tightening implied by the fiscal cliff could tip the U.S. and possibly the global economy into recession. . . At the very least it would be likely to halve the rate of global growth in 2013."[33] Thus, Congressional inaction will likely decrease domestic demand by reducing U.S. imports and exports and slow global growth.[34]

In fact, Congressional inaction has already played a role in global economics.[35] U.S. manufacturers have delayed orders, capital improvements, and employment expansion out of global recession fears.[36] Jay Timmons, President of the National Association of Manufacturers affirmed that as a result of 'fiscal cliff' uncertainty U.S. manufacturers have, "[B]asically stop[ped] in their tracks."[37] The national delay in investment is of even greater concern.[38] "[T]he rate of economic growth is slowing, from 4.1 [percent] at the end of last year to an anemic 1.5 [percent]."[39] This national delay will affect the global economy's ability to recover from recent economic recession.[40] A delay in economic recovery will ultimately be felt by those in the American middle class.[41]

Therefore, Congressional inaction regarding the Bush tax cuts will immediately impact the global economy by reducing U.S. domestic growth and reducing global manufacturing and investment.[42]

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Conclusion

Without Congressional action, the American middle class and global economy bear the risk of impending financial hardship.[43] Perhaps even Mr. Franklin did not envision how the ensuing taxation debate would play in contemporary civic discussion.[44] However, if the only certainty in life is death and taxes, taxation debate is always around the corner.[45]

Notes

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44 Franklin, *supra* note 1.

45 *Id.*