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## The New Year Brings Tax Chaos

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Happy New Year. Your tax bill just went way up.

When the clock hit midnight on Jan. 1, some 70 new taxes on the middle class and small businesses went into effect, thanks to Congress's failure to prevent the expiration of popular and economically vital tax breaks on time. So some 25 million middle class Americans are now slated to get hit with the alternative minimum tax (AMT) this year. Remember: This is the tax that was originally supposed to only hit the richest 100 Americans.

This year, the alternative minimum tax will gather \$63 billion from American families with an income of as little as \$75,000, according to the Senate Finance Committee. The AMT may now hit tax filers who are school teachers, construction workers and bus drivers. Call them the new rich.

The middle class will get soaked other ways, too. The new homebuyer tax credit goes away. That will hit working families with a \$10.8 billion tab. The tax deduction for state and local taxes also disappears, so shoppers of all incomes will cough up \$1.85 billion more.

Got a kid in college? The federal tax deduction for college tuition and fees has

disappeared. That's another \$1.5 billion tax hike on the nonrich.

The nation's employers are none too happy either with Congress's failure to extend these tax cuts before the New Year. The research tax credit, which businesses depend on for new innovation and R&D, has been suspended. This will raise R&D costs by more than \$7 billion in 2010.

The 50% write-off for small businesses for capital purchases—such as expanding their facilities, purchasing new equipment or machinery, or building a new plant—has vanished. Without those tax incentives, small businesses are likely to put any plans to expand their operations on hold. That means less jobs and fewer pay raises. A study by the National Center for Policy Analysis found that about 90% of the benefits from capital investment goes to workers in the form of higher wages due to increased productivity.

But the biggest debacle is the estate tax. On Jan. 1 it fell to zero for the year, and then in 2011 it goes back up to 55%. Estate tax attorneys are full of stories of wealthy heirs with living wills that ask their dependents to take account of the estate tax when determining when to pull the plug on the life support system. Don't be surprised if death

rates of wealthy Americans rises substantially this year.

Sen. Max Baucus has vowed to raise the estate tax back to between 35% and 55% this year, and to make that change retroactive to Jan. 1. But this will be of questionable constitutionality. Can Congress impose a new estate tax, say in April, on someone who was already dead and buried in February? Let's hope not.

Sometime within the next few months Congress promises that it will enact a new tax law to reinstate many of the tax breaks that have expired. It's highly doubtful that in an election year this Congress is going to hit 25 million Americans with a surprise AMT bill. But where is House Speaker Nancy Pelosi going to find the \$63 billion in revenues to "pay for" that tax cut is anyone's guess.

What no one in Congress seems to understand is that there is a very real economic cost to constantly tinkering with the tax laws. Uncertainty is the enemy of investment. Do businesses want to make major investment decisions based on congressional promises of a future tax break? Likely not. So right now millions of businesses and tens of millions of individual tax filers are stranded in a tax purgatory.

All of this only makes the case stronger for a simple flat-rate income tax with a low rate below 20%, no deductions and no double taxation (i.e. the termination of the death tax forever). The tax rules should be simple, nonintrusive, pro-growth, and set in stone.

Congress's failure to settle the tax laws for 2010 is an unforgivable dereliction of duty. The federal government isn't so understanding when American citizens are late paying their taxes: The IRS imposes strict civil fines and even criminal penalties. We should hold Congress to the same standards.