US bipartisan fiscal deal

Tax cuts for business, pay cuts for workers

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Despite the nonstop demagogy of the Obama administration and congressional Democrats, amplified unceasingly by the corporate media, the fiscal package passed by Congress over the New Year is not an attack on the American financial aristocracy or an effort to reduce economic inequality.

The deal will accomplish a further redistribution of wealth from the bottom to the top. Big business and many wealthy investors will reap tax cuts, while every working class wage earner will be hit by a tax increase of 2 percent, about $1,000 for a worker with an annual income of $50,000.

Neither the Obama administration nor congressional Democrats made any effort to avert the most onerous consequence of the deal that averted the so-called fiscal cliff: expiration of the payroll tax holiday first instituted at the end of 2010. As a result, the payroll tax will rise from 4.2 percent to 6.2 percent on wage income below $113,700 a year.

In effect, all American workers are taking a 2 percent pay cut, except the most highly paid white-collar and skilled workers—as well as managers and executives, of course—whose income above the $113,700 mark will be unaffected by the tax increase.

While this affects an estimated 87 percent of the American population, the corporate-controlled mass media has paid little or no attention to it. But for millions of working people struggling to make ends meet, a 2 percent cut—one week's pay this year—is a serious hardship.

The payroll tax holiday was introduced in a previous bipartisan deal between President Obama and congressional Republicans to replace the Making Work Pay tax credit for lower income working people, part of the 2009 economic stimulus package enacted by Obama and a then Democratic-controlled Congress.

The combined effect of the replacement of Making Work Pay by a temporary payroll tax cut, and then the expiration of the tax cut, is that one of the few socially progressive measures introduced in the early months of the Obama administration, however limited, has now been entirely eliminated.

Most of the media attention has been focused on the restoration of Clinton-era income tax rates for those wealthy households making more than $450,000 a year, with the top rate rising from 35 percent to 39.6 percent. One reason for the extreme interest in this provision, of course, is that well-heeled network anchormen and media pundits are in that bracket, along with the top echelons of Wall Street and much of the Washington political establishment.

There has been little analysis, however, of how this actually works. The tax rates enacted under the Bush administration in 2001 have been made permanent for all income below the $450,000 cutoff. This applies to the super-rich, who now have a permanently lower tax rate for the first $450,000 they take in, paying 35 percent on that sum instead of the 39.6 percent rate on the rest of their income.

A rough calculation (the actual figure will vary from case to case depending on deductions, exemptions and other provisions) shows that everyone making more than $450,000 a year has received, from the bipartisan deal, an annual windfall of $20,700. This may be peanuts to the multimillionaire, but it is more than the total annual income of a worker making the minimum wage.

A larger handout to the wealthy, albeit limited to a much smaller group, is the limitation on the estate tax, which is set at 40 percent on estates over $5 million. With the expiration of the Bush tax cuts December 31, that rate should have snapped back to 55 percent.

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By one study, in 2011 only 1,800 super-rich taxpayers died leaving such large estates. Despite claims by Republicans, and farm-state Democrats, that many of these estates are family farms, the Tax Policy Center found that fewer than 50 farms and small businesses paid any estate tax in 2011, and their liability amounted to less than one-tenth of 1 percent of the total tax collected.

In other words, the capping of the estate tax is a bonanza for extremely wealthy families seeking to pass their holdings on as unearned income for a parasitic next generation. Moreover, the new legislation indexes the exemption to inflation, which will have the effect of raising the ceiling to $7.5 million for individuals and $15 million for couples by 2020.

Rep. Chris Van Hollen, ranking Democrat in the House Budget Committee, called the deal "a sweetheart giveaway to the wealthiest 7,200 estates in the country." Then, of course, he voted for it.

Another giveaway to the wealthy masquerades as a tax increase. The provision for postponing the "sequester," across-the-board spending cuts mandated by the August 2011 bipartisan deal between Obama and the Republicans, calls for half the $24 billion cost to be paid for by an increase in tax payments due when 401(k) and IRA accounts are converted to Roth IRAs.

The favorable treatment of the Roth IRAs, however, means that those who convert their accounts, generally the wealthiest individuals with large retirement balances, will reduce their tax payments in the long run, while making one short-term higher payment as the price of the conversion. In other words, the tax increase is really another tax cut for the wealthy, taking effect in later years.

The single costliest provision in the "fiscal cliff" deal is a permanent restructuring of the Alternative Minimum Tax, enacted in the 1970s to prevent wealthy individuals from escaping all taxation through bookkeeping tricks. Not indexed to inflation, the AMT has been repeatedly "fixed" to prevent it hitting upper sections of the middle class. Now the "fix" has been made permanent, at a 10-year cost of $1.8 trillion.

This is a staggering handout to those sections of the population with low to middle six-figure incomes, who comprise a significant part of the political base of both the Republican and Democratic parties.

Finally, the deal includes more than $60 billion in tax breaks for politically well-connected industries, some sponsored by Democrats, others by Republicans, still others by both. Among the handouts to the corporate rich are:

• $1.8 billion in tax breaks for biodiesel producers, including a highly unusual retroactive reinstatement of a dollar-a-gallon credit going back to January 2012. The *New York Times* noted that "a retroactive credit cannot influence behavior," making it a handout pure and simple, without a shred of policy justification;

• $220 million in credits for Puerto Rican rum distillers;

• $12 billion for wind-farm energy producers;

• $250 million for Hollywood film production;

• $62 million for employers in American Samoa, principally StarKist, the largest company in the South Pacific island;

• $330 million for the railroad industry;

• $78 million for Nascar racetrack construction;

• New York "Liberty Zone" bonds for construction in the area around the former World Trade center.

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