Americans Are Already Double and Triple Taxed

Unless the Democrats and Republicans in Congress can reach an agreement on an extension, many temporary tax-cut provisions will expire at the end of this year.

The so-called Bush tax cut — The Economic Growth and Tax Relief Reconciliation Act of 2001 (EGTRRA) and the Jobs and Growth Tax Relief Reconciliation Act of 2003 (JGTRRA) — gave us our current six income tax brackets of 10, 15, 25, 28, 33, and 35 percent, a $1,000 child tax credit, a long-term capital gains rate of 15 percent, a qualified dividend tax rate of 15 percent (0 percent for those in the two lowest tax brackets), a section 179 expense deduction of up to $250,000 for small businesses, an estate tax that was gradually reduced to zero for 2010, and numerous tax credits and deductions.

Under President Obama, the section 179 expense deduction was raised to $500,000 for the years 2010 and 2011 before falling to $125,000 for 2012, the estate tax was reinstated at a rate of up to 35 percent and an exemption amount of $5 million for 2011 and $5.12 million for 2012, the employee's share of the Social Security payroll tax was lowered from 6.2 percent to 4.2 percent, and most of the other temporary tax provisions were extended through 2012.

If all of the temporary tax provisions currently in place are allowed to expire at the end of 2012, the current six brackets will decrease to five: 15, 28, 31, 36, and 39.6 percent, the child tax credit will decrease to $500, the maximum long-term capital gains rate will increase to 20 percent, qualified dividend income will be taxed as ordinary income with a maximum rate of 39.6 percent rather than at the lower long-term capital gains rate, the section 179 expense deduction will decrease to a maximum of $25,000, and the estate tax will return with a 55 percent maximum rate and only a $1 million exemption.

But in addition to all these tax increases, there are also tax increases that will take effect in 2013 that are included in the Patient Protection and Affordable Care Act (PPACA), commonly known as Obamacare. The massive 2,407-page bill ([H.R.3590](#)) that bears the president's name was signed into law on March 23, 2010. It was one of the most controversial and partisan pieces of legislation in history, with no Republican in either house of Congress voting in favor of it.

Republicans seem especially upset about the provision in Obamacare that raises the Medicare tax on taxpayers making over $200,000 a year.

Medicare is government-funded health care (which is called socialism by Republicans except when they're referring specifically to Medicare and Medicaid) for Americans aged 65 and over and/or those who are permanently disabled. It provides health coverage for about 48 million Americans. In 2011, Medicare spent $549 billion for covered items and services. Like Social Security, it is funded by payroll tax deductions from both employers and employees, but only partially. Medicare actually consists of four parts: Part A (hospital insurance), Part B (medical insurance), Part C (Medicare Advantage plans), and Part D (prescription drug plan). About 75 percent of the expenditures of Medicare Parts B and D are paid out of the government's general fund.

The current Medicare tax structure consists of a tax of 2.9 percent (split between employee and employer) on every dollar of income earned. For those who are self-employed, they pay the full 2.9 percent but receive a deduction toward their income tax equal to 50 percent of the amount of Medicare tax paid. This is different from the payroll tax imposed to fund Social Security in that Social Security taxes are only levied on income up to $110,100. Before 1994, Medicare had a similar wage base set-up, but Congress eliminated it.

Thanks to Obamacare, beginning in 2013 the employee share of the Medicare tax will increase .9 percent from 1.45 to 2.35 percent on that portion of income over $200,000 for individuals, over $125,000 for married taxpayers filing separately, and over $250,000 for married taxpayers filing jointly. This brings the total Medicare tax on wages to 3.8 percent on income above these limits. For the self-employed, the extra .9 percent will not qualify for the 50 percent income tax deduction.

There is also to begin a new 3.8 percent Medicare tax on investment income, including rents, royalties, capital gains, interest, and dividends. This additional tax on unearned income will apply to the lesser of one's net investment income or the amount of adjusted gross income in excess of the applicable thresholds mentioned above. Coupled with the tax increases already scheduled to go into effect, this 3.8 percent surcharge will effectively raise the tax on capital gains to 23.8 for long-term investments and to 43.4 percent for short-term investments.

And instead of being used to fund Medicare Part A like the rest of the Medicare payroll tax, the new revenue generated from these increased payroll and capital gains taxes will instead fund new spending created by Obamacare.

Americans will be taxed twice to pay for Medicare, we are told by Republicans, first on their regular salary and then again on their investment income. Obamacare must be repealed. Vote Republican.

What Republicans are saying about being double taxed is certainly true. And there is no federal law that needs to be repealed sooner than Obamacare. But I'm not too sure about the "Vote Republican" part.

Americans are already double and triple taxed and the Republicans not only have never done anything about it, they fully support the idea.

As mentioned previously, there is a Medicare tax of 2.9 percent currently imposed on one's wages. Each worker pays 1.45 percent on the entire amount of his income. In addition, there is also imposed a Social Security tax of 10.4 percent. Each worker pays 4.2 percent on all his income up to $110,100. So on the first $110,100 of one's income, everyone pays a tax of 5.65 percent. This is double taxation. But on top of both of those taxes, there is the income tax. Depending on one's exemptions, deductions, and credits, one might have to pay up to 28 percent in taxes on a portion of one's income up to $110,100. This is triple taxation. And if one lives in a state that has a state income tax, there are even more taxes to pay on one's income.

But even if Congress instituted an income tax deduction for Social Security and Medicare taxes paid, even if the Bush-era tax cuts were made permanent, even if the 2 percent reduction in the employee's share of the Social Security payroll tax was indefinitely extended, and even if Obamacare and all its tax increases were repealed, Americans would still be overtaxed.

Social Security and Medicare, because they are dependence-fostering income redistribution schemes, should be abolished along with the payroll taxes used to partially fund them. If Republicans at least recognized that it is not the proper role of government to provide a retirement plan, an investment account, a safety net, insurance programs, welfare, health care, or programs to “protect seniors,” and advocated transitional reforms or definite timelines for the gradual elimination of both Social Security and Medicare, then we could at least take them more seriously. But all they are doing with their plans to save and reform Social Security and Medicare is just perpetuating unconstitutional government programs.

There was no permanent income tax in the United States for the country’s first 125 years; that is, before World War I, the New Deal, World War II, the Great Society, the Vietnam War, and the welfare-warfare state “required” the government revenue to fund these things.

Whether called Social Security, Medicare, or income tax, taxation is still theft on a grand scale, as the Austrian economist Murray Rothbard explains:

> All other persons and groups in society (except for acknowledged and sporadic criminals such as thieves and bank robbers) obtain their income voluntarily: either by selling goods and services to the consuming public, or by voluntary gift (e.g., membership in a club or association, bequest, or inheritance). Only the State obtains its revenue by coercion, by threatening dire penalties should the income not be forthcoming. That coercion is known as “taxation,” although in less regularized epochs it was often known as “tribute.” Taxation is theft, purely and simply, even though it is theft on a grand and colossal scale which no acknowledged criminals could hope to match. It is a compulsory seizure of the property of the State’s inhabitants, or subjects.

The only reason Americans “need” an income tax or any other tax is because members of Congress — Democrats and Republicans — have an insatiable desire to spend other people’s money.

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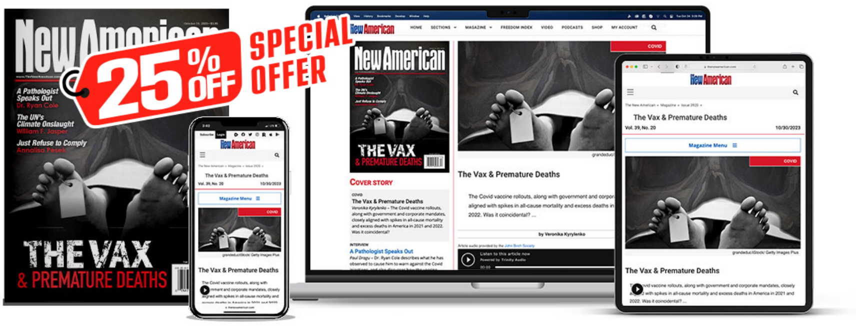

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