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Psst, taxes go up in 2013 for 163 million workers

By STEPHEN OHLEMACHER | Associated Press - 6 hrs ago

WASHINGTON (AP) — President Barack Obama isn't talking about it and neither is Mitt Romney. But come January, 163 million workers can expect to feel the pinch of a big tax increase regardless of who wins the election.

A temporary reduction in Social Security payroll taxes is due to expire at the end of the year and hardly anyone in Washington is pushing to extend it. Neither Obama nor Romney has proposed an extension, and it probably wouldn't get through Congress anyway, with lawmakers in both parties down on the idea.

Even Republicans who have sworn off tax increases have little appetite to prevent one that will cost a typical worker about \$1,000 a year, and two-earner family with six-figure incomes as much as \$4,500.

Why are so many politicians sour on continuing the payroll tax break?

Republicans question whether reducing the tax two years ago has done much to stimulate the sluggish economy. Politicians from both parties say they are concerned that it threatens the independent revenue stream that funds [Social Security](#).

They are backed by powerful advocates for seniors, including AARP, who adamantly oppose any extension.

"The payroll tax holiday was intended to be temporary and there is strong bipartisan support to let that tax provision expire," said Sen. Orrin Hatch of Utah, the top Republican on the Senate Finance Committee. "The continued extension of a temporary payroll tax holiday has serious long-term implications for [Social Security](#) and, frankly, it's not even clear that it has helped to boost our ailing economy."

The question of renewing the payroll tax cut has been overshadowed by the expiration of a much bigger package of tax cuts first enacted under President George W. Bush. The Bush-era tax cuts also expire at the end of the year, and Congress is expected to try to address them after the election, in a lame-duck session.

The payroll tax cut could become part of the mix in negotiations that could go in many directions. But lawmakers in both political parties say they doubt it.

"I think there's a growing consensus that Congress and the president can't continue to divert such a critical revenue stream from [Social Security](#)," said Rep. Kevin Brady of Texas, a senior Republican on the tax-writing House Ways and Means Committee. "I think more and more Americans understand that that payroll tax cut, while politically appealing, is endangering [Social Security](#)."

Before he was named as Romney's running mate, Rep. Paul Ryan, R-Wis., disparaged the payroll tax cut, calling it "sugar-high economics" that wouldn't promote long-term growth.

[Social Security](#) is funded by a 12.4 percent tax on wages up to \$110,100, rising to \$113,700 in 2013. Half is paid by employers and the other half is paid by workers. For 2011 and 2012, Congress and Obama cut the share paid by workers from 6.2 percent to 4.2 percent.

A worker making \$50,000 saved \$1,000 a year, or a little more than \$19 a week. A worker making \$100,000 saved \$2,000 a year.

The beauty of the tax cut is that it shows up in weekly paychecks, giving workers more money to spend or save. The downside is that some workers may not notice a \$19-a-week increase in pay, making them unlikely to credit the politicians who made it happen.

Under the law, Congress is reimbursing [Social Security](#) for the lost revenue, estimated at \$103 billion in 2011 and \$112 billion in 2012. But Congress didn't cut spending or raise other taxes to offset the lost revenue, so the payroll tax cut is being financed with borrowed money, adding to the national debt.

Democrats are more willing to defend the tax cut, saying it helped prop up the economy during a rough stretch while providing what amounted to a 2 percent pay increase to millions of middle-income workers. But they, too, are concerned about maintaining [Social Security](#)'s source of revenue.

"I think people realize that was a temporary thing," said Sen. Mark Begich, D-Alaska.

Rep. Richard Neal of Massachusetts, a senior Democrat on the Ways and Means Committee, said he thinks there is evidence that the tax cut helped the economy. But, he added, "I'm not sure that it met expectations."

House Democratic leader Nancy Pelosi of California said she, too, wants to let the tax cut expire.

Larry Summers, Obama's former economic adviser, is a lonely voice in Washington calling to extend the payroll tax cut. He said in a recent speech that the economy is too fragile to reduce workers' incomes.

Obama pushed for the tax cut in late 2010 as a way to increase workers' take-home pay to help boost consumer spending and provide a spark for the economy. Economists were divided on the economic benefits. Many said it probably helped increase consumer spending but there was no consensus on the magnitude.

The initial tax cut was for only a year, and many Republicans in Congress wanted to let it lapse at the end of 2011. But Obama and Democratic lawmakers successfully fought to extend it through 2012.

Obama, however, didn't include the tax cut in his 2013 budget proposal, and Treasury Secretary Timothy Geithner told Congress this year that he saw no reason to extend it again.

White House spokeswoman Amy Brundage wouldn't rule out an extension but wouldn't commit to one, either.

"The president fought extremely hard last year in the face of Republican opposition to ensure that the payroll tax cut was extended," Brundage said. "There are a number of tax issues that Congress will have to deal with at the end of the year, this being one of them, and we will continue to evaluate all of the options available to us at that time."

Romney's campaign hammers Obama almost every day for proposing to let Bush-era tax cuts expire for individuals making more than \$200,000 and married couples making more than \$250,000. But Romney's tax plan would let the payroll tax cut expire, an issue he doesn't mention on the stump.

Romney's campaign declined to discuss the issue.

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