BEYOND FISCAL CLIFF

Millions face higher taxes without a deal

70 tax breaks expired in 2011; retroactive fix might avoid big bills

By Stephen Ohlemacher
Associated Press

WASHINGTON — Millions of families and businesses will get hit by big tax increases a lot sooner than many realize if Congress and the White House don't agree on a plan to skirt the year-end fiscal cliff of higher tax rates and big government spending cuts.

In fact, they already have.

More than 70 tax breaks enjoyed by individuals and businesses expired at the end of 2011. If Congress doesn't extend them retroactively back to the beginning of this year, a typical middle-class family could face a $4,000 tax increase when it files its 2012 return in the spring, according to an analysis by H&R Block, the tax preparing giant.

At the same time, businesses could lose dozens of tax breaks they have enjoyed for years, including generous credits for investing in research and development, write-offs for restaurants and retail stores that expand or upgrade, and tax breaks for financial companies with overseas subsidiaries.

Even if Congress does act, last-minute changes to federal tax laws could make it difficult for taxpayers to figure out their 2012 tax bills.

"We're really expecting this upcoming tax season to be one of the more challenging ones on record," said Kathy Pickering, executive director of the Tax Institute at H&R Block. "For your 2012 returns, there's so much confusion about what will be impacted."

Focus on fiscal cliff talks

Much of Washington is consumed by negotiations on how to address automatic tax increases scheduled to take ef-

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fect next year. That's when tax cuts first enacted under President George W. Bush and extended under President Barack Obama are scheduled to expire. A temporary reduction in the Social Security payroll tax is set to vanish as well.

Obama wants to let the Bush-era tax cuts expire on incomes above $200,000 for individuals and $250,000 for married couples, while extending the tax cuts for people making less.

House Speaker John Boehner and other Republicans have said they are open to more tax revenue through reducing or eliminating unspecified tax breaks. But Boehner, R-Ohio, late last week moved toward the president's position, proposing raising top rates for people earning more than $1 million in exchange for deeper spending cuts, particularly in health care and other mandatory spending programs.

Obama has not accepted that offer, according to people familiar with the talks, but Boehner's offer suggests the negotiations are being renewed after appearing stalled just days ago.

One to watch: AMT

Lost in the debate is a big package of tax breaks that already expired for 2012. Lawmakers in both parties say they expect those tax cuts to be addressed in any deal to avoid the "fiscal cliff." But they don't want to deal with them separately because that would reduce pressure to reach a broader budget agreement.

The biggest tax increase facing individuals for this year is the alternative minimum tax. The tax was first enacted in 1969 to ensure that wealthy people can't use tax breaks to avoid paying any federal taxes. The AMT, however, was never adjusted for inflation, so Congress routinely does that to keep it from imposing hefty tax increases on millions of middle-income families.

Congress last adjusted the AMT in 2010, and about 4 million taxpayers paid it in 2011. Without a new adjustment for the 2012 tax year, the AMT would reach an additional 28 million taxpayers, increasing their tax bill by an average of $3,700.

The tax would affect individuals making more than $33,750 and married couples making more than $45,000, according to the Internal Revenue Service.

Fix would be costly

The AMT is expensive to fix. A two-year adjustment passed by the Senate Finance Committee last summer would save middle-income taxpayers a total of $132 billion in 2012 and 2013, according to the Joint Committee on Taxation, the official scorekeeper for Congress.

The bill addressed many of the tax breaks that expired for 2012, and the committee passed it with bipartisan support. But the full Senate never considered it.

The AMT adjustment also includes a rule that affects the way tax credits are calculated for millions of taxpayers, even if they don't have to pay the AMT, the IRS said. These taxpayers might not necessarily face a tax increase, but there could be delays in processing their returns.

Congress has always adjusted the AMT in the past, and the IRS is preparing as if lawmakers will do so again, acting IRS Commissioner Ste-