

# ***Industrial Products & Services Tax Alert***

September 21, 2011

## ***Federal deficits, jobs creation, and economic growth dominate legislative agenda***

Congress is currently focused on efforts to reduce federal deficits and promote jobs creation and economic growth. The Joint Select Committee on Deficit Reduction (the Deficit Committee), the 12-member panel established by Congress under the *Budget Control Act*, is charged with recommending by November 23 at least \$1.2 trillion in deficit reduction, to be followed by an up-or-down vote by Congress before the end of the year.

The Congressional Budget Office (CBO) recently revised growth projections for the U.S. economy downward to 2.4 percent for 2011 and 2.6 percent for 2012. CBO expects the unemployment rate to remain high, falling slightly from 9.1 percent to 8.9 percent by the end of 2011 and 8.5 percent by the end of 2012. To address this low economic growth and high rate of unemployment, the Obama Administration has proposed a \$447 billion *American Jobs Act* to promote jobs and economic growth. On September 19, the White House released *Living Within Our Means and Investing in the Future: The President's Plan for Economic Growth and Deficit Reduction* calling for more than \$3 trillion in deficit reduction measures.

## ***Joint Select Committee on Deficit Reduction***

### **Broad authority**

The *Budget Control Act*, signed into law on August 2, sets forth a two-phased approach to increasing the federal debt limit and reducing the deficit. Phase one increases the debt limit by \$900 billion to cover federal borrowing costs through the end of 2011, while imposing caps on discretionary spending to reduce budget deficits by \$917 billion between 2012 and 2021. Phase two provides for a second debt limit increase of between \$1.2 trillion to \$1.5 trillion.

Under the legislation, the Deficit Committee was organized and directed to propose at least \$1.2 trillion in additional deficit reductions by November 23. A formal report and legislative language is to be submitted to the House and Senate by December 2. Assuming the committee reaches agreement on a deficit reduction plan, the House and Senate must hold an up-or-down simple-majority vote in each chamber by December 23. If passed by Congress, such legislation would have to be signed by the President to become law.

Failure to enact sufficient deficit reduction would trigger automatic across-the-board spending cuts or "sequestration" totalling at least \$1.2 trillion between 2013 and 2021. Half of these spending cuts would come from defense spending and half would

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come from nondefense spending, including both discretionary and direct spending. Several direct spending programs would be exempt, including Social Security and other retirement programs, Medicaid, and certain programs benefitting low-income individuals. The legislation would limit Medicare cuts under sequestration to reductions of no more than two percent in payments to providers with no reductions to beneficiaries.

The *Budget Control Act* provides the Deficit Committee with broad authority to draft legislation that will achieve the specified deficit reduction savings. Accordingly, the committee may consider a mix of spending reductions, changes to federal entitlement programs, and revenue-raising provisions. If the committee considers any revenue-raising provisions, these provisions must be scored using the current-law CBO baseline, which assumes that expiring tax provisions, including the Bush era individual tax cuts, will sunset as scheduled. Thus, the sunset of these provisions would not count toward the committee's reduction goal.

### **Organization**

In early August, House and Senate leaders appointed six Democrats and six Republicans to the 12-member committee. Representative Jeb Hensarling (R-TX), Chairman of the House Republican Conference, and Senator Patty Murray (D-WA), Secretary of the Senate Democratic Conference, were named co-chairs. The committee also includes Representative Dave Camp (R-MI), Chairman of the House Ways and Means Committee, and Senator Max Baucus (D-MT), Chairman of the Senate Finance Committee.

Other members of the committee include Representative James Clyburn (D-SC), Assistant House Democratic Leader; Representative Xavier Becerra (D-CA), Vice Chair of the House Democratic Caucus; Representative Fred Upton (R-MI), Chairman of the House Energy and Commerce Committee; Representative Chris Van Hollen (D-MD), Ranking Member on the House Budget Committee; Senator John Kerry (D-MA), Chairman of the Senate Foreign Relations Committee; Senator Jon Kyl (R-AZ), Senate Minority Whip; Senator Rob Portman (R-OH); and Senator Pat Toomey (R-PA).

### **Next steps**

On September 8, the Deficit Committee held an organizational meeting where members of the committee made opening statements and considered proposed committee rules. On September 13, the committee held a public hearing on *The History and Drivers of Our Nation's Debt and Its Threats* to hear testimony on factors driving growth in federal deficits from CBO Director Douglas Elmendorf. On September 22, the committee is scheduled to hold a public hearing on *Overview: Revenue Options and Reforming the Tax Code* with testimony by Thomas Barthold, Chief of Staff of the Joint Committee on Taxation.

Each House and Senate Committee is entitled to transmit nonbinding recommendations to the Deficit Committee by October 14. Ways and Means Committee Chairman Camp recently stated that as a member of the Deficit Committee he does not believe the panel should attempt to overhaul the tax code, but he indicated that he is open to including language in the legislation that is reported by the committee that would require Congress to pass tax reform legislation within a specific time period.

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## *President Obama proposes American Jobs Act*

On September 8, President Barack Obama proposed in a speech before a joint session of Congress a \$447 billion *American Jobs Act* to promote jobs creation and economic growth.

Under the Administration's plan, the current two-percent reduction in the 6.2-percent employee share of payroll taxes would be expanded for 2012 to provide a 3.1-percent reduction in those taxes. The President also proposed that the current 6.2-percent employer share of payroll taxes be reduced to 3.1 percent on the first \$5 million in wages paid to current workers. In addition, the President proposed a full holiday on the 6.2-percent employer share of payroll taxes firms pay for any growth in their payroll from new hires or increased wages up to \$50 million above the prior year.

In late 2010, Congress provided temporary full expensing in 2011, which is set to expire at the end of this year. In his jobs bill, President Obama proposed that the 100-percent expensing provision be extended through the end of 2012.

Other tax incentives proposed by the President include tax credits for hiring returning and wounded veterans and long-term unemployed individuals. The package also includes proposals for additional spending on infrastructure and assistance to state and local governments.

## *President Obama proposes \$467 billion in tax increases to offset cost of jobs bill*

On September 12, President Obama asked Congress to adopt \$467 billion in revenue raisers that would more than offset the cost of his jobs package. The largest single revenue offset, estimated to raise \$400 billion over 10 years, would limit itemized deductions at the 28-percent tax rate for upper-income individuals. Other proposed revenue raisers include the repeal of certain oil and gas provisions, a change in the tax treatment of carried interest, a change in depreciation rules for general aviation aircraft, and change in the tax treatment of dual capacity taxpayers.

The Obama Administration also is proposing that Congress increase the deficit reduction target for the Deficit Committee by an amount sufficient to offset the cost of the jobs bill. As a result, if Congress does not accept the revenue offsets proposed by the Administration, the Deficit Committee would be responsible for finding alternative revenue sources or spending reductions to offset the proposed jobs creation provisions.

If offsets are not adopted by the Deficit Committee and Congress, the President has proposed that additional across-the-board spending reductions be made under the *Budget Control Act* so that his jobs package (if enacted) would not add to the deficit. These additional spending cuts would be on top of the \$1.2 trillion in automatic spending cuts to begin in 2013 if Congress does not enact at least that amount of deficit reduction by the end of this year.

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## *President Obama proposes \$1.5 trillion in new taxes as part of deficit reduction plan; calls for comprehensive tax reform*

In the *Living Within Our Means and Investing in the Future: The President's Plan for Economic Growth and Deficit Reduction*, released by the White House on September 19, President Obama proposed higher taxes on individuals with income above \$1 million on top of his previous proposal to let current tax rates expire at the end of 2012 for individuals with income above \$200,000 (\$250,000 for joint filers). According to Administration officials, tax increases on upper-income individuals along with other revenue-raising proposals, including those detailed last week in the President's *American Jobs Act*, would account for \$1.5 trillion out of more than \$3 trillion in deficit reduction measures in the President's plan.

President Obama said that he would veto any bill that included Medicare cuts but no tax increases. Proposed changes in Medicare and Medicaid programs and other mandatory spending reductions would provide \$580 billion in deficit savings under the President's plan. Other projected deficit reduction savings are attributed to \$1.1 trillion in reduced military spending in Iraq and Afghanistan and \$430 billion in reduced interest payments on the federal debt. The President urged the Deficit Committee to adopt his proposals.

White House officials stated that the President's plan for more than \$3 trillion in deficit reductions, coupled with those \$900 billion in spending cuts put in place under the *Budget Control Act*, would provide roughly \$4 trillion in net savings after offsetting the cost of the *American Jobs Act*, and would be in line with other recent proposals to reduce federal deficits to a sustainable level.

As one of five principles of tax reform, the President said that Congress should adopt the "Buffett rule" so that individuals with income above \$1 million would "not pay a smaller share of their income in taxes than middle-class families pay." The details of how to achieve this goal would be left to Congress; no revenue estimate has been provided for this specific element of the President's plan.

President Obama stated that comprehensive tax reform should also lower individual and corporate tax rates, cut tax "loopholes" and special tax breaks, boost job creation and growth, and increase overall tax revenues by \$1.5 trillion.

While discussing comprehensive tax reform, President Obama today did not put forth a specific proposal on corporate tax reform. He did again state that the high U.S. corporate tax rate could be lowered by eliminating various special deductions and "loopholes." In an 80-page summary of the President's plan, the White House does cite various corporate and international proposals from the President's FY 2012 budget as options for closing "business loopholes" and broadening the corporate tax base. The White House summary also states that "deficit neutral tax reform would make businesses pay for the cost of any of the roughly \$300 billion in temporary tax breaks over the next decade ... like the research and experimentation credit."

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## *Talking Tax executive webcast series*

To hear more about these issues, please join PwC for the fifth installment of its ***Talking Tax*** video webcast series on **Thursday, September 22, 2011 from 1:00pm - 2:00pm (ET)**.

**Registration process:** To register for this event please click on the "Click here for more information and to register." Once registered, you will receive a confirmation notice with complete webcast access instructions.

Please register prior to **12:00pm (ET) September 22, 2011**.

***Click here for more information and to register***

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