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# ***WNTS Insight***

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## Final payroll tax reduction agreement reached; does not include full expensing extension

A House and Senate conference committee today formally approved a final agreement on legislation (H.R. 3630) that will extend a two-percent employee payroll tax reduction through the end of 2012. The legislation would extend the current 4.2-percent employee payroll tax rate for another ten months; Congress late last year extended the reduction from the prior 6.2-percent rate through the end of February. The conference agreement also would extend expanded federal unemployment benefits and Medicare physician pay rates through the end of 2012.

The cost of the approximately \$144 billion package is partially offset by \$50 billion in various non-tax provisions that include an increase in pension contributions to be paid by new federal employees, receipts from federal spectrum auctions, reductions in certain Medicare payments to hospitals, and a reduction in funding for a new preventative health care program established under 2010 health care law.

The House and Senate are expected to vote on the conference agreement in coming days before Congress begins a week-long Presidents' Day recess. Conference agreements generally are not subject to amendment under House and Senate rules. Assuming passage by Congress, the legislation would go to the White House, and President Obama is expected to sign the measure into law.



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## *Full expensing provision dropped from conference agreement*

The version of H.R. 3630 approved by the House last December included a provision that would have extended full expensing for qualified property through the end of 2012. President Obama also has supported an extension of full expensing, and included a proposal to renew this measure for 2012 in the Administration's FY 2013 budget submitted to Congress earlier this week. Under current law, 50-percent expensing is in effect for 2012.

While House and Senate conferees generally had expressed support for full expensing, and also had discussed the need to address the research credit and other "traditional" tax extenders, the final bill does not extend any tax provision other than the payroll tax reduction. The only other tax provision included in the conference agreement would repeal certain timing shifts in the payment of corporate estimated tax payments that Congress has enacted in recent years for budgetary reasons.

Disagreements about how and whether to offset the full cost of the legislation appear to have been a key factor in limiting the scope of the final agreement. Democratic conferees had suggested offsetting part of the cost of the package with various revenue-raisers, including a one-percent surtax on individual income in excess of \$1 million, a change in the tax treatment of carried interest, and repeal of certain oil and gas tax provisions. Republican conferees rejected such proposals, and generally proposed to offset the cost of the legislation with various spending reductions.

It is uncertain when Congress will address proposals to extend the research credit and other "traditional" tax extenders that expired at the end of 2011, including active financing, CFC look-through, and depreciation rules for qualified leasehold, restaurant, and retail improvements. The Obama Administration FY 2013 budget proposes to expand and make permanent the research credit, and generally would extend other traditional business extenders retroactively from January 1, 2012 to December 31, 2013. The Administration's budget does not propose to renew expired fossil-fuel related provisions.

It is possible that deliberation on expired business tax provisions could be delayed until after the November federal elections. Congress at that time also will be facing the scheduled December 31, 2012 expiration of individual tax provisions first enacted in 2001 and 2003.

Click [here](#) for a copy of the final conference committee agreement.

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