

# WNTS Insight

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

President Barack Obama on September 19 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 today 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.

President Obama called for consideration of his proposals by the Joint Select Committee on Deficit Reduction, the panel established by the recent Budget Control Act of 2011. The Deficit Reduction Committee is charged with recommending at least \$1.2 trillion in deficit reductions by November 23. President Obama urged the panel to adopt the more than \$3 trillion in deficit reductions projected by White House staff under his plan.

If the 12-member Congressional committee -- divided evenly between Democratic and Republican House and Senate members -- approves deficit reduction legislation, Congress is required under the terms of the Budget Control Act to vote on the plan without any amendments by December 23. If no action is taken, then the Budget Control Act provides for \$1.2 trillion in automatic spending cuts beginning in FY 2013.



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Separately, Congress previously put in place under the Budget Control Act discretionary spending reductions totaling \$900 billion. White House officials stated that the President's plan for more than \$3 trillion in deficit reductions coupled with those enacted spending cuts 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.

## Proposed tax increases

President Obama stated that he was adopting a recent proposal by Warren Buffett to adopt a new tax on individuals with income above \$1 million. 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."

Administration officials indicated that \$800 billion of the \$1.5 trillion in new tax revenues would result from letting current tax rates expire for upper-income individuals; the remaining \$700 billion in new tax revenues would come from other revenue proposals that include the President's "American Jobs Act" proposals. Those proposals which President Obama sent to Congress last week include payroll tax relief and other job creation incentives to be offset by a cap on the value of itemized deductions for upper-income individuals, taxing carried interest as ordinary income, repealing certain oil and gas provisions, and changing depreciation rules for general aviation aircraft. For more on the President's jobs creation legislation, see [WNTS Insight, President Obama Proposes \\$467 Billion in Tax Increases to Offset Cost of Jobs Legislation, September 13, 2011.](#)

**Note:** The Budget Control Act requires use of the current-law Congressional Budget Office (CBO) baseline, which assumes that expiring tax provisions, including the 2001/2003 individual tax cuts, will sunset as scheduled. Thus, the sunset of Bush era individual tax provisions as proposed by President Obama would not count toward the deficit reduction goal of the Deficit Reduction Committee. Other elements of the President's plan could count for official deficit reduction purposes if they constitute changes in the current-law baseline the CBO is required to use.

Congressional Republican leaders today expressed opposition to President Obama's proposal to impose higher taxes on individuals with income above \$1 million along with the President's other tax increase proposals. House Speaker John Boehner (R-OH) last week stated that the only option for the Deficit Reduction Committee was spending cuts and entitlement reforms. Speaker Boehner added that tax increase are "off the table" and "not a viable option" for the panel.

The Joint Select Committee on Deficit Reduction is scheduled to hold a September 22 hearing on revenue options and reforming the tax code. The panel will hear testimony from Joint Committee on Taxation chief of staff Thomas Barthold.

**Links to White House materials on the President's deficit reduction proposals:**

[Fact Sheet: The President's Plan for Economic Growth and Deficit Reduction](#)

[The President's Plan for Economic Growth and Deficit Reduction](#)

Link to WNTS Insight archive: <http://www.pwc.com/us/en/washington-national-tax/newsletters/washington-national-tax-services-insight-archives.jhtml>

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