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

President Barack Obama on September 12 sent to Congress legislative language and analysis for the \$447 billion "American Jobs Act" that he proposed last week, asking Congress to adopt \$467 billion in revenue raisers that would more than offset the cost of the package. The largest single revenue offset would limit itemized deductions at the 28-percent tax rate for upper-income individuals; White House officials estimate that the proposal would raise \$400 billion over ten years. 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. In general, the Administration is proposing that its revenue-raising provisions should be effective beginning in 2013.

The Obama Administration also is proposing that Congress increase the deficit reduction target for the Joint Select Committee on Deficit Reduction by an amount sufficient to offset the cost of the President's jobs bill. As a result, if Congress does not accept the revenue offsets proposed on September 12 by the Administration, the Deficit Reduction Committee would be responsible for finding alternative revenue sources or spending reductions to offset the proposed jobs creation provisions.

However, if offsets are not adopted by the Deficit Reduction Committee and Congress, the President has proposed that additional across-the-board spending reductions be made under the Budget Control Act of 2010 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 under the Budget Control Act if Congress does not enact at least that amount of deficit reduction by the end of this year.

Note: President Obama plans to submit additional proposals for deficit reduction and ideas on corporate tax reform to Congress on September 19.



Congressional Republican leaders have indicated that they are willing to consider some of the President's job creation proposals, such as expanded payroll tax relief, but yesterday expressed opposition to the Administration's proposed revenue offsets. Republican members of the Deficit Reduction Committee also generally expressed objections to the President's proposal that the panel should be charged with finding additional budget savings to pay for the Administration's proposals.

The job creation proposals formally sent to Congress yesterday include expanded employee payroll tax relief for 2012, new proposals to reduce the employer share of certain payroll taxes in 2012, and a proposal to extend for another year the 100-percent expensing provision currently set to expire at the end of 2011. The package also includes other tax incentives for hiring, proposals for additional spending on infrastructure, and assistance to State and local governments. For an overview of the Administration's jobs creation legislation, see WNTS Insight, "[President Obama proposes expanded payroll tax relief](#)," September 9, 2011.

Proposed revenue offsets

The Administration's bill would raise \$400 billion by limiting the tax value of otherwise allowable itemized deductions and exclusions to 28 percent. This proposed limitation would apply after 2012 to individual taxpayers with adjusted gross income (AGI) above \$200,000, and married couples filing a joint return with AGI above \$250,000. The Administration included a similar proposal in its FY 2012 budget, but the version proposed yesterday has been expanded to apply to certain other specified deductions and exclusions, including interest income from tax-exempt obligations and the deduction for contributions to medical savings accounts. A similar limitation would apply under the alternative minimum tax.

The Administration also has proposed again to tax the carried interest in certain investment partnerships as ordinary income rather than capital gain. Income from providing "investment management services" also would be subject to self-employment tax. The proposal also contains provisions affecting publicly traded partnerships. White House officials have estimated that this proposal, effective for taxable years beginning after 2013, would raise \$18 billion.

The Administration also has proposed to repeal several oil and gas provisions that would be estimated to raise \$40 billion. These oil and gas provisions include:

- Intangible drilling and development costs in the case of oil and gas wells
- Deduction for tertiary injectants
- Percentage depletion for oil and gas wells
- Section 199 deduction with respect to oil, natural gas, or primary products
- Oil and gas working interest exception to passive activity rules
- Two-year amortization for geological and geophysical expenditures
- Enhanced oil recovery credit
- Marginal well production credit

Other Administration revenue raisers would affect dual capacity taxpayers. The Administration proposes to modify foreign tax credit rules applicable to dual capacity taxpayers, and to create a separate foreign tax credit basket for taxes paid on foreign oil and gas income.

Links to White House materials on the jobs creation legislation:
Administration [sectional analysis](#) and the [text of the American Jobs Act of 2011](#).

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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