

WNTS *Insight*

A Washington National Tax Services (WNTS)
Publication

September 9, 2011

President Obama proposes expanded payroll tax relief, extended 100-percent expensing; will propose offsetting deficit reduction measures

President Barack Obama last night proposed a \$447 billion "American Jobs Act" that includes expanded employee payroll tax relief for 2012 and new proposals to reduce the employer share of certain payroll taxes. The President told Congress that he will soon submit a detailed deficit reduction plan to the Joint Select Committee on Deficit Reduction that will propose sufficient additional savings to offset fully the cost of his jobs package.

Payroll tax relief

Under the Administration 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. White House officials stated that this provision would provide a "tax cut of \$1,500 for the typical family earning \$50,000 a year." The proposed employee payroll tax relief for 2012 is estimated to cost \$175 billion over 10 years.

In addition to increased employee payroll tax relief, the President has proposed relief from certain payroll taxes paid by employers. If approved by Congress, the current 6.2-percent employer share of payroll taxes would be reduced to 3.1 percent on the first \$5 million in wages paid to current workers. President Obama also proposed a "full holiday" on the 6.2-percent employer share of payroll taxes firms pay for any growth in their payroll up to \$50 million above the prior year; this proposal would apply to new hires or increased wages, up to the specified amount. The White House reports that these employer payroll tax proposals are estimated to cost \$65 billion over 10 years.



Other tax, spending proposals

President Obama also proposed that Congress extend for another year the 100-percent expensing provision currently set to expire at the end of 2011. Congress in late 2010 provided temporary full expensing in 2011, which under present law would be followed by a period of 50-percent bonus depreciation in 2012. The White House estimates that extending 100-percent expensing in 2012 would cost \$5 billion over 10 years; the cost of this proposal would be reduced by companies accelerating deductions otherwise to be taken in future years.

Other tax incentives proposed by the President include:

- Tax credits for hiring returning and wounded veterans, up to \$5,600 for hiring a veteran who has been unemployed for more than six months, and up to \$9,600 for hiring a veteran with service-connected disabilities who has been unemployed for more than six months.
- A tax credit of up to \$4,000 for hiring long-term unemployed individuals who have been looking for work for more than six months.

The remainder of the Administration's plan focuses on increased spending that includes \$50 billion in additional funds for highway construction; \$65 billion in assistance to State and local governments for rehiring teachers, police, and firefighters and for modernizing schools; a \$10 billion infrastructure bank; \$49 billion in funding for reforming and extending unemployment assistance; and \$15 billion for rehabilitating vacant and foreclosed properties.

Deficit reduction and "tax reform" proposals to be released later in September

As noted, President Obama told Congress that he will submit a detailed deficit reduction plan to the Deficit Reduction Committee on September 19 that will include sufficient additional savings to offset the cost of his \$447 billion jobs package. The President stated that Congress should act formally to increase the \$1.2 trillion deficit reduction goal set for the "super committee" by an amount that would offset the cost of his plan.

The President also stated that his deficit reduction proposals would be a "balanced plan that would reduce the deficit by making additional spending cuts, by making modest adjustments to health care programs like Medicare and Medicaid, and by reforming our tax code in a way that asks the wealthiest Americans and biggest corporations to pay their fair share." He stated that he will offer ideas for corporate tax reform, and that "by eliminating pages of loopholes and deductions, we can lower one of the highest corporate tax rates in the world."

Materials released last night by the White House in connection with the President's speech referred to "carried interest" as a "tax loophole," stated that "tax breaks" for oil and gas companies would amount to \$40 billion over the next 10 years, and that "tax cuts for the wealthiest Americans are enormous and unaffordable."

Congressional reactions

Congressional Democrats generally expressed support for President Obama's proposals, but the reaction from Congressional Republican leaders was mixed. House

Speaker John Boehner (R-OH) commented last night that the President's proposals "merit consideration," and added that he hoped the President would give "serious consideration" to Republican ideas as well. House Majority Leader Eric Cantor (R-VA) stated that there was "plenty in the speech that provides us an opportunity to begin to work together on," but added that he took "exception to the all or nothing approach that the President's message was about."

Senate Minority Leader Mitch McConnell (R-KY) objected to the additional spending proposed by President Obama, commenting that Congress was being asked "to support even more government spending with the assurance that he'll figure out a way to pay for it later." Republicans 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.

Link to White House material on the President's "American Jobs Act"

http://www.whitehouse.gov/sites/default/files/american_jobs_act_factsheet.pdf

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