

WNTS Insight



President Obama calls for tax reform as part of deficit reduction package

April 13, 2011

In a major policy speech, President Barack Obama today outlined a deficit reduction framework that would reduce federal deficits by \$4 trillion over the next 12 years. As part of a plan calling for spending cuts and entitlement savings, President Obama also renewed his support for allowing Bush-era tax rates to expire at the end of 2012 for higher-income individuals and called on Congress to undertake comprehensive tax reform. Specifically, the President stated that he supports a "balanced approach" to reducing the federal deficit, with "three dollars of spending cuts and interest savings for every one dollar from tax reform that contributes to deficit reduction."

President Obama called on Congressional leaders to appoint members of the House and Senate who would participate in bipartisan negotiations led by Vice President Joe Biden beginning in early May. The President stated that the goal of these negotiations would be to agree on a legislative plan for comprehensive deficit reduction.

As part of deficit reduction legislation, President Obama also proposed a "debt failsafe" that would trigger across-the-board reductions in direct spending and tax expenditures if, by 2014, projected federal debt has not been reduced relative to U.S. GDP. The Administration proposes that Social Security, Medicare benefits, and programs serving low-income individuals would be exempt from such deficit reduction enforcement measures.

Tax reform

President Obama stated that Congress should build on the efforts of the National Commission on Fiscal Responsibility and Reform, which last year proposed a comprehensive deficit reduction plan including spending cuts, entitlement savings, and tax reform. The Fiscal Commission's plan proposed to broaden the tax base and reduce individual and corporate tax rates while also providing additional revenue for deficit reduction.

President Obama stated that he supports the Fiscal Commission's goal of reducing individual tax expenditures so that there is enough savings to both lower rates and lower the deficit. "Reforms should be designed to

ask more of those who can afford it while protecting the middle class and promoting economic reform." In addition to letting Bush-era tax rates expire for higher-income individuals, the President stated that further deficit reductions would be provided by his proposal to limit the value of itemized deductions for those individuals.

Lower corporate rate

President Obama also stated that his Administration is continuing efforts to reform the corporate tax code to increase U.S. economic competitiveness and encourage investment in the United States. "By eliminating loopholes, reducing distortions, and leveling the playing field in our corporate tax code, we can use the savings to lower the corporate tax rate for the first time in 25 years without adding to the deficit."

Outlook for Congressional action

It is uncertain whether Congress can agree on how best to reduce the federal deficit. Following the President's speech, House Speaker John Boehner (R-OH) and Senate Republican Minority Leader Mitch McConnell (R-KY) expressed opposition to increasing taxes as part of deficit reduction efforts.

The House of Representatives is scheduled later this week to vote on a FY 2012 budget resolution that proposes to achieve \$4.4 trillion in deficit reductions from spending cuts and entitlement savings. The proposed House budget resolution also calls for a top tax rate of 25 percent for individual and corporations to be offset by reducing or eliminating tax expenditures.

Meanwhile, Senate Budget Committee Chairman Kent Conrad (D-ND) this week stated that he will propose a Senate budget resolution sometime in May. A bipartisan group of Senators led by Senators Mark Warner (D-VA) and Saxby Chambliss (R-GA), which also includes Senator Conrad, has been developing a deficit reduction plan that would build on the recommendations of the National Commission on Fiscal Responsibility and Reform. In addition, 64 Senators in April sent a letter to President Obama citing the Fiscal Commission's proposals and calling

for broad deficit reduction talks that would "include discretionary spending cuts, entitlement changes and tax reform."

Finally, Congress needs to consider legislation to increase the statutory federal debt limit in the next few months. Treasury Secretary Timothy Geithner has notified Congress that the current \$14.294 trillion federal debt limit will be reached by May 16, and Treasury will exhaust "extraordinary measures" to avoid default on U.S. debt obligations after about July 8.

Link to White House Fact Sheet on the President's Deficit Reduction Framework

<http://www.whitehouse.gov/the-press-office/2011/04/13/fact-sheet-presidents-framework-shared-prosperity-and-shared-fiscal-resp>

For more information on this WNTS Insight, please contact Larry Campbell at (202) 414-1477 or larry.campbell@us.pwc.com, or Andrew Prior at (202) 414-4572 or andrew.prior@us.pwc.com.

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