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TAX FLASH

Obama Offers Tax Incentives to Spur Economy; GOP Says Plan Will Not Work

President Obama unveiled a \$447 billion stimulus plan Sept. 8 that includes \$253 billion in tax cuts for individuals and businesses that he said were designed to create jobs and stimulate the nation's sluggish economy.

These provisions "will provide a jolt to an economy that has stalled, and give companies confidence that if they invest and hire, there will be customers for their products and services," Obama said during a speech to a joint session of Congress. "You should pass this jobs plan right away."

But Republicans said short-term tax incentives have not worked in the past to stimulate the economy and will not work in the future because businesses need tax certainty and permanence.

The crux of Obama's proposal comes in the form of reductions in the Social Security payroll tax for employees and employers for 2012, tax credits for hiring long-term unemployed workers including injured veterans, and a one-year extension of 100 percent expensing for the full cost of any capital investments.

Payroll Tax Cuts Costly

The costliest item—at \$175 billion—would expand the Social Security payroll tax cut enacted in December 2010 so that for 2012 the 6.2 percent tax would be trimmed in half to 3.1 percent on the individual side, an

effort to put money back in the pockets of workers and therefore stimulate the economy.

The expansion and extension would put \$1,500 in the hands of the "typical working family" for 2012, Obama said.

"If we allow that tax cut to expire—if we refuse to act—middle-class families will get hit with a tax increase at the worst possible time," Obama said. "I know some of you have sworn oaths to never raise any taxes on anyone for as long as you live. Now is not the time to carve out an exception and raise middle-class taxes, which is why you should pass this bill right away."

Obama also proposed significant changes to the employer side of the payroll tax.

First, the plan would also cut the 6.2 percent tax in half for employers on the first \$5 million in wages, with the proposal targeted to the "98 percent of firms with wages below this level," according to a summary provided by the administration. Second, the plan would provide a full holiday from the 6.2 percent tax for companies on wages for new workers or raises for existing workers up to a total of \$50 million. Combined, the two provisions would cost \$65 billion.

A payroll tax cut for businesses would work, but only if it is permanent, Rep. Pat Tiberi (R-Ohio), the chairman of the House Ways and Means Select Revenue Measures

Subcommittee, said before the speech. Additionally, he said if there were limitations to it, such as only for certain size businesses, it would be complex. "I'm looking for simplicity and permanency," Tiberi said.

"The tax cuts that have the greatest economic impact are permanent, not temporary," said Rep. Kevin Brady (R-Texas), a senior member of the tax-writing Ways and Means Committee. "I think small businesses have gone beyond the gimmicks. Two years ago that actually might have been helpful, but now from small businesses I just don't sense any enthusiasm."

Additional Tax Cuts Proposed

Additionally, Obama proposed creating a tax credit of between \$5,600 and \$9,600 for companies that hire unemployed veterans with service-connected disabilities who have been seeking work for more than six months.

He also proposed expanding an existing tax credit for firms that hire unemployed workers, but increasing the value of the credit to up to \$4,000 and extending the length of time the individual has been seeking work from 60 days to six months. Those two tax cuts together would cost \$8 billion, according to the summary.

Finally, Obama proposed extending for 2012 another provision enacted in December 2010 allowing companies to expense the full cost of any capital investments made during the year, which would cost \$5 billion.

During committee hearings on tax reform, Tiberi said, "We have heard over and over and over that temporary has not helped our economy and while I think everybody on our side would like to see tax cuts, we'd like to see permanent tax cuts. This uncertainty of temporary tax cuts does nothing to help the economy."

Regular Order Possible for Consideration

The week of Sept. 12, the president will present the package as a piece of legislation called the American Jobs Act that will include all of the initiatives in the president's proposal, senior administration officials told reporters.

In the Republican-run House, a leadership aide could not say definitely if the House Ways and Means Committee will hold a markup on an economic stimulus package, but did say that the leadership prefers "regular order," with the authorizing committees doing the majority of the work.

Tiberi and Brady said the president's plan is not necessarily "dead on arrival," but rather would need to be a starting point for negotiations. Brady said Obama would be well-advised to seek out a meeting with Republican leaders and advance a plan from there. "If this is just a speech and all for show, then no, it won't deserve Republican consideration," Brady said.

Better ideas, Brady said, include moving the three outstanding free trade agreements with Panama, Columbia, and South Korea, a repatriation holiday, and repeal of a law that requires federal, state, and local governments to withhold 3 percent from payments for goods and services. Additionally, the House GOP leadership has long supported a measure would allow small businesses to take a deduction equal to 20 percent of their income.

"There should be nothing controversial about this piece of legislation. Everything in here is the kind of proposal that's been supported by both Democrats and Republicans—including many who sit here tonight," Obama said. "And everything in this bill will be paid for. Everything."

THE REAL QUESTION IS – HOW WILL IT BE PAID FOR?