

Congressman Jim Jordan (R-OH), Chairman

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Tax Deal to Move to House This Week

As early as today, the Senate is expected to pass the tax deal. The bill will then come before the House which may either pass the bill as is, or potentially amend the bill and send it back to the Senate. The total score of the bill is \$858 billion over ten years. \$721 billion or 84% of this amount is tax relief—though most of this amount is simply preventing tax cuts from expiring. The remaining \$136 billion, or 16% of the \$858 billion total, is spending—some of which is attributable to just a straight extension of the 2001/2003 tax laws which included some direct spending in form of refundable credits. The rest of that amount is extension of “stimulus” refundable tax credits and the unemployment benefits program extension. Details of the deal:

2001/2003 Tax Cut Extension: The 2001 and 2003 tax cuts—otherwise set to expire next month—are extended for two years (through the end of 2012). This includes the lower 35% top rate, the 10% bottom rate, the \$1,000 child tax credit, the marriage penalty relief, and the 15% capital gains and dividend tax rates. The fate of these tax cuts beyond 2012 will presumably depend on who wins the next election. The bill also extends the AMT patch for two years, through 2011, which will prevent an unintended tax increase on 25 million Americans. The bill further includes a two year extension of other expiring tax provisions (the “tax extenders” package Congress enacts every year or two). This keeps current tax law with regard to tax provisions such as the Research and Development Credit, and the State and Local Sales Tax Deduction, but also the ethanol tax subsidies.

Death Tax Reinstated: Death tax elimination in 2010 was included as part of the 2001 tax cut law, but unlike the other provisions of that law, it is not extended as part of this deal. Instead, the proposal adopts the Kyl-Lincoln “compromise” of a 35% rate and a \$5 million exemption for two years. Under current law, it goes back to 55% with a \$1 million exemption in 2011. The Democrats wanted a 45% tax rate and a \$3.5 million exemption (as proposed in the President’s budget).

Payroll Tax Cut: The employee portion of the Social Security tax would fall from 6.2% to 4.2% in 2011 only. It is notable, however, that the employer portion would remain the same (as would the Medicare portion of the payroll tax). The employer portion of the payroll tax increases the cost of hiring someone. The payroll tax cut in this proposal would be in lieu of an extension of President Obama’s Making Work Pay Tax Credit. This is a \$114 billion tax cut. Some RSC Members have proposed temporary payroll reductions, but these would have fallen on the employer side also.

Unemployment Compensation: The bill extends the existing “emergency” unemployment benefits program for another 13 months (through the end of 2011). This program provides 99 weeks of benefits. This would cost \$56 billion. Many conservatives will be concerned that this extension is not paid for and thus will increase the national debt, and many conservatives believe that continuing the program will increase unemployment.

Other Spending through Refundable Tax Credits: Provisions from the “stimulus” increasing the refundability of the Earned Income Tax Credit, the Child Tax Credit, and the American Opportunity Tax Credit would be extended for two years. This is a \$40 billion cost (this is spending, not tax cuts, because it gives people checks in excess of their tax liability). Since these provisions were part of the “stimulus,” they were meant to be temporary. Extending them as part of this bill increases the odds that they will instead become a permanent part of the tax code.

Senate to Consider 1,924 Page Omnibus

Yesterday, Chairman Inouye (D-HI) introduced the FY 2011 omnibus bill. The legislation contains a non-emergency spending level of \$1.107 trillion—\$16.6 billion more than the House-passed year-long continuing resolution. The Senate bill is \$174 billion, or 18.7%, more than the FY 2008 spending levels in effect prior to this Congress. The spending in this bill amounts to \$575 million per page. The bill contains more than \$1 billion for programs created by Obamacare. The bill also contains thousands of earmarks that have not previously been vetted by either the Senate or House. Should Senate Republicans succeed in blocking this bill, the Senate will either adopt the House-passed cr, or (if Senate Republicans can also block that) a short-term cr (which would allow the next Congress to adopt a much lower spending level).

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