RSC Republican Study Committee

REP. TOM PRICE, M.D. (R-GA), CHAIRMAN
PAUL TELLER, EXECUTIVE DIRECTOR
424 CANNON HOUSE OFFICE BUILDING
WASHINGTON, DC 20515

rsc.price.house.gov

ph (202) 226-9717 / fax (202) 226-1633

RSC One-Pager:
Preliminary Details of the "Tax Deal"

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Yesterday, the President announced a deal on the expiring 2001/2003 tax cuts. A preliminary analysis of the deal is as follows:

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.

Death Tax: Death tax elimination in 2010 was included as part of the 2001 tax cut law, but unlike the other provisions of that law, death tax elimination 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 reportedly a $120 billion tax cut. Many conservative economists argue a payroll tax cut is preferable to keeping the President's Making Work Pay Tax Credit. A provision in the Jordan-Chaffetz Economic Freedom Act (H.R. 5029) would have temporarily reduced the payroll tax from 15.3% to 7.65%, with the reduction falling on both employees and employers.

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 reportedly cost $54 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: 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 reportedly 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. This spending is also not offset and thus will increase the national debt.

Business Expensing: 100 percent business expensing for 2011. This apparently has a $30 billion ten-year score.

AMT: The deal includes some version of the AMT patch. The previous AMT patch expired at the end of 2009, and it is unclear how many years this proposal would cover.

RSC Staff Contact: *Brad Watson, x69719 or brad.watson@mail.house.gov*