THE REPUBLICAN STUDY COMMITTEE
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Legislative Bulletin……………………………………….………August 1, 2012

Contents:

H.R. 8—Job Protection and Recession Prevention Act (Rep. Camp, R-MI)

Order of Business: The bill is scheduled to be considered today under a structured rule providing one hour of debate equally divided and controlled by the chair and ranking minority member of the Committee on Ways and Means. The rule waives all points of order against consideration of the bill. The rule makes in order the amendment in the nature of a substitute (summarized below).

The rule further provides that on any legislative day during the period from August 3, 2012, through September 7, 2012: (a) the Journal of the proceedings of the previous day shall be considered as approved; (b) the Chair may adjourn the House to meet at a date and time within the limits of clause 4, section 5, article I of the Constitution; and (c) bills and resolutions introduced shall be numbered, listed in the Congressional Record, and when printed shall bear the date of introduction, but may be referred at a later time.

The rule also authorizes the Speaker to entertain motions to suspend the rules on the legislative day of August 2, 2012 and waives the requirement of House rules requiring a two-thirds vote to consider a report from the Committee on Rules on the same day it is presented to the House with respect to any resolution reported through the legislative day of August 2, 2012.

Summary: In general, the legislation prevents a $403 billion tax increase that would otherwise fall on the American people and the economy. Below are details of the tax increases prevented by H.R. 8:

2001/2003 Tax Cut Extension: The 2001 and 2003 tax cuts—otherwise set to expire at the end of 2012—are extended for one year (through the end of 2013). 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. Some of the main provisions of note:

- **10% Tax Bracket:** One-year extension of the lower 10% income tax bracket (which would otherwise rise to 15%). *This provision reduces revenues by $43.9 billion compared to* *current law, but does not change projections compared to a baseline that assumes extension of the rates in effect today.*

- **Other Tax Brackets:** One-year extension of the lower 10%, 25%, 33%, and 35% income tax brackets. *This provision reduces revenues by $50.1 billion compared to current law, but does not change projections compared to a baseline that assumes extension of the rates in effect today*.

- **Child Tax Credit:** One-year extension of $1,000 child tax credit (otherwise scheduled to drop to $500 in 2011). *This provision reduces revenues by $35.6 billion compared to current law, but does not impact revenue compared to a baseline that assumes extension of existing tax law.*

- **Marriage Penalty:** One-year extension of marriage penalty relief. Specifically, the bill extends the standard deduction/15% rate bracket set at two-times-single for married filed jointly. *This provision reduces revenues by $9.2 billion compared to current law, but does not change projections compared to a baseline that assumes extension of the tax policy in effect today*.

- **Education Tax Provisions:** Among other things, the legislation extends for one year the Coverdell education savings provisions from the 2001 tax relief law (annual $2,000 contribution limit) and the higher student loan interest deduction phaseouts ($65,000 individual/$130,000 married couple). *These provisions reduce revenues by $2.2 billion compared to current law, but do not change projections compared to a baseline that assumes extension of the tax policy in effect today.*

- **Capital Gains and Dividend Taxes:** One-year extension of the 15% top rate on capital gains and dividend income. *This provision reduces revenues by $25.8 billion compared to current law, but does not change projections compared to a baseline that assumes extension of the tax policy in effect today.*

Death Tax: The bill extends the lower 35% rate and a $5 million exemption, otherwise set to expire at end of 2012, through 2013. In 2010, per the 2001 tax law, there was no "death tax." Under current law, it goes back to 55% with a $1 million exemption in 2013. *This provision reduces revenues by $31.2 billion compared to current law.*

Small Business Expensing: Under current law, businesses may immediately deduct (as opposed to recover over time through annual depreciate deductions) the cost of certain property in the year it is placed in service. H.R. 8 would set $127,000 as the limit for how much may be expensed and $510,000 as the point at which this tax benefit is reduced. Under current law, these figures would be lowered (thus reducing the ability of small businesses to immediately expense) to $25,000 and $200,000 respectively. *This provision reduces revenues by $600 million compared to current law.*

AMT Patch: The legislation provides for a $78,750 AMT exemption amount for married couples in 2012 and a $79,850 exemption in 2013 (it was $74,450 in 2011 and would drop to

$45,000 without a "patch") and a $50,600 exemption amount for singles in 2011 and a $51,150 exemption in 2012 (it was $48,450 in 2011 and would drop to $33,750 without a "patch"). This would prevent for two years a huge, unintended tax increase on 25 million taxpayers. *This provision would reduce revenues (compared to current law that assumes a large tax increase) by $192.7 billion.*

Additional Background: At the end of last Congress, H.R. 4853, the Tax Relief, Unemployment Insurance Reauthorization, and Job Creation Act of 2010 was enacted into law. This legislation, among other things, prevented the 2001 and 2003 tax cuts from expiring at the end of 2010, and extended the bulk of these tax cuts through the end of 2012. The legislation also extended the AMT patch for another 2 years, preventing an unintended tax increase on 25 million Americans. The purpose of this legislation is to prevent a $400 billion tax increase on American families and businesses by extending current tax relief by another year, instead of allowing it to expire.

April 17, 2012, was Tax Freedom Day—the day the Tax Foundation calculates Americans have finally earned enough money to pay their tax bills for the year and can start to work for themselves. Even before the tax hikes that would occur on January 1, 2013, the Tax Foundation calculates that Americans will work 107 days this year for the government, which is longer than the American people will work for food, clothing, and housing combined.

According to CBO, the federal tax burden will grow significantly in coming years. Federal tax revenue was 15.4% of GDP in 2011, and the historic average is 18% of GDP. But by 2022, it will increase to 21% of GDP (which would be the highest level in American history). For more information about impending tax increases under the tax code, see here.

Amendment Made in Order

1. *Levin (D-MI).* Amendment in the Nature of a Substitute. The amendment would extend some but not all of the tax relief included in the underlying bill. The amendment would allow the top income tax rate to rise from 35% to 39.6% starting in 2013. The 36% tax bracket would also come back into effect for other taxpayers earning more than $200,000 (individual) or $250,000 (filed jointly). The top capital gains tax would rise from 15% to 20%. The AMT patch, unlike the underlying bill, would be for one year instead of two. Finally, the amendment would extend some "stimulus" spending not extended in the underlying bill—increased refundability (above tax liability owed) of the Earned Income Tax Credit and the Child Tax Credit.

Committee Action: The legislation was introduced on July 24, 2012. It was referred to the Ways and Means Committee and Budget Committee, neither of which took any further action. Many of the provisions of the legislation have been the subject of great debate for a decade.

Administration Position: No Statement of Administration Policy (SAP) is available at press time.

<u>Outside Organizations</u>: Americans for Tax Reform (ATR) and the National Taxpayers Union (NTU) are supporting. Heritage Action is scoring in favor of the bill.

<u>Cost to Taxpayers</u>: The legislation is a tax cut of $403 billion over ten years compared to current law. However, the legislation simply prevents a massive tax increase from taking effect. Compared to a baseline assuming extension of current law, which most conservatives would argue is more accurate, the legislation would not have this impact.

<u>Does the Bill Expand the Size and Scope of the Federal Government?</u>: No. The legislation reduces the size and scope of the federal government that would otherwise increase under current law.

<u>Does the Bill Contain Any New State-Government, Local-Government, or Private-Sector Mandates?</u>: No.

<u>Does the Bill Contain Earmarks/Limited Tax Benefits/Limited Tariff Benefits?</u>: No.

<u>Constitutional Authority</u>: The sponsor states: "Clause 1 of Section 8 of Article I of the United States Constitution and Amendment XVI of the United States Constitution." The 16^{th} Amendment gives Congress the power to create an income tax.

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