RSC Republican Study Committee

Rep. Jim Jordan (R-OH), RSC Chairman
Paul Teller, Executive Director
Budget and Spending Task Force
Weekly Report

Congressman Scott Garrett (R-NJ), Chairman **September 14, 2011**

President Releases Jobs for America Act

The proposal includes $447 billion of new "stimulus" tax and spending provisions and $467 billion of higher taxes. Some provisions of note:

Payroll Tax Holiday Extension: The proposal reduces the Social Security portion of the payroll tax from 6.2% to 3.1% in 2012 on the employee side (the figure for 2011 is 4.2%), and from 6.2% to 3.1% on the employer side. The employer side tax reduction would be capped to the first $5 million of payroll.

Various Tax Incentives for New Hires: The proposal provides a tax credit to cover the employer portion of the payroll tax for new hires. The value of this tax break is capped at the first $50 million of payroll. The plan also includes $4,000 tax credits for the hiring of those who have been out of work for more than six months.

Aid to States: The plan includes $35 billion of money for state and local governments that proponents argue is intended to prevent layoffs of teachers.

School "Infrastructure": The plan includes $30 billion of money for improvements to public schools and community colleges.

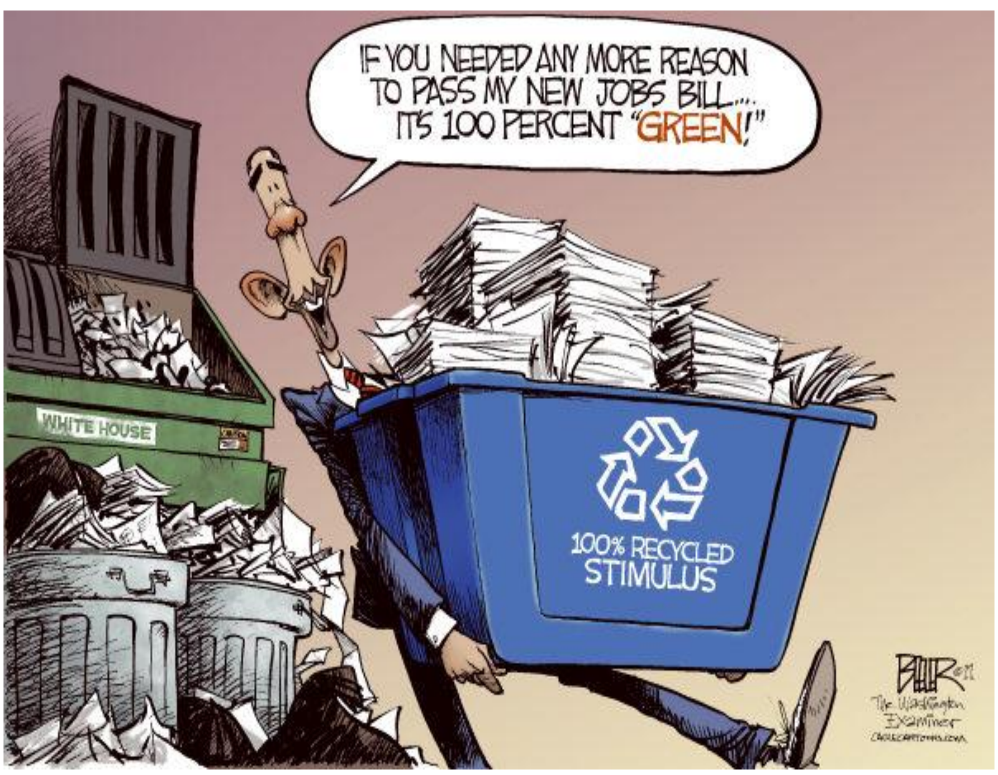
Quote of the Week:

"A government bureau is the nearest thing to eternal life we'll ever see on this earth."

-Ronald Reagan, 1964

National Infrastructure Bank: The plan proposes a $10 billion National Infrastructure Bank that would be intended to bypass the normal political process in making funding decisions.

Tax Increases in President's Plan



The President's plan includes $467 billion of tax increases such as:

Limit Value of Deductions: The proposal limits the itemized deduction and exemptions to a 28% limit for individuals earning more than $200,000 and families earning more than $250,000. **This is a $400 billion tax increase.** This could have a negative impact on non-profits, churches, faith-based schools, hospitals, and other charitable organizations.

Carried Interest Tax Increase: Taxes this income as "ordinary" income at the higher income tax rates as opposed to being subject to capital gains rates. **This is an $18 billion tax increase.**

New Taxes on Energy Producers: The proposal also includes **$40 billion** of tax increases on energy producers including repeal of the Section 199 Manufacturing deduction for oil and gas.

$1.23 Trillion Deficit Through First 11 Months of FY 2011

According to CBO, the federal government has run-up a $1.23 trillion deficit in the first 11 months of FY 2011. To date, the federal government has spent $3.295 trillion and collected $2.063 trillion in taxes. Revenue is up **7.6%** and spending is up **3.7%** compared to the same point last year. **37.3% of all federal spending so far this year has come from borrowed money**.

Census Figures Illustrate Failure of Welfare State

Yesterday, the Census Bureau released various alarming statistics related to the current economic downturn. Some examples:

- Poverty has increased from 14.3% in 2009 to 15.1% in 2010. According to the Census Bureau **46 million** Americans live in poverty. The U.S. has spent $16 trillion on the War on Poverty over the past 45 years.
- The uninsured rate increased from 16.1% to 16.3% compared to last year.
- Median income fell by 2.3%.

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The 2013 Tax Cliff

Business had better enjoy the next 16 months.

President Obama unveiled part two of his American Jobs Act on Monday, and it turns out to be another permanent increase in taxes to pay for more spending and another temporary tax cut. No surprise there. What might surprise Americans, however, is how the President is setting up the U.S. economy for one of the biggest tax increases in history in 2013.

Mr. Obama said last week that he wants $240 billion in new tax incentives for workers and small business, but the catch is that all of these tax breaks would expire at the end of next year. To pay for all this, White House budget director Jack Lew also proposed $467 billion in new taxes that would begin a mere 16 months from now. The tax list includes limiting deductions for those earning more than $200,000 ($250,000 for couples), limiting tax breaks for oil and gas companies, and a tax increase on carried interest earned by private equity firms. These tax increases would not be temporary.

What this means is that millions of small-business owners had better enjoy the next 16 months, because come January 2013 they are going to get hit with a giant tax bill. Let's call the expensive roll:

• First comes the new tax hikes that Mr. Obama proposed on Monday. Capping itemized deductions and exemptions for the rich would take $405 billion from the private economy for 10 years starting in 2013. Taxing carried interest would raise $18 billion, and repealing tax incentives for oil and gas production would get $41 billion.

• These increases would coincide with the expiration of the tax credits, 100% expensing provisions and payroll tax breaks in Mr. Obama's new jobs program. This would mean a tax hit of $240 billion on small business and workers. That's the downside of temporary tax breaks and other job-creation gimmicks: The incentives quickly vanish, and perhaps so do the jobs.

So even if the White House is right that its latest stimulus plan will create "millions of jobs" through 2012, by this logic a $240 billion tax hike on small businesses in 2013 would cost the economy jobs. This tax wallop would arrive when even the White House says the unemployment rate will still be 7.4%.

• January 2013 is also the same month that Mr. Obama wants the

Bush-era tax rates to expire on Americans earning more than $200,000. That would raise the highest individual income tax rate to about 42%, including deduction phaseouts, from 35% today. Congress's Joint Committee on Taxation found in 2009 that $437 billion of business income would be taxed at higher tax rates under the Obama plan. And since some 4.5 million small-business owners file their annual tax returns as subchapter S firms under the individual tax code, this tax increase would often apply to the same people who Mr. Obama is targeting with his new tax credits.

The capital gains and dividend taxes would also rise to an expected 20% rate from 15% today. The 10-year hit to the private economy for all of these expiring Bush rates: about $750 billion.

• Also starting in 2013 are two of ObamaCare's biggest tax increases: an additional 0.9-percentage point levy on top of the 2.9% Medicare tax for those earning more than $200,000, and a new 2.9% surcharge on investment income, including interest income. This will further increase the top tax rate on capital gains and dividends to 23.8%, for a roughly 60% increase in investment taxes in one year.

The White House's economic logic seems to be that its new spending and temporary tax cuts will so fire up investment and hiring in the next 16 months that the economy will be growing much faster in 2013 and could thus absorb a leap off the tax cliff. But this requires its own leap of faith.

The White House also predicted a similar economic takeoff from the 2009 stimulus that was supposed to make a tax hike possible in 2011. Then last December Mr. Obama proposed new tax incentives only for 2011 because the economy was supposed to be cooking by 2012. Now it wants to extend those tax breaks so the economy will be cruising in 2013.

All of this assumes that American business owners aren't smart enough to look beyond the next few months. They can surely see the new burdens they'll face in 2013, and they aren't about to load up on new employees or take new large risks if they aren't sure what their costs will be in 16 months. They can also reasonably wonder whether Mr. Obama's tax hike will hurt the overall economy in 2013—another reason to be cautious now.

For the White House, the policy calendar is dictated above all by the political necessities of the 2012 election. Mr. Obama will take his chances on 2013 if he can cajole the private economy to create enough new jobs over the next year to win re-election, even if those jobs and growth are temporary. Business owners and workers who would prefer to prosper beyond Election Day aren't likely to share Mr. Obama's enthusiasm once they see the great tax cliff approaching. Look out below.