

The Tax Relief, Unemployment Insurance Reauthorization, and Job Creation Act of 2010: A Win for Our Economy, Jobs, and Working Families

The Tax Relief, Unemployment Insurance Reauthorization, and Job Creation Act of 2010 provides vital tax relief and investments in our workers that will create jobs and accelerate economic growth. The bill has three key accomplishments:

- **Working families will not lose their tax cut.** A typical working family faced a tax increase of over \$3,000 on January 1st. That's avoided under this bill, and working families won't see their tax cuts go away next year.
- **Focused on high impact job creation measures.** The bill includes some of the best measures for jumpstarting growth and job creation, including a full year of emergency unemployment insurance benefits, a 2% payroll tax cut for working families and a continuation of tax credits for working families. This is on top of growth generated by extension of the middle-class income tax rates.
- **Does not worsen the medium- and long-term deficit.** These are responsible, temporary measures to support our economy that will not add costs by the middle of the decade. The President does not believe it is affordable to make the high-income tax cuts permanent and will continue to make his case for why we cannot extend these measures beyond 2012.

Overview of the Bill:

- **Extending the 2001/2003 Income-Tax Rates for Two Years.** The bill includes a mutually agreed upon solution to the impasse over taxes by extending the 2001/2003 income tax rates for two years and reforming the AMT to ensure that an additional 21 million households will not be hit with a tax increase. These measures will provide relief to more than 100 million middle-class families and prevent a tax increase of over \$2,000 for the typical family.
- **Additional Provisions Designed to Promote Vigorous Economic Growth.** In addition to the 2001/2003 rates, the Administration secured several provisions that are vital for our economy's growth, which would not have been possible without this agreement: \$56 billion in unemployment insurance, an \$112 billion payroll tax cut for working families, about \$40 billion in tax cuts for our hardest hit families and students; and 100% expensing for businesses next year.

1. GROWTH-ORIENTED PAYROLL TAX CUT FOR WORKERS:

The agreement reached by the administration and embodied in the Tax Relief, Unemployment Insurance Reauthorization, and Job Creation Act includes an about 2%, employee-side payroll tax cut for over 155 million workers – providing tax relief of \$112 billion next year.

This tax cut will have a major impact on jobs and growth – creating substantial numbers of jobs. It is widely recognized by economists across the political spectrum as an efficient way to boost growth and was cited by both major deficit reduction commissions as consistent with long term fiscal discipline. And, as economist Nouriel Roubini wrote earlier this year, a payroll tax cut would spur growth because “for employees, the increased take-home pay would boost much-needed economic consumption and advance the still-crucial process of deleveraging households.”

Importantly, the tax cut legislation would provide for a transfer of General Revenues to the Social Security Trust Fund, ensuring no negative impact on Social Security solvency.

2. HIGH IMPACT, JOB CREATING TAX CUTS FOR WORKING FAMILIES

Economic studies consistently find that lower-income households are the most likely to spend additional money, creating jobs and helping overall growth. That’s why the Congressional Budget Office, for instance, has concluded that “policies aimed at lower-income households tend to have greater stimulative effects.” The President fought to secure a two-year increase of the *full Child Tax Credit and Earned Income Tax Credit*. These provisions will, together, provide ongoing tax cuts to 12 million lower income families, with a total of 24 million children. In addition, the deal fully extends the American Opportunity Tax Credit for two years.

Lower-Income Working Families Benefited by Expansions in EITC and CTC		
	<u>Families</u>	<u>Children</u>
Total	12.2	24.3
White	5.6	9.8
Hispanic	3.7	8.0
African American	2.2	4.7
Other	0.7	1.7

- **Child Tax Credit:** The \$1,000 child tax credit will be extended for two years with the \$3,000 refundability threshold established in the Recovery Act. This extension will ensure an ongoing tax cut to 10.5 million lower income families with 18 million children.
- **Earned Income Tax Credit:** The Recovery Act included an expansion of the EITC worth, on average, \$600 in additional assistance to families with 3 or more children. It also helped working married families by reducing the marriage penalty in the EITC. Continuing this tax cut for two years will benefit 6.5 million working parents with 15 million children.

Illustrative Family: A working family with three children making \$20,000 will continue to receive a tax cut of more than \$2,000 as a result of the EITC and Child Tax Credit expansions in this framework agreement. The same family would receive an additional \$400 tax cut from the new payroll tax cut.

- **American Opportunity Tax Credit:** The Recovery Act included a new, partially refundable tax credit of up to \$2,500 to help students and their families cover the cost of college tuition.

This deal fully extends AOTC for two years, ensuring that more than 8 million students will continue to receive this tax benefit to help them afford college.

3. UNEMPLOYMENT INSURANCE:

The legislation extended unemployment benefits at their current level for 13 months, through the end of 2011. This will save millions of Americans searching for work from losing their unemployment benefits in the coming months and will help create hundreds of thousands of jobs.

- In December alone, 2 million workers who would have lost benefits will continue to receive them because of this framework agreement. Over the next year, 7 million workers will no longer need to worry that their unemployment benefits could be eliminated as they search for jobs.
- According to the Council of Economic Advisers, passing this provision will create 600,000 jobs in 2011 alone.

4. BUSINESS TAX CUTS TO INCREASE INVESTMENT AND GROWTH:

The legislation extends a set of important tax measures to encourage businesses to invest and create jobs in America.

- The largest temporary investment incentive in American history: The bill includes the proposal the President announced in September to temporarily allow businesses to expense all of their investments in 2011. According to the Treasury Department, complete expensing could generate more than \$50 billion in additional investment in the U.S. in 2011. The provision will provide a crucial incentive to 2 million businesses to invest and create jobs in the U.S.
- Extension of the “1603” renewable production credit: The Recovery Act included a provision to provide a grant in lieu of the tax credit for renewable energy production. The 1603 program has helped encourage more than 4,000 clean energy projects and tens of thousands of new jobs. This agreement will now include a one year extension of the 1603 program.
- R&D credit: The agreement includes a 2-year extension of the R&D tax credit and other tax incentives to support business expansion.
- Empowerment Zones: The agreement also extends for two years the Empowerment Zones program, which provides special tax incentives to businesses and individuals in designated economically depressed areas.