

## MEMORANDUM

TO: Tax Reporters & Interested Parties

FROM: Ways and Means and Senate Finance Republicans

RE: Camp, Grassley Statements and Summary on Tax Hike Prevention Agreement

Ways and Means Ranking Member Dave Camp (R-MI) and Senate Finance Ranking Member Charles Grassley (R-IA) issued the following statements and summary in reaction to the final, bipartisan agreement on tax negotiations:

**Camp:** "This agreement does two things the economy needs: prevents a tax increase on all Americans who pay income taxes and provides a foundation for job creation. The failure to move this agreement forward will be a devastating blow to American taxpayers, small businesses and our nation's economic recovery."

**Grassley:** "Raising taxes would be the worst thing we could do in this economy. Continued tax relief gives people the ability to keep more of their money to use as they see fit, whether it's buying groceries or investing in their small business. Sending more money to Washington would just result in more government spending, which is the last thing the country needs."

### Summary of Tax Hike Prevention Agreement

#### KEY POINTS:

- Prevents tax increases on every American who pays income taxes
- Eliminates job-killing tax increases on small businesses
- Provides relief from the estate tax for family owned businesses and farms
- Preserves the \$1,000 per child tax credit and marriage penalty relief
- Blocks higher taxes on capital gains and dividends
- Protects at least 21 million households from being hit by the AMT in 2010
- Replaces the stimulus bill's Making Work Pay Credit with a reduction in the payroll tax

#### KEY PROVISIONS:

##### **Extension of All 2001 and 2003 Income Tax Provisions**

- ALL of the 2001 and 2003 tax rates are extended for two years, through the end of 2012. Had these provisions been eliminated, every taxpayer would have faced higher taxes next year.

Current Income Tax Rates Extended Thru 2011 and 2012		
Individuals and Small Businesses* with Taxable Income in the Following Ranges...	...Would Pay this Rate if the Bill is NOT Signed Into Law	...BUT Will Continue to Pay This Statutory Rate if the Bill IS Signed Into Law.
Up to \$8,375 for single filers Up to \$16,750 for married couples	15%	10%

Current Income Tax Rates Extended Thru 2011 and 2012		
Between \$8,375 and \$34,000 for single filers and Between \$16,750 and \$68,000** for married couples	15%	15%
Between \$34,000 and \$82,400 for single filers and Between \$68,000 and \$137,300 for married couples	28%	25%
Between \$82,400 and \$171,850 for single filers and Between \$137,300 and \$209,250 for married couples	31%	28%
Between \$171,850 and \$373,650 for single filers and Between \$209,250 and \$373,650 for married couples	36%	33%
Over \$373,650 for both single filers and married couples	39.6%	35%

*Dollar amounts listed in the table above will be indexed for inflation in 2011. Amounts listed for married couples are for married couples filing joint returns.*

*\*According to the Joint Committee on Taxation (JCT), 94 percent of all U.S. businesses in 2007 were S corporations, partnerships, or sole proprietorships – “pass-through” business types commonly used by small businesses – that file their taxes on their owners’ individual Form 1040s and pay taxes at the individual tax rates.*

*\*\* Because of one of the marriage penalties that would have been reinstated, this \$68,000 amount would have dropped to \$58,200 in 2011, meaning that a married couple with as little as \$58,200 in taxable income will be subject to the higher 28 percent rate on their next dollar earned, rather than the 15 percent rate.*

- In extending the 2001 and 2003 tax rates, the agreement also preserves marriage penalty relief and the \$1,000 per child tax credit, which would have been reduced to \$500 per child starting on January 1, 2011.
- The agreement blocks higher taxes on capital gains and dividends, which stem from the sort of investments that grow the economy and create good jobs. The provision maintains the current 15 percent top tax rate on long-term capital gains and qualified dividends, which otherwise would have risen to 20 percent and 39.6 percent, respectively, in 2011.

#### **Provides a Two-Year Fix for the Alternative Minimum Tax**

- The agreement adjusts for inflation the Alternative Minimum Tax (AMT) exemption amount for 2010 and 2011, and allows non-refundable personal credits against the AMT.
- In 2010 alone, this ensures that at least an additional 21 million households will not be hit by the AMT.

#### **Reduces the Sting of the Estate Tax**

In 2011, the “Death Tax” would have gone to a top rate of 55 percent with a \$1 million exemption.

- The agreement reflects the bipartisan “Lincoln-Kyl” compromise, increasing the exemption to \$5 million (indexed for inflation) and reducing the top rate to 35 percent for 2011 and 2012 – better protecting family owned businesses and farms.
- Ten times the number of family-owned businesses and farms will be hit by the estate tax without this measure.

#### **Establishes a Payroll Tax Reduction in Place of the Making Work Pay Credit**

Under the agreement, the President’s signature Make Work Pay credit is terminated.

- Instead, there is a 1-year payroll tax reduction that will reduce the employee share of the payroll tax by almost one-third, by 2 percentage points – down to 4.2 percent.

#### **Renews “Traditional” Tax Extenders for Employers and Individuals**

- The agreement extends through 2011 traditional tax “extenders” on both the business side (like the Research & Experimentation tax credit) and the individual side (like the deduction for state and local sales taxes).

#### **Creates a New Expensing Provision for Qualified Businesses**

- The agreement allows businesses (1) to deduct immediately 100 percent of property placed in service between September 9, 2010 and December 31, 2011; and (2) to take advantage of 50 percent bonus depreciation in 2012.

#### **Continues Select Refundable Tax Provisions**

- At the President’s insistence, the package does extend a limited number of refundable tax credits expanded or initiated in 2009 but terminates many of the stimulus law’s most flawed and expensive programs, such as the Build America Bonds program.

#### **Extends the Federal Unemployment Insurance (UI) Program**

- Renews the current Federal UI benefit programs for another 13 months – through December 2011, and maintains the current cap of 99 weeks of total benefits.