



Tax Alert

September 13, 2011

President Obama Proposes the “American Jobs Act of 2011” to Congress

In late afternoon of September 12, 2011, President Obama submitted to Congress his proposal of the “American Jobs Act of 2011” and urged immediate action. The President’s proposal contained several business incentives, including:

- Extension of the 100% bonus first-year depreciation to 2012.
- Reduction of the employer portion of the Social Security tax by half from 6.2% to 3.1% on the first \$5 million in wages paid by all employers (except for government workers or household help).
- A payroll tax credit that fully offsets the employer Social Security tax that would apply to increases in wages from the corresponding period of the prior year. The credit would apply to the last quarter of 2011 and to calendar year 2012. This credit is only available on up to \$50 million of increased wages. For example, if an employer paid wages subject to Social Security tax of \$3 million in 2011 and \$4 million in 2012, the employer would be entitled to a credit eliminating the employer’s portion of the Social Security taxes on the \$1 million of increased wages.
- A tax credit of up to \$4,000 for hiring workers who have been looking for a job for over six months.

The President’s only proposal for individual relief is the reduction of the Social Security tax for workers by half from 6.2% to 3.1% for 2012 wages.

In order to pay for the above changes, the President’s proposal contains many revenue raisers, among which include:

- After 2012, a 28% limitation on the value of all itemized deductions and certain other tax expenditures (including the Section 199 deduction attributable to domestic production activities) for “high income” taxpayers. “High-income” taxpayers are defined as those taxpayers whose adjusted gross income is above \$250,000 (for married taxpayers who file jointly) and \$200,000 (for single taxpayers).
- Taxing “carried interests” in investment partnerships as ordinary income and also subjecting the income to self-employment tax.

House Majority leader Eric Cantor, R-VA, warned that the President should not expect Congress to approve a massive tax increase on the same people who are expected to create new jobs in the current slow economy. Cantor also stated, rather than taxing carried interests, Republican lawmakers would be more interested in capital gain tax cuts that spark American entrepreneurs to put capital at risk, thereby creating new jobs and new businesses. Therefore, it is unlikely that the proposal will pass in its current form and there will have to be compromises from both parties.