

Overview of the proposed *American Jobs Act*

On Thursday, September 8, President Obama announced his proposal for a tax incentive-based program for creating more jobs -- the *American Jobs Act*. This plan focuses on new and extended reductions in payroll taxes for both employees and employers, along with a separate credit for hiring the unemployed. The 100% write off for certain capital expenditures in effect for 2011 would also be extended through 2012 under this proposal. While no specific provisions were discussed with respect to how these benefits would be paid for, the President indicated that the revenue offsets would include tax increases for higher-income taxpayers and a repeal of other targeted corporate tax breaks.

Payroll taxes

The proposals relating to the reduction of payroll taxes were broad. Last year, a reduction in the employee portion of Social Security taxes from 6.2% to 4.2% was implemented for 2011. The President proposed extending this tax break through 2012, and reducing the employee's portion even lower, to 3.1%. A similar reduction would likely apply to self-employment taxes.

Benefits for employers

The President's proposal also provides two significant benefits for employers. First, the employer's share of Social Security taxes would also be reduced to 3.1% for the first \$5 million in wages. This translates to a potential benefit of \$155,000 for the employer. In addition, there would be a complete elimination of the employer's portion of the Social Security tax -- from 6.2% to zero -- on the amount of payroll that represents an increase from the prior year, up to a \$50 million cap.

Employer tax credit

Finally, the President proposed providing businesses with a tax credit for hiring:

- Workers who have been unemployed for at least six months - \$4,000
- Veterans who have been unemployed for at least six months - \$5,600
- Veterans with disabilities - \$9,600

As proposals, there are no detailed regulations available to determine the exact parameters of these benefits. What is clear is that the administration is focused on tax benefits that it believes will directly lead to increased employment opportunities. Furthermore, wealthy individuals and corporations that take advantage of other specific tax breaks will likely be the source of any required revenue offsets.



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