

PRESIDENT OBAMA'S AMERICAN JOBS ACT

The American people understand that the economic crisis and the deep recession weren't created overnight and won't be solved overnight. The economic security of the middle class has been under attack for decades. That's why President Obama believes we need to do more than just recover from this economic crisis – we need to rebuild the economy the American way, based on balance, fairness, and the same set of rules for everyone from Wall Street to Main Street.

We can work together to create the jobs of the future by helping small business entrepreneurs, by investing in education, and by making things the world buys. The President understands that to restore an American economy that's built to last we cannot afford to outsource American jobs and encourage reckless financial deals that put middle class security at risk.

To create jobs, the President unveiled the American Jobs Act – nearly all of which is made up of ideas that have been supported by both Democrats and Republicans, and that Congress should pass right away to get the economy moving now. The purpose of the American Jobs Act is simple: put more people back to work and put more money in the pockets of working Americans. And it would do so without adding a dime to the deficit.

The American Jobs Act has five key components:

- **Tax Cuts to Help America's Small Businesses Hire and Grow**
- **Putting Workers Back on the Job While Rebuilding and Modernizing America**
- **Pathways Back to Work for Americans Looking for Jobs**
- **More Money in the Pockets of Every American Worker and Family**
- **Fully Paid for as Part of the President's Long-Term Deficit Reduction Plan**

I. Tax Cuts to Help America's Small Businesses Hire and Grow.

The President's plan includes new tax cuts to businesses that provide immediate incentives for firms to hire and invest. These tax cuts would be available to all businesses, regardless of size, but are designed to target their impact towards the smallest businesses:

- **A payroll tax cut to businesses, with a focus on small employers (\$65 billion in combination with the payroll tax holiday for new wages).** The President's plan will extend the payroll tax cut to firms by cutting in half their payroll tax on the first \$5 million in payroll. Next year, instead of paying 6.2 percent on their payroll expenses, firms would pay only 3.1 percent. The President's plan would provide tax cuts for all firms, with focused relief on the 98 percent with less than \$5 million in payroll.

How It Would Work for a Typical Firm: A construction firm with 50 workers earning an average of \$50,000 a year – for a total payroll of \$2.5 million – would receive a *payroll tax cut of 3.1% of its total payroll, or about \$80,000.* The firm's workers would receive an average tax cut of about \$1,500 a year from the employee side payroll tax cut in the President's plan.

What Others Have Said About a Payroll Tax Cut for Businesses:

- The Congressional Budget Office estimates that an employer payroll tax cut is one of the most effective job creators. (January 2010).
- The National Federation of Independent Business has said that a payroll tax holiday for small businesses “would ... [help] struggling businesses reduce costs... Eliminating the payroll tax can reduce unemployment and keep people working during a period of slowed economic growth.” (April 2009).
- In 2010, fifty House Republicans – including Michelle Bachmann and Select Committee on Deficit Reduction member Jeb Hensarling – co-sponsored legislation to halve employer- and employee-side payroll tax cuts, and expand allowances for business expensing, along the lines of the President's plan.
- Senator Orrin Hatch, the top Republican on the Senate Finance Committee, said he would “probably be for” an employer-side payroll tax cut (June 8, 2011).
- **A complete payroll tax holiday for new jobs or wage increases.** In addition to the 3.1% payroll tax cut for all firms, the President's plan provides a direct incentive to encourage firms to hire additional employees or raise wages for their current employees. The plan would completely refund payroll taxes paid on added workers or wage increases for current workers above the level of last year's payroll. To focus the benefit of this tax cut on small businesses, payroll tax relief would be capped at applying to \$50 million in new wages. This tax holiday would be augmented by targeted tax cuts for hiring the long-term unemployed as well as veterans who have been out of work six months or more.

How It Would Work for a Typical Firm: A warehouse with a payroll last year of \$7 million that this year hires 40 new workers and adds \$2 million in payroll would get a full refund on the 6.2% payroll taxes paid on the added \$2 million in payroll – for a tax cut of \$124,000. (That tax cut would come on top of the maximum 3.1 percent payroll tax reduction of \$155,000 on its base payroll).

What Others Have Said About a Bonus Tax Cut for New Jobs and Wages:

- The Congressional Budget Office has identified this type of job creation tax cut as one of the most effective ways to help accelerate job growth. (January 2010).
- Moody’s Chief Economist Mark Zandi: “At the top of the list is a temporary tax break for firms that increase their payrolls. Businesses may expand payrolls by giving their existing employees more hours, raising wages, and/or hiring more workers.” (February 8, 2010).
- Alan Blinder, former Vice Chairman of the Federal Reserve: “For several years many economists have promoted a tax credit for new jobs.... While the details matter, the basic idea is to offer firms that boost their payrolls a tax break. ... No increase, no reward.” (July 12, 2011).
- **Extend 100 percent business expensing through 2012 (\$5 billion)**. The President is proposing an extension of the 100 percent expensing provision that he signed into law in December 2010, which rewards firms for making investments by allowing them to deduct the full value of those investments from their tax obligations through 2012. Extending 100 percent expensing for an additional year would put an additional \$85 billion in the hands of businesses in 2012. Most of this relief would be recouped by the Treasury as businesses regain their strength.

What Others Have Said About Expensing:

- The National Federation of Independent Business called expensing a “big victory” for small business: “Bottom line – just about every small business can write-off the full amount of investments they want to make in 2010 and 2011.” (December 2010).
- In a 2010 letter signed by the U.S. Chamber of Commerce, more than 80 business groups – representing industries from aerospace and wireless to builders, contractors, and retail stores – wrote that “bringing back bonus depreciation will encourage companies of all sizes to invest in newer, more efficient, and more environmentally-friendly equipment, which will help large and small businesses alike.”
- **Help entrepreneurs and small businesses access capital and grow**. The President’s plan includes administrative, regulatory and legislative measures to help small firms start and expand. This includes:

- *Changing the Way the Government Does Business with Small Firms:* The Administration will soon announce a plan to accelerate government payments to small contractors to help put money in their hands faster. The President is also directing his CIO and CTO to stand-up, within 90 days, BusinessUSA, a one-stop online platform that businesses could use to access the full range of government programs and services businesses they need to compete globally. These changes were called for by the President's Jobs Council, the President's Export Council and small businesses across the country. Finally, the Administration supports a delay of the Bush Administration-era rule requiring government entities withhold and send to the IRS 3% of payments made to contractors.
- *Reducing Regulatory Burdens on Small Business Capital Formation:* As part of the President's Startup America initiative, the Administration will pursue efforts to reduce the regulatory burdens on small business capital formation in ways that are consistent with investor protection. This includes working with the SEC to explore ways to address the costs that small and new firms face in complying with Sarbanes-Oxley disclosure and auditing requirements. The administration also supports establishing a "crowdfunding" exemption from SEC registration requirements for firms raising less than \$1 million (with individual investments limited to \$10,000 or 10% of investors' annual income) and raising the cap on "mini-offerings" (Regulation A) from \$5 million to \$50 million. This will make it easier for entrepreneurs to raise capital and create jobs.
- *Helping Small Businesses Compete for Infrastructure Projects:* Small businesses are also a vital part of our efforts to invest in and re-build our nation's infrastructure. In order to ensure that small firms have the tools they need to compete for and win bids on infrastructure projects, we are calling to temporarily increase the limit on SBA-guaranteed surety bonds from \$2 million to \$5 million.
- *Passing Patent Reform:* Small businesses are critical to developing innovative products and services. Reforming our outdated patent system will allow them to get their ideas to market faster and will help accelerate their potential to transform and grow our economy and create the jobs of the future.