EXECUTIVE OFFICE OF THE PRESIDENT
OFFICE OF MANAGEMENT AND BUDGET
WASHINGTON, D.C. 20503

July 25, 2012
(Senate)

STATEMENT OF ADMINISTRATION POLICY

S. 3412 – Middle Class Tax Cut Act
(Sen. Reid, D-NV)

The Administration strongly supports Senate passage of S. 3412 to prevent income taxes from going up at the start of next year on millions of middle-class Americans.

If the Congress does not act, a typical middle-class family of four will see its taxes rise next year by $2,200 – a sizable financial hit for middle-class families that could hardly come at a worse time. By extending middle-class income tax relief for an additional year, S. 3412 will provide certainty to the 98 percent of Americans with incomes of less than $250,000 (for married couples) that their income taxes will not go up next year – strengthening the recovery by helping spur economic growth and job creation.

Extending middle-class tax cuts means continuing the temporary income tax relief currently scheduled to expire at the end of the year for the first $250,000 of income for married couples. If this temporary tax relief is not extended, over 35 million families will receive a smaller Child Tax Credit, while millions of low- and moderate-income working families will lose access to the credit altogether; 11 million middle-class families will no longer get help paying for college from the American Opportunity Tax Credit; married couples will see a tax increase of up to $890 from the expiration of the 10 percent tax bracket; and nearly 38 million middle-class couples will lose the temporary relief they are receiving from marriage penalties. Under the legislation, 97 percent of small businesses owners would continue to receive tax cuts on their business income, and small businesses that are investing in the economy will be able to claim immediate tax deductions for $250,000, rather than just $25,000, of new investments.

While preventing any income tax increases on 114 million American families earning less than $250,000, acceptable middle-class tax relief would not extend the tax cuts on income above that amount. But households at all income levels would benefit from middle-class tax relief. S. 3412 is similar to the President's proposal to extend the middle-class tax relief. Under the President's proposal, even households with incomes over $1 million will continue to receive tax cuts averaging more than $10,000 from lower tax rates on their first $250,000 of income. In contrast, if all of the tax cuts were extended, including those that go only to the top 2 percent of households, tax cuts for households with incomes over $1 million would average about $160,000.

Rather than continuing the unaffordable and unneeded tax cuts for the highest-income 2 percent of Americans, middle-class tax relief, such as S. 3412, asks the best off to contribute to deficit reduction by paying income taxes at the same rates as during the 1990s, when the economy created nearly 23 million new jobs and the largest budget surplus in American history. Relative to S. 3412, continuing all of the income tax cuts for the top 2 percent of households for just one more year would add about $50 billion to the deficit. Making the high-income tax cuts permanent would add about $850 billion to deficits over the next 10 years, or nearly $1 trillion if the cost of proposed estate tax cuts is included as well. Allowing these tax cuts to expire is an essential component of the President's plan for balanced deficit reduction.

The Administration believes that the Nation's prosperity has always come from an economy that is built on a strong and growing middle class. All sides agree on the need to extend the tax cuts for the middle class – this legislation reflects that consensus, and should not be held hostage while debating the merits of another tax cut for the wealthy.

* * * * * * *