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# The Economic Recovery and Middle-Class Tax Relief Act of 2009

*"Responsible and immediate economic stimulus for every American family and business without burdening future generations."*

Financial markets are tumbling worldwide. The unemployment rate is climbing. It is clear that more Americans are struggling to make ends meet and that the economy needs a boost. The question is: from where should that boost come, Washington or the private sector? Conservatives believe the answer is the private sector. History shows that the best way to encourage an economic turnaround, help preserve jobs, and spur widespread economic growth is to ensure that job-creators face a lower tax burden.

That's why the Republican Study Committee (RSC) is introducing the Economic Recovery and Middle-Class Tax Relief Act of 2009—to provide some much-needed, incentive-based relief to job-creators and to reduce the cost that government imposes on middle-class families.

The RSC's Economic Recovery and Middle-Class Tax Relief Act is designed to provide broad, growth-oriented, permanent incentives for economic activity across all sectors and industries, with immediate application and sustained, long-term implications. This will ensure that Washington takes a back seat to Main Street and job creators are empowered to do what they do best—create jobs.

**Highlights:** The RSC's Economic Recovery and Middle-Class Tax Relief Act is based on three main themes: 1) Support Families through Tax Relief; 2) Provide Economic Relief for American Businesses and Entreprenuers; and 3) Save Future Generations from a Crushing Debt Burden.

## Support Families through Tax Relief

1) Five Percent Across the Board Income Tax Cut. This provision would reduce the six federal income tax rates by 5% beginning with 2008, and make the new rates permanent. Under current law, by contrast, income tax rates will increase in 2011.

2) Increase the Child Tax Credit from $1,000 to $5,000. Under current law, families are eligible for a $1,000 tax credit for each child under the age of 17. This provision would increase, and make permanent, an increase in the child tax credit to $5,000 beginning in 2008. This will provide a substantial, immediate tax cut for middle-class families. The increased credit would not be refundable.

3) Make the Lower 15% Rate on Capital Gains and Dividends Permanent. The Jobs and Growth Tax Relief Reconciliation Act of 2003 lowered the top tax rates on capital gains and dividends to 15%. Under current law the lower rates currently in effect expire at the end of 2010, which means that the top capital gains rate will go back to 20% and the top tax rate for dividends will be 39.6%. The last time the capital gains tax rate increased (1987), capital gains tax collections fell by 54% over the first five year and then took a full decade to recover. This provision makes the 15% rate permanent.

4) Repeal the Alternative Minimum Tax on Individuals. The AMT was created in 1969 to prevent 155 wealthy taxpayers from using loopholes in the tax code to avoid paying taxes altogether. Under current law, the tax will hit more than 30 million people in 2009. There is a broad consensus that this is both an unintended result and an unfair one, which is why Congress has repeatedly passed an "AMT patch" to limit the scope of the tax. The legislation would permanently repeal the AMT.

5) Permanently Repeal Required Distributions on Retirement Accounts. Under current law, senior citizens, beginning at the age of 70-and-a-half, are required to make mandatory withdrawals from their IRAs and 401(k)s. Though temporarily suspended for 2009, this provision in the tax code is scheduled to go back into effect in 2010 and for every year thereafter. This provision in the tax code needlessly complicates financial planning for retirees, restricts the freedom of seniors to make their own decisions on when to make withdrawals, and in the short-term will force many seniors to sell a portion of their assets at a loss. The bill permanently repeals this provision.

6) Make All Withdrawals from IRAs Tax- and Penalty-Free During 2009. As a general matter, the purpose of 401(k)s and IRAs is to incentivize retirement savings. However, individuals who are facing foreclosure or some other financial emergency during the current recession should have penalty-free access to all of their savings. Especially since, without any other alternative, some families facing hardship will have no choice but to take the penalty. The bill would, for 2009, make all withdrawals from IRAs penalty- and tax-free.

7) Increase by 50% the Tax Deduction on Student Loans and the Tax Deduction on Qualified Higher Education Expenses. Under current law, the tax code provides a tax deduction of $2,500 for interest on student loans and a tax deduction of $4,000 for higher education expenses. This provision would increase the value of both by 50% or to $3,750 and $6,000 respectively, and apply both provisions to a larger number of middle-class families by allowing any individual earning up to $75,000, or any family earning up to $150,000, to claim the full deduction.

## Provide Economic Relief for American Businesses and Entrepreneurs

1) Full, Immediate Expensing. The bill would allow all businesses to immediately expense—or fully deduct on their tax returns—the costs of assets (including buildings) they purchase for their business in the year that they buy such assets ("Section 179" expensing). Under current law, businesses can only take limited deductions in pieces, over several years. By uncapping and accelerating the expensing, this provision would encourage the purchase of assets with which to grow a business.

2) Significant Reduction in the Top Corporate Income Tax Rate. The bill would immediately cut the top corporate income tax rate from 35% to 25%, aligning it with the average rate in the European Union. By allowing businesses to keep more of the money they earn, this provision would

encourage the expansion of businesses, the hiring of more workers, and an acceleration of investment, while making American companies more competitive internationally.

3) End the Capital Gains Tax on Inflation. The bill would index for inflation the cost basis used when calculating the capital gains tax on assets acquired before the end of 2009. Under current law, the capital gains tax is based on the difference in the original purchase price of the asset and the sale price of the asset. However, some of this difference, or “gain,” can be attributed to inflation. By effectively reducing the amount of a gain that is taxable, this provision would encourage the movement of capital in 2009 and spur voluminous economic investment.

4) Simplify the Capital Gains Rate Structure. The bill would allow corporations to benefit from the 15% capital gains rate. Under current law, individuals pay a top capital gains rate of 15%, but corporations are subject to a 35% top rate. By encouraging corporations to sell unwanted assets, this provision would unleash funds and materials with which to create jobs and grow the economy.

5) Make the R and D Tax Credit Permanent. The Research and Development tax credit is currently due to expire at the end of 2009. Originally enacted as party of President Reagan’s Economic Recovery Tax Act of 1981, it has since been extended on 13 separate occasions without being made permanent. The purpose of this tax provision is to spur research and development in the private sector.

6) Extend the Carryback Period for Net Operating Losses to Seven Years. A business incurs a net operating loss when its tax liability is negative in a given year. Under current law, there is a two-year carryback period for businesses to receive refunds on previously paid taxes. In other words, a business may receive a refund equal to their negative tax liability up to the amount of taxes paid over the previous two years. This legislation would extend this period from two years to seven years, which will smooth out changes in business income, and incentivize private sector investment and job creation.

**Save Future Generations from a Crushing Debt Burden**

1) NO Trillion Dollar Spending Spree. Even before Congress enacts one penny of spending from a “stimulus” bill currently being put together by Speaker Nancy Pelosi and Senator Harry Reid, this year’s deficit is projected to be, by far, the highest peacetime deficit in the history of the country—8.3% of GDP. And this is because federal spending is projected to be 24.9% of GDP (also the highest figure in American history, excepting World War II), even before any new spending is enacted. This legislation does not contain *one penny* of new spending, and rejects the idea that massive new government spending will lead to an economic recovery. Borrowing from one part of the economy and redistributing it to others will not grow the economy.

2) A Down-Payment on Spending Restraint. The bill includes a one-percent reduction to FY 2009 discretionary spending, excepting the Defense and Military Construction-Veterans appropriations bills. This is a modest limit on the extent to which spending will otherwise increase compared to FY 2008, and is a first step toward a commitment of spending restraint.

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For more information or to co-sponsor, please contact Brad Watson with the RSC at brad.watson@mail.house.gov.