

THE WHITE HOUSE
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Fact Sheet: The Tax Agreement: A Victory for Middle-Class Families & the Economy

At this make or break moment for the middle class, the President achieved a bipartisan solution that keeps income taxes low for the middle class and grows the economy. For the first time in 20 years, Congress will have acted on a bipartisan basis to vote for significant new revenue. This means millionaires and billionaires will pay their fair share to reduce the deficit through a combination of permanent tax rate increases and reduced tax benefits. And this agreement ensures that we can continue to make investments in education, clean energy, and manufacturing that create jobs and strengthen the middle class.

In 2011, the President cut spending. In 2012, he kept his promise of asking the wealthiest 2 percent of Americans to pay more while protecting 98 percent of families and 97 percent of small businesses from any income tax increase – raising \$620 billion in revenue. As we move forward to address our ongoing fiscal challenges, both spending cuts and continuing to ask the wealthy to do a little more will be part of a balanced approach. It is critical for our economy and future generations that we reduce the deficit. We cannot keep racking up this debt on our kids. And the President looks forward to working with Republicans to reduce the deficit in a balanced and bipartisan way.

- ❖ **Permanently extends the middle-class tax cuts and also extends credits for working families, with additional measures to protect families and promote economic growth.**
 - Permanent extension of the middle class tax cuts: This will provide certainty for 114 million households including lower tax rates, an expanded Child Tax Credit, and marriage penalty relief – steps that together will prevent the typical family of four from seeing a \$2,200 tax increase next year. In addition, it includes a permanent Alternative Minimum Tax (AMT) fix.
 - Most progressive income tax code in decades: By raising income tax rates on the wealthiest and keeping taxes low for the middle class, the agreement will ensure we have the most progressive income tax code in decades.
 - Extension of Emergency Unemployment Insurance benefits for 2 million people: The agreement will prevent 2 million people from losing UI benefits in January by extending emergency unemployment insurance benefits for one year.
 - Extension of tax cuts for 25 million working families and students: The deal extends President Obama's expansions of the Child Tax Credit, Earned Income Tax Credit, and the President's new American Opportunity Tax Credit, which helps families pay for college. The President fought hard to extend these credits, overcoming Republican insistence that income taxes go up by an average of \$1,000 for 25 million working families and students. The agreement would extend them for five years.
 - Extension of renewable energy incentives, the R&E tax credit and other business incentives: The agreement extends tax relief for businesses through the end of next year. This means extending the Production Tax Credit, a key incentive for renewable energy that many Republicans had been trying to end, as well as the Research & Experimentation tax credit. In addition, the agreement extends 50 percent bonus depreciation, a cost-effective temporary measure to support investment and growth. All of these would be extended through the end of 2013.

- Fixes the SGR (“doc fix”) with no cuts to the Affordable Care Act or to beneficiaries: The agreement avoids a 27 percent cut to reimbursements for doctors seeing Medicare patients for 2013 by fixing the sustainable growth rate formula through the end of next year (the “doc fix”). The President stood firm against Republican proposals to pay for this fix with cuts to the Affordable Care Act or the beneficiaries.
 - Postpones the sequester for two months, paid for with \$1 of revenue for every \$1 of spending, with the spending balanced between defense and domestic: The agreement saves \$24 billion, half in revenue and half from spending cuts which are divided equally between defense and nondefense, in order to delay the sequester for two months. This will give Congress time to work on a balanced plan to end the sequester permanently through a combination of additional revenue and spending cuts in a balanced manner.
- ❖ **Raises \$620 billion in revenue according to Congress’ Joint Committee on Taxation by achieving the President’s goal of asking the wealthiest 2 percent of Americans to pay more while protecting 98 percent of families and 97 percent of small businesses from any income tax increase.**
- Restores the 39.6 percent rate for high-income households, as in the 1990s: The top rate would return to 39.6 percent for singles with incomes above \$400,000 and married couples with incomes above \$450,000.
 - Capital gains rates for high-income households return to Clinton-era levels: The capital gains rate would return to what it was under President Clinton, 20 percent. Counting the 3.8 percent surcharge from the Affordable Care Act, dividends and capital gains would be taxed at a rate of 23.8 percent for high-income households. These tax rates would apply to singles above \$400,000 and couples above \$450,000.
 - Reduced tax benefits for households making over \$250,000 (for singles) and \$300,000 (for couples): The agreement reinstates the Clinton-era limits on high-income tax benefits, the phaseout of itemized deductions (“Pease”) and the Personal Exemption Phaseout (“PEP”), for couples with incomes over \$300,000 and singles with incomes over \$250,000. These two provisions reduce tax benefits for high-income households. This sets the stage for future balanced approaches to deficit reduction, which could include additional revenue through tax reforms that reduce tax benefits for Americans making over \$250,000.
 - Raises tax rates on the wealthiest estates: The agreement raises the tax rate on the wealthiest estates – worth upwards of \$5 million per person – from 35 percent to 40 percent, in contrast to Republican proposals to continue the current estate tax levels.
 - The agreement’s \$620 billion in revenue is 85 percent of the amount raised by the Senate-passed bill, if that bill had been enacted and made permanent: The agreement locks in \$620 billion in high-income revenue over the next ten years. In contrast, the bill passed by Democrats in the Senate achieved approximately \$70 billion through one-year provisions; these same provisions could have raised a total of \$715 billion over ten years if Congress acted again to extend it permanently. However, the Senate bill itself locked in only one year’s worth of savings so would have required additional extensions to achieve those savings.

❖ **Part of a balanced process of deficit reduction and stronger growth.**

- Strengthens our recovery next year by cutting taxes for the middle-class: The independent, non-partisan Congressional Budget Office (CBO) estimated that allowing the full effect of the “fiscal cliff” would cause our economy to enter a recession and actually shrink next year primarily as a result of higher taxes on the middle class and across-the-board spending cuts. The final agreement prevents taxes from rising on the middle class and delays the across-the-board “sequester.”
- Temporary measures to support consumer spending and business investment: Extending unemployment insurance is one of the more effective ways to encourage consumer spending. And bonus depreciation will give companies incentives to invest.
- Provides greater economic certainty for families and businesses: The agreement will make it easier for families and businesses to plan and will help our economy grow.
- Cuts the deficit and reduces the debt as a share of the economy over the next five years: Since April last year, the President has signed into law 1.7 trillion in deficit reduction, including \$700 billion in spending cuts from enacted appropriations bills in 2011 and 2012, and \$1 trillion in the Budget Control Act. This tax agreement not only further reduces the deficit, but raises \$620 in new revenue from high-income households. Together with a strengthening economy these steps will bring down the deficit as a share of the economy over the next five years.
- Establishes a foundation for additional balanced, pro-growth deficit reduction through tax and entitlement reform: The agreement leaves substantial scope for reducing tax expenditures for high-income households, reforming corporate taxes to broaden the base and cut the rate to make America more competitive, and to take further steps to reform entitlements.

❖ **Extends the farm bill through the end of the fiscal year, averting a sharp rise in milk prices at the beginning of 2013.**

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