

A NEW ERA OF RESPONSIBILITY: RENEWING AMERICA'S PROMISE

President Obama's Fiscal 2010 Budget Overview

NEW TAX CUTS FOR FAMILIES AND INDIVIDUALS

As we work to restore balance to the federal budget, that means restoring balance to the tax code. Too much of the burden is being carried by working families, and too many loopholes are being exploited by those with the highest incomes in the country. President Obama wants to make the tax code fair, close the loopholes, and cut taxes for working families. In fact, under the President's plan, nine of ten working families will see their taxes go down.

Making Work Pay Tax Credit. The Making Work Pay tax credit provides a refundable tax credit of up to \$400 for working individuals and \$800 for working families. The credit cuts taxes for more than 95 percent of working families in the United States. It aims to help middle class families who are being squeezed by rising costs and stagnating wages. The MWP tax credit was introduced on a temporary basis in the Recovery Act, fulfilling a key campaign promise. The President's budget makes this credit permanent.

American Opportunity Education Tax Credit. The Budget makes permanent the American Opportunity Tax Credit introduced in the Recovery Act, following through on another key campaign promise. This credit provides financial assistance for individuals seeking a college education of up to \$2,500 to offset the cost of tuition and related expenses paid during the taxable year. The new credit is available for up to four years of college.

Earned Income Tax Credit Expansion. The Budget extends two provisions in the Recovery Act that increase the value of the EITC for some taxpayers. The first provision increases the subsidy rate for families with 3 or more children to 45 percent, raising the maximum credit for these families from \$5,028 to \$5,657. Larger families have greater needs, and poverty rates for families with three or more children are higher than those for families with fewer children. The second provision reduces EITC-related marriage penalties by increasing the number of married couples who receive the maximum benefit.

Increase Eligibility for the Refundable Portion of the Child Credit. Families with children under age 17 can claim a Child Tax Credit (CTC) of up to \$1,000 per child. If the credit exceeds taxes owed, families can receive some or all of the balance as a refund, known as the Additional Child Tax Credit (ACTC). The ACTC is limited to 15 percent of earnings above a threshold—\$12,550 in 2009. The Recovery Act reduces the refundability threshold to \$3000, increasing tax refunds for millions of low-income working families with children. The President's budget makes the Recovery Act provision permanent.

Introduce Automatic Workplace Pensions. Today, 75 million working Americans – roughly half the workforce – lack access to employer-based retirement plans. In addition, the existing tax incentives to save for retirement are weak or non-existent for the majority of middle and low-income households. The President's Budget lays the groundwork for the future establishment of

a system of automatic workplace pensions, on top of and clearly outside Social Security, that is expected to dramatically increase both the number of Americans who save for retirement and the amounts that they save. Under this proposal, employees will be automatically enrolled in workplace pension plans – and will be allowed to opt out if they choose. Employers who do not currently offer a retirement plan will be required to enroll their employees in a direct-deposit IRA account that is compatible with existing direct-deposit payroll systems (very small businesses would be exempt from the requirement). Employees may opt-out if they choose.

Expand Saver’s Credit. Few taxpayers take advantage of the current Saver’s Credit because eligibility is limited to a narrow income range, it is non-refundable, and its provisions are complex. The revised Saver’s Credit would replace the existing credit, would be fully refundable, and would match 50 percent of qualified retirement savings contributions up to \$500 for an individual and \$1,000 for a couple (for a maximum credit of \$250 and \$500 respectively). The match would be deposited directly into a worker’s retirement account. The amount of savings that could be matched would phase out at a five percent rate beginning when AGI exceeds \$32,500 for individuals and \$65,000 for couples, so individuals with AGI up to \$42,500 and couples with incomes up to \$85,000 would benefit from this provision.

American Opportunity Education Tax Credit. The Budget makes permanent the American Opportunity Tax Credit introduced in the Recovery Act. This credit provides financial assistance for individuals seeking a college education of up to \$2,500 to offset the cost of tuition and related expenses paid during the taxable year. The credit replaces the Hope Credit. The new credit is available for up to four years of college, whereas the Hope Credit was available for only two years. Under this new tax credit, taxpayers will receive a tax credit based on 100 percent of the first \$2,000 of tuition and related expenses (including books) paid during the taxable year and 25 percent of the next \$2,000 of tuition and related expenses paid during the taxable year. 40 percent of the credit would be refundable. This tax credit will be subject to a phase-out for taxpayers with adjusted gross income in excess of \$80,000 (\$160,000 for married).