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Tax Deal Suggests New Path for Obama

By DAVID M. HERSZENHORN and JACKIE CALMES

WASHINGTON — **President Obama** announced a tentative deal with Congressional Republicans on Monday to extend the **Bush-era tax cuts** at all income levels for two years as part of a package that would also keep benefits flowing to the long-term unemployed, cut payroll taxes for all workers for a year and take other steps to bolster the economy.

The deal appeared to resolve the first major standoff since the midterm elections between the White House and newly empowered Republicans on Capitol Hill. But it also highlighted the strains Mr. Obama faces in his own party as he navigates between a desire to get things done and a retreat from his own positions and the principles of many liberals.

Congressional Democrats pointedly noted that they had yet to agree to any deal, even as many Republicans signaled that they would go along.

Mr. Obama said that he did not like some elements of the framework, but that he had agreed to it to avoid having taxes increase for middle class Americans at the end of the year. He said that in return for agreeing to Republican demands that income tax rates not go up on upper-income brackets, he had secured substantial assistance to lower- and middle-income workers as well as the unemployed.

“It’s not perfect, but this compromise is an essential step on the road to recovery,” Mr. Obama said. “It

will stop middle-class taxes from going up. It will spur our private sector to create millions of new jobs, and add momentum that our economy badly needs.”

The package would cost about \$900 billion over the next two years, to be financed entirely by adding to the national debt, at a time when both parties are professing a desire to begin addressing long-term fiscal imbalances.

It would reduce the 6.2 percent **Social Security** payroll tax on all wage earners by two percentage points for one year, putting more money in the paychecks of workers. For a family earning \$50,000 a year, it would amount to a savings of \$1,000.

For a worker slated to pay the maximum tax, \$6,621.60 on income of \$106,800 or more in 2011, the cut would mean a savings of \$2,136. That would replace the central tax break for middle- and low-income Americans in last year’s economic stimulus measure, White House officials said.

The deal would also continue a college-tuition tax credit for some families, expand the earned-income tax credit and allow businesses to write off the cost of certain equipment purchases. The top rate of 15 percent on capital gains and dividends would remain in place for two years, and the **alternative minimum tax** would be adjusted so that as many as 21 million households would not be hit by it.

In addition, the agreement provides for a 13-month extension of jobless aid for the long-term unemployed. Benefits have already started to run out for some people, and as many as seven million people would potentially lose assistance within the next year, officials said.

Congressional Republicans in recent days have blocked efforts by Democrats to extend the jobless aid, saying they would insist on offsetting the \$56 billion cost with spending cuts elsewhere. White House officials said they feared a long standoff that would see benefits end for millions of Americans over the holiday season and in the months ahead.

But Mr. Obama made substantial concessions to Republicans. In addition to dropping his opposition to any extension of the current income tax rates on income above \$250,000 for couples and \$200,000

for individuals, he agreed to a deal on the federal **estate tax** that infuriated many Democrats. The deal would ultimately set an exemption of \$5 million per person and a maximum rate of 35 percent — a higher exemption and far lower rate than many Democrats wanted.

“The House Democrats have not signed off on any deal,” Representative Chris Van Hollen of Maryland, who has been representing House Democrats in formal negotiations on the tax issue, said Monday night. “We will thoroughly review and discuss the proposed package in the caucus.”

Some senior Democrats said an agreement by Mr. Obama to accede to Republican demands on the estate tax could lead to a revolt among lawmakers. Mr. Obama noted that he, too, still strongly disagreed with the Republican insistence on extending the tax breaks for the highest earners. “Ever since I started running for this office, I’ve said that we should only extend the tax cuts for the middle class,” he said, acknowledging that he had been thwarted in one of the chief goals of his presidency.

But he said he was determined to prevent a stalemate that would let taxes rise for everyone when the Bush-era rates are set to expire at the end of the month. “I am not willing to let working families across this country become collateral damage for political warfare here in Washington,” Mr. Obama said. And he said the deal included pieces that would help working-class families and accelerate the economic recovery.

Republican leaders, clearly relishing the upper hand they have held in the tax fight, reacted positively to Mr. Obama’s announcement on Monday night.

A spokesman for the House Republican leader, and soon-to-be speaker, **John A. Boehner**, called the president’s announcement “encouraging.” And in a statement, the Senate Republican leader, **Mitch McConnell**, praised the administration’s “openness to preventing tax hikes.”

The size of the compromise package, roughly half of which came from extending all the Bush tax rates for two years, roughly paralleled Mr. Obama’s initial \$800 billion package of stimulus spending and tax cuts in early 2009 — only this time with Republicans’ tentative agreement.

While the plan's price is likely to provoke some opposition, administration officials and many economists, including [Ben S. Bernanke](#), the [Federal Reserve](#) chairman, have been calling for additional short-term deficit spending to help stimulate the economy and create jobs, even as they argue for longer-term action to address the debt.

The report last week by the president's debt-reduction commission proposed a payroll tax break, while a separate plan from a bipartisan group led by former Senator [Pete V. Domenici](#) and [Alice M. Rivlin](#), a former Congressional and White House budget director, proposed a one-year payroll tax holiday for all of an employee's Social Security payroll taxes, at a cost of \$650 billion. And two plans from liberal groups released last week would spend hundreds of billions of dollars for public works projects and other job-creation programs.

Senator [Jon Kyl](#) of Arizona, who represented Senate Republicans in the formal negotiations on the tax plan, said he would have preferred a permanent extension of all of the Bush-era tax breaks. But Mr. Kyl also expressed satisfaction with the preliminary agreement, given that Democrats control big majorities in the House and the Senate.

"Tonight's announcement marks an important first step in giving all American families and businesses the certainty that their taxes will not increase on Jan. 1," Mr. Kyl said in a statement. "While I wanted the rates to be made permanent, the current political makeup of this lame-duck Congress would not allow that. What is important now is that we avert a massive tax increase that would further depress an already frail economy."

Mr. Kyl, along with Senator [Blanche Lincoln](#), Democrat of Arkansas, was a chief architect of the version of the estate tax in the agreement with Mr. Obama. Other Senate Democrats are likely to be receptive to the proposal. The estate tax lapsed this year, but was scheduled to return on Jan. 1 with an exemption of \$1 million per person and a maximum rate of 55 percent.

Republicans who deride the estate levy as the "death tax" have long sought to eliminate it.

Carl Hulse contributed reporting.



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