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PAYROLL TAX CUT EXTENDED TWO MONTHS

Paychecks won't shrink; long-term jobless benefits will continue.

Provided by Frank DeMaio*

A last-minute gift to 160 million Americans. On December 23, Congress approved a 2-month extension of the payroll tax holiday that President Obama quickly signed into law. So we have not see shrunken paychecks this January. The new law also extends long-term unemployment benefits through February 29 and authorizes a 2-month reprieve on pay cuts to doctors by Medicare.¹

- Prior to 2011, wage-earners were paying 6.2% in Social Security taxes. If Congress agrees to lengthen the payroll tax holiday across 2012, workers will merely pay 4.2% on the first \$110,100 of wages next year.
- The latest extension in jobless benefits means that about 1.8 million Americans out of the workforce will keep getting unemployment checks averaging about \$296 per week.
- Medicare payments to physicians will not diminish by 27% come January.¹

The stopgap measure is both a relief and a prelude to much more debate. In total, the new legislation is projected to cost the federal government about \$33 billion.¹

Who will pay for these extensions? The direct answer: Fannie Mae and Freddie Mac. The indirect answer: American homeowners and homebuyers.

Title IV of the new law ("Mortgage Fees and Premiums") notes that Fannie and Freddie will be boosting guarantee fees on new loans next year. If the payroll tax holiday is approved for all of 2012, anyone who buys or refinances next year will end up giving back about 20% of the approximately \$1,000 tax break.²

Instead of collecting from borrowers directly with a fee hike, the twin government sponsored enterprises will increase fees for banks and other lending institutions starting in January. The Congressional Budget Office projects that this will raise \$35.7 billion across 2012-2021, with the revenue going to the Treasury rather than to Fannie and Freddie.²

Comparatively speaking, this means that mortgage costs will be about \$17 a month higher for someone purchasing a \$200,000 home next year.²

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What about that pipeline? Yes, the proposed 1,700-mile Keystone oil pipeline that would run from Alberta to the Gulf of Mexico. House Republicans had wanted it as a sweetener to the bill, contending that it would create tens of thousands of jobs.

The newly passed legislation requires President Obama to either approve or kill the controversial project by March 1. The State Department says it can't manage a required environmental review by March 1 and therefore won't be able to recommend the project; citing White House sources, the *New York Times* says the President will abide by the State Department's guidance. However, that doesn't prohibit TransCanada (the company behind the pipeline) or any other energy company from introducing a similar idea.³

The new agreement is effectively a postponement. When Congress returns to Capitol Hill next month, the debate over the yearlong extension of the payroll tax reduction should intensify. There will be three points of contention:

- *How to pay for the full-year extension.* Democrats wanted a new tax on millionaires, while House Republicans preferred a federal pay freeze. The projected cost of the yearlong payroll tax cut is \$112 billion.
- *Rethinking long-term jobless benefits.* House Republicans have talked about ending benefits at 59 weeks, something Democrats do not favor.
- *Consideration for the health of the Social Security trust fund.* If Americans do end up paying 2% less in Social Security taxes for all of 2012, how does the trust fund make up the slack? Some legislators want the Treasury to take care of the shortfall; others worry that the payroll tax will be permanently set at the current level and open the door to reduced Social Security benefits in the future.^{4,5}

Payroll taxes are reduced through February; in terms of the drama surrounding his issue, it's only an intermission.

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Citations.

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