

This update covers some of the provisions being suggested in the President's new budget for fiscal year 2012.

## **The 2012 Budget By-The-Numbers**

The proposed budget for 2012 has total expenditures of \$3.729 trillion with government revenues of \$2.627 trillion. That is a net deficit spending of \$1.102 trillion dollars. The breakdown of the expenditures are as follows: Security - \$884 billion, Discretionary Spending - \$456 billion, Social Security - \$761 billion, Medicare - \$485 billion, Medicaid - \$269 billion, TARP - \$13 billion, Other Programs - \$612 billion, Interest - \$242 billion and Disaster Costs - \$7 billion. Collections for the government are: Individual Income Taxes - \$1,141 trillion, Corporate Income Taxes - \$329 billion, Social Security Payroll Taxes - \$659 billion, Medicare and Unemployment Taxes - \$266 billion, Excise Taxes - \$103 billion, Deposits of Earnings - \$66 billion, Customs Duties - \$30 billion, Estate and Gift Taxes - \$14 billion and Other - \$19 billion.

## **Internal Revenue Service Budget Funding**

The Obama Administration has set an IRS budget request with an increase of \$1.2 billion over last year's budget. The increase will set the IRS budget at over \$14 billion for the 2012 fiscal year. The increase will be used for enforcement programs to handle new information reporting requirements and enforce return preparer compliance. The additional resources will address the underreporting of income connected to international activities and expand enforcement efforts to target noncompliance among corporate and high-wealth taxpayers, according to the budget.

The GOP has set its funding target for the IRS at just over \$11.5 billion which is a decrease in funding from the \$12.1 billion received in 2010.

## **Renewal of Administration's Tax Priorities For 2012**

The 2012 budget proposal has a renewal of tax provisions that have long been priorities for the administration, but which were set aside in December 2010 during negotiations with Republicans.

Renewed are pledges to extend the 2001 and 2003 tax cuts for only middle-income families at a cost of \$1.25 trillion over the 2012-2021 period, as well as extending the estate tax law that was in place for 2009, where the exemption level was \$3.5 million and the tax rate was 45 percent at a cost of \$270 billion over 10 years. It also includes a \$59.8 billion provision to renew and reform the lapsed Build America Bonds program.

At a cost of \$1.5 trillion over 10 years, a proposal aimed at indexing for inflation the current exemption levels for the alternative minimum tax (AMT), to keep it from ensnaring more middle-income families. But the offset proposed to pay for the AMT patch—curbing the rate that high-income taxpayers use to itemize tax deductions—was soundly rejected the last two years and is expected to receive the same treatment this year. That proposal includes limiting the deduction on charitable donations and the popular mortgage interest deduction.

## **Department of Defense Budget**

The new budget plan for 2012 has some sharp declines in the funding anticipated for the military. The 2012 plan has spending at a rate of \$671 billion with \$553 billion going to the Pentagon and \$118 billion for wartime spending. In 2010 the spending budget was \$691 billion and 2011 anticipated spending is approximately \$708 billion. Several major programs are being reduced or cut altogether. The major cuts come for the Marine Corps Expeditionary Fighting Vehicle, the Army's Surface Launched Medium Range Air-to-Air Missile, deferral on acquisition of the F-35 Joint Strike Fighter and completely eliminating the purchase of a second engine for the F-35.

## **Capping Deductions for High-Income Households**

Treasury Secretary Timothy Geithner told the House Ways and Means Committee Feb. 15 that President Obama's proposal to cap the value of tax deductions at 28 percent for high-income households would be a "down payment" on reform of the individual tax system.

Although House Ways and Means Committee Chairman Dave Camp (R-Mich.) criticized the plan to cap tax deductions, Geithner said such actions, including the president's plan to let top tax rates rise for households earnings more than \$250,000 per year, are needed to alleviate long-term budget shortfalls.

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