Economic Stimulus — The Right Way

1. Immediate expensing. *Wall Street Journal* **link:**

Steve Entin: Immediate expensing allows a business to deduct the full cost of investment in property, plant and equipment the year it is made. Requiring businesses to depreciate investment outlays over time for tax purposes delays deductions that lose value with time and inflation, understating costs and overstating (and overtaxing) real profit. Enhanced expensing more fully reflects the real cost of equipment than depreciation, raising after-tax returns on investment. It would boost capacity and employment. The expensing provisions in the stimulus package would work much better if they were made permanent.

- Allowing businesses to immediately expense the costs of assets they purchase in the year that they buy such assets would provide them with immediate incentives to purchase assets with which to grow a business.
- It puts money back into the hands of small-business owners so they can hire new workers and purchase new equipment.
- By contrast, government spending and tax handouts do not stimulate demand because every dollar spent by government must be first collected through taxation, borrowing or other spending cuts. The net effect on demand is zero.

2. Repatriation of foreign income. *Wall Street Journal* **link:**

Allen Sinai: When U.S. companies repatriate the earnings of foreign subsidiaries to the United States, those profits are taxed at a 35% rate. This encourages U.S. corporations to keep those funds overseas, rather than returning them to America. Those dollars tend to stay overseas permanently, since companies know they will automatically lose more money by bringing that income home than they can reasonably expect to make by reinvesting it once it is here. A temporary reduction in the 35% tax rate could inject more than $545 billion into the U.S. economy without expanding the deficit.

- Because of strong foreign economies and a weak dollar, the foreign subsidiaries of many successful U.S. businesses have generated substantial earnings that could be invested in the U.S. at virtually no cost to the federal government.
- For every foreign-earned dollar brought back to the U.S., corporations only keep 65 cents -- 35 cents goes to the federal government. This strongly dissuades companies from bringing home foreign-earned income.
- By contrast, foreign competitors in many countries are free to bring U.S.-generated income back into their home economies without facing such steep penalties.

3. Cut payroll tax in half. *Wall Street Journal* **link:**

Lawrence Lindsay: For an amount similar to the stimulus bill, the government could essentially cut the payroll tax in half, taking three points off the rate for both the employer and the employee. This would put $1,500 into the pocket of a typical worker making $50,000, with a similar amount going to his or her employer. It would provide a powerful stimulus to the spending stream, as well as a significant, six percentage-point reduction in the tax burden on the employment of people making less than $100,000.

- A payroll tax cut would flow directly to households through higher take-home pay.
- Reducing the payroll tax (a tax on labor) reduces the cost of employment.

- Reducing the employer portion of the payroll tax ultimately benefits the employees (by making it less expensive for employers to hire more employees).

- The immediate effect would be an improvement in the cash flow of credit-starved businesses.

- Cutting the payroll tax (lowering the taxation of labor) has a positive effect on unemployment by reducing the costs a firm incurs by employing a worker.

4. **Make the 2001/2003 tax cuts permanent.** *Wall Street Journal* **link:**

John Taylor: Rather than a one- or two-year stimulus package, we should be looking for permanent fiscal changes that turn the economy around in a lasting way. Keeping all income-tax rates were they are now would effectively make current tax rates permanent. This would be a significant stimulus to the economy, because tax-rate increases are now expected on a majority of small business income, capital gains income and dividend income.

- Making the 2001/2003 tax cuts permanent would provide the economy with the certainty that taxes will not be increased after the cuts begin to expire in 2011.
- Failing to make the tax cuts permanent would send an economic signal to businesses to reduce their investment and hiring.

Sen. Jim DeMint (R-SC) is proposing an alternative stimulus bill, called "The American Option."

DeMint's bill seeks to remove uncertainty through permanent tax cuts. DeMint says businesses crave certainty to build factories and hire workers. UNCERTAINTY about temporary economic policies creates and perpetuates recessions.

The details of the DeMint plan:

- Makes the 2001/2003 tax cuts permanent.
- In addition, his plan cuts the top marginal rate from 35% to 25%.
- Simplifies the code to include only two other brackets, 15 and 10 percent.
- Cuts corporate tax rates from 35% to 25%.
- Permanently repeals the AMT.
- Permanently maintains capital gains and dividend tax rates at 15%.
- Permanently kills the death tax for estates under $5 million, and cuts the tax rate to 15% for those above.
- Permanently extends the $1,000-per-child tax credit.
- Permanently repeals the marriage tax penalty.
- Permanently limits itemized deductions to home mortgage interest and charitable contributions.

DeMint predicts this plan would create nearly 500,000 jobs this year, 1.3 million next year, 7.5 million by 2013, and a total of nearly 22 million jobs over the next decade.