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Payroll tax credit could be key to Senate jobs bill

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WASHINGTON -- A tax credit for hiring unemployed workers is a central feature of a yet-to-be-unveiled \$81 billion jobs bill that Senate Democrats are hoping will receive Republican support when it reaches the floor for a vote next week.

The tax credit would offset the employer's 6.2 percent share of Social Security payroll taxes through the end of this year for workers who were previously unemployed for at least 60 days.

Republican Sen. Orrin Hatch of Utah is a sponsor of the measure, along with Democratic Sen. Chuck Schumer of New York.

Hatch and Sen. Charles Grassley, the ranking Republican on the Senate Finance Committee, are seen by Democrats as the key to building bipartisan support for the legislation, which is still a work in progress and subject to change.

The two Republican senators decided Thursday to discuss the legislation with their GOP colleagues before publicly endorsing it.

Unlike the \$154 billion jobs bill that passed the House in December, which focused on infrastructure and public sector jobs, a key element of the Senate bill is private sector job creation.

The Senate would renew a \$250,000 deduction for business equipment purchases that was in effect last year, but the House chose not to address.

Both bills would provide an extension of long-term unemployment benefits and an employer tax credit to lower the cost of COBRA health insurance to laid-off workers.

Those two provisions cover \$30 billion of the bill's total cost over 10 years.

The Senate bill, as currently envisioned, also would contain a one-year extension of the highway trust fund.

The employer tax credit for new hires, which accounts for \$10 billion of the package, is seen as a way to boost private sector hiring at a time when payroll employment has not yet begun to grow.

Employers are often reluctant to hire new workers early in an economic recovery, said Len Burman, a professor of public affairs at Syracuse University's Maxwell School.

The proposed tax credit, Burman said, "would lower the cost of bringing on more people."

Michael Lind of the liberal-leaning New America Foundation, said the simplicity of the proposed payroll tax credit would make it easy for employers to understand.

"I think it's preferable to some of the other tax credits that are being proposed because it's simpler," he said.

At the National Federation of Independent Business, tax counsel Bill Rys was skeptical whether the payroll tax credit would provide much of an incentive to hire workers.

"Most of the businesses that are going to be using it would be hiring a worker anyway," he said.

Rys indicated it would help small businesses with their cash flow, but added, "The challenge small business has is having customers come through the doors. That's a real challenge."

Some tax experts across the political spectrum also doubt the tax credit would have its intended effect of spurring new hires and boosting economic growth.

"It's a horrible micromanaging of the economy, in my view," said Chris Edwards, director of tax policy studies for the Cato Institute, a free-market think tank.

"The decision to hire workers and what to pay them is central to a market economy. It's abhorrent that the federal government wants to get inside businesses."

Edwards described the proposed tax credit as "a social welfare program."

At the liberal-leaning Citizens for Tax Justice, Bob McIntyre also doubted the tax credit would produce its intended effect.

"It will work in the sense that they are throwing out money into the economy," he said. "It will go into the pockets of some businesses and they will spend some of it."

McIntyre favors a jobs bill along the lines of the House-passed legislation, which would spend billions of dollars more on infrastructure and trying to help state and local governments retain workers.

"You'd end up with a bridge maybe, which would be something nice," he said.
