

What The Tax Cut Extension Means for You



(ABCNEWS.com)

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When President Obama officially extended tax cuts enacted by his predecessor in a Rose Garden ceremony today, he ensured the average American will pay about \$2,000 less in taxes per year for the next two years.

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That figure includes a temporary holiday on the payroll tax, which helps fund Social Security.

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The tax cut extension means big bucks for the super-rich. LeBron James, who makes \$14.5 million each year, will save more than \$600,000 in taxes for this year. A family making \$100,000 per year will pay about \$6,000 less in taxes than if the tax cuts had expired. The average savings for all Americans, according to the non-partisan [Tax Policy Center](#), is about \$2,800.

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The deal, hatched between the White House and congressional Republicans and passed by Congress this week despite opposition from liberals and conservatives, will also extend [unemployment benefits](#) for the next two years.

To figure out how the tax deal will affect you personally, plug your income into [mytaxburden.org](#).

To get enough votes, Senate leaders added some unrelated incentives, including special tax incentives for rum producers and NASCAR, among others. Read more about those [HERE](#).

While Americans will have less money taken out of their paychecks by Uncle Sam the next two years, the tax compromise will result in lost revenue to the government of between \$450 and \$600 billion in 2011. [That will be added to the nation's \\$13.8 trillion deficit.](#)

What the Tax Cutting Deal Means for Families, Workers and Employers

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•Obama wanted to limit the extension of the Bush tax rates to households making less than \$250,000 while Republican lawmakers wanted a permanent extension for all taxpayers, including the rich.

•**Impact:** The deal means families making between \$40,000 and \$50,000 will pay about \$1,600 less in taxes per year than if the tax cuts had expired.



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•The average U.S. household, with an income of \$49,777, will continue to keep its tax cut of \$2,142.

•A family with earnings of \$311,330, will keep \$9,318 as opposed to the \$8,012 if the president had had his way.

Workers:



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•13-month extension of unemployment benefits. The extension is expected to help about 9 million Americans.

•One-year Social Security tax reduction for employees, from 6.2 percent to 4.2 percent for individuals.

•**Impact:** For example, a worker who makes \$40,000 annually would pay \$800 less in Social Security taxes and a worker who earns \$70,000 would pay \$1,400 less.

•Child Tax Credit, Earned Income Tax Credit and the tax credit increases for college tuition (American Opportunity Tax Credit) adopted in 2009 as part of the economic stimulus package will be extended.

•**Impact:** Families will be allowed to get up to \$2,500 per student for tuition credit.

•About 22 million families will be exempted from the dreaded Alternative Minimum tax next year.

And economists say that the reduction of the payroll tax is particularly helpful in stimulating the economy. Every American will pay 2 percent less in tax, on the first \$106,000 they make.

Employers:

•The agreement will also affect businesses and business owners.

Businesses will be allowed to deduct 100 percent of capital investments in 2011, a doubling from the current write-off figure of 50 percent.

•The agreement also calls for holding the estate tax at 35 percent for two years, with a \$5 million floor.

Moody's projects that the bill will create up to 1.5 million jobs next year, and significantly increase the projected growth of the Gross Domestic Product from nearly 3 percent to almost 4 percent.

"That means we'll be able to create enough jobs to bring unemployment down in a very substantive way," said Mark Zandi, the chief economist at Moody's Analytics.

Of course, the bill will also add \$900 billion to the nearly \$14 trillion national debt, money that future generations will be responsible for paying back.

ABC News' Jake Tapper, Suleen Miller, Bradley Blackburn, Alan Farnham and the Associated Press contributed to this report.

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