



# Bush Tax Cut Deal: Assessing Obama's 'Grand Compromise' With GOP

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**President Barack Obama** surprised the nation by announcing an earlier-than-expected tax cut deal with Republican lawmakers Monday night. The plan includes: extending the Bush-era income tax cuts for two years; reducing payroll taxes for one year; temporary reinstatement of the estate tax at 35%--a big win for Republican lawmakers; a 13-month extension of unemployment benefits; and extending current tax rates on capital gains and dividends for two years as well as reforming the Alternative Minimum Tax (AMT).

While Obama said in his comments Monday night that “We have arrived at a **framework for a bipartisan agreement**,” he must now convince dissatisfied Democrats to back the plan. Published reports say that Obama will likely rely heavily on Republicans to get the plan through Congress.

**One of the major complaints** regarding the deal is that it will add significantly to the nation’s **mounting debt**. In a letter to House Speaker Nancy Pelosi, Rep. Peter Welch, D-Vt., called the plan “fiscally irresponsible” and “grossly unfair.” Welch said, “We support extending tax cuts in full to 98% of American taxpayers, as the President initially proposed. He should not back down. Nor should we.”

He went on to tell Pelosi that he and his House colleagues “oppose acceding to Republican demands to **extend the Bush tax cuts to millionaires and billionaires**” because it would add “\$700 billion to our national debt,” and it “handcuffs our ability to offer a balanced plan to achieve fiscal stability without a punishing effect on our current commitments, including Social Security and Medicare.”

**Robert Fishbein**, VP and corporate counsel in Prudential Financial’s tax practice, says that while it’s certainly possible that Congress will not agree with the “**grand compromise**” set out by Obama, an agreement on tax cuts is sorely needed by year-end. Coming to an agreement on tax cuts will “provide greater certainty for individuals doing year-end planning and for 2010 income tax returns,” Fishbein says.

Indeed, **David Tittsworth**, executive director of the Investment Adviser Association (IAA) in Washington, agrees that “everyone is relieved that a deal may be in the works.” The worst case scenario, he adds, “is to extend the uncertainty of how major tax policies will apply a few short weeks from now.”

Fishbein notes that in addition to fixing tax rates for two years, the agreement includes a patch for the AMT “that should prevent many taxpayers from being subject to this alternative tax regime.”

The **Insured Retirement Institute (IRI)** released survey findings a day after the tax cut plan was announced that found that eight out of 10 respondents supported extending the Bush tax cuts. The online survey of **200 financial professionals** was conducted by Cogent Research from Oct. 6 to Nov. 11, and found that only 15% of the respondents wanted taxes to be raised on all earners, with only 17% expressing support for increasing them on the top 2% of wage earners.