

Tax credit would cost-effectively generate millions of new jobs



NEWS FROM EPI

FOR IMMEDIATE
RELEASE

Tuesday,
October 20, 2009

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Today, the Economic Policy Institute announces its proposal for a tax credit for new job creation over the next two years. The proposal will complement other policy initiatives already enacted and proposed. Labor market experts Timothy J. Bartik at the W.E. Upjohn Institute for Employment Research and John H. Bishop at Cornell University, outline the details of the policy initiative in two papers: [*The job creation tax credit*](#) and [*Complementing recovery policies with a jobs creation tax credit*](#). In two companion pieces, EPI presents [a five-part approach to large-scale job creation](#), and also [examines the underlying causes and solutions of the current unemployment crisis](#).

“Clearly, job creation should be a top priority of policymakers now,” said co-author Bartik.

Estimates suggest that the credit could spur millions of new jobs over two years at a reasonable cost, and provide a mechanism to directly encourage hiring, turning fence-sitting employers into job-creators. The proposal gives businesses a credit of 15% of expanded payroll costs in 2010 and 10% in 2011. “It will create almost 3 million jobs in 2010 and over 2 million in 2011. Because choices about whom to hire and what work they should do are left to the 6.5 million employers and millions more aspiring entrepreneurs who can act immediately, the credit will have a quick impact,” said John Bishop, co-author of the proposal.

The cost of the proposed program would be relatively low: About half of the estimated \$28 billion in net revenue losses to the federal government could be recouped in lower spending on unemployment insurance, Medicaid spending, and other safety net programs. “By tying benefits directly to job creation, the tax credit could be literally 10 times more cost-effective than the other business incentives that have been included in economic recovery packages over the past decade,” explained Bartik.

“The tax credit lowers the cost of having American workers provide a service or make a product. This will help American manufacturers increase exports and compete against foreign suppliers and off-shore call centers,” explained Bishop. “It also encourages firms to improve the quality of the services they provide by improving training and hiring more skilled staff.”

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The EPI job creation tax credit proposal would:

- Target businesses, non-profits, and even governments that add to payroll over the next two years;
- Target a wide range of jobs across economic sectors and across all kinds of firms, regardless of size or current profitability;
- Be based on the portion of wages subject to Social Security payroll taxes (\$106,800 in 2009) and would not credit very high wage earners, including CEOs; and
- Be temporary, only to be used when the labor market is weakest.

To encourage firms to hire immediately, the credit would refund 15% of the payroll increase in the first year. In the second year, the refund would drop to 10%. The refund would be felt by employers shortly after a new hire because the tax credit would be part of the quarterly report employers make to the IRS.

The U.S. economy is in a jobs crisis. We have lost eight million jobs since the start of the recession and the unemployment rate will soon break into double-digits. Things would be far worse without the American Recovery and Reinvestment Act. However, we now know that the crisis is worse than anticipated and that without further action we face a serious jobs deficit for years to come. This argues for extending the most crucial parts of the recovery package – safety net spending, fiscal relief for states, and infrastructure spending – but also to enact new policies to directly boost hiring in the near-term.