How Payroll Tax Cut Deal Will Affect States

By JC Hendrickson

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Late last week, the U.S. House of Representatives passed a bipartisan bill ending the stalemate over the payroll tax cut and assorted entitlement programs, and the Senate quickly followed suit. But the details of the bills paint an interesting picture of the political landscape as we approach the 2012 election cycle, and what may be even more important to states, the Lame Duck session of Congress that will follow it.

The bill passed by Congress would keep the payroll tax rate at 4.2 percent through 2012, instead of springing a 2 percent increase on workers March 1. The bill also would prevent a massive cut to Medicare reimbursement to doctors for the rest of the year. Perhaps more directly relevant to states is the unemployment insurance extension, which would gradually reduce the maximum amount of unemployment insurance from 99 weeks to 63 weeks by September for most states. States with more than 9 percent unemployment, however, could offer up to 73 weeks of unemployment insurance. Sixteen states now would meet these criteria, according to the House Committee on Ways and Means.

The payroll tax deal also includes an agreement on part of the broadband spectrum, commonly referred to as the “D-Block,” which includes $7 billion of funding for a nationwide public safety network. The agreement reserves the D-Block for first responders and gives the Federal Communications Commission nine years to move those channels from their current location to the new block. This is a notable win for states, considering law enforcement has pushed for a nationwide network since the findings of the 9/11 Commission.

By modernizing emergency communication capabilities, the agreement will permit law enforcement, fire, emergency medical, emergency management and other public safety personnel to finally obtain the communications tools they need to better protect the public and respond to emergencies, according to the National Emergency Management Association, a CSG affiliate.

This legislation is not fully offset, as it adds about $101 billion to the deficit this year. The Medicare reimbursements, however, are offset with cuts to hospitals and preventive health programs and the unemployment insurance extension is paid for with the estimated $15 billion the government is expecting to receive by auctioning spectrum.

While the final bill is not ideal for either Congressional Republicans or Democrats, the inclusion of a nationwide broadband network makes for an important priority states can cross off their list of federal asks. The real battle over the long-term future of the payroll tax cut will now occur after the 2012 election, when the 2001 and 2003 tax cuts all expire.

Depending on the outcome of the election, it could make for an interesting holiday season.