Congressional Democrats are making clear they want to focus talks for a one-year extension of a payroll tax cut on an issue that proved difficult before the latest partisan brawl: whether higher taxes for the wealthy should help cover the plan’s cost.

Congress yesterday passed a two-month payroll tax-cut extension eight days before its scheduled expiration after House Republicans dropped their objections under growing political pressure. President Barack Obama signed the measure, and negotiators in both parties are making plans to start work on a longer-term deal.

Senate Majority Leader Harry Reid, a Nevada Democrat, told reporters yesterday that a surtax for millionaires may be part of the debate, as “everything’s on the table.” The third-ranking Senate Democratic leader, Charles Schumer of New York, was more direct on Dec. 22 about seeking new taxes on higher earners, a proposal rejected by House and Senate Republicans.

“Look, we think that’s the fairest way to go because everyone has to give a little bit here, and those at the highest income levels, over a million-dollar incomes, have done the best in this economy,” Schumer said on CNN’s “The Situation Room.” He said, “So that should still be on the table.”

**Election Year**

Their remarks reflect the tough task of negotiating a longer extension of the payroll tax cut during an election year that will feature a debate over tax and fiscal policy, particularly whether to extend the $4 trillion in expiring income tax cuts first enacted under President George W. Bush. The payroll tax talks will center on a much smaller $200 billion extension.

Yesterday lawmakers were focused on a short-term agreement that will continue the 2-percentage-point payroll tax cut through February. Without a deal, the current tax cut would have expired Dec. 31, reducing take-home pay for 160 million U.S. workers.

“This is some good news, just in the nick of time for the holidays,” said Obama, who signed the legislation yesterday. “When Congress returns I urge them to keep working without drama, without delay, to reach an agreement” on extending the tax cut for all of 2012, he said.

Similar to a plan passed by the Senate Dec. 17, the measure Obama signed extends the 4.2 percent payroll tax, continues expanded unemployment benefits and heads off a reduction in Medicare
payments to doctors through February. It also calls on Obama to accelerate his decision on the Keystone XL oil pipeline from Canada.

**Shutdown Threats**

The agreement capped a year of partisan battles marked by threats to shut down the federal government and default on government debt obligations. House Republicans backed down on their objections to the bill after attacks from Obama, congressional Democrats and Senate Republicans angered by the House’s push for a yearlong extension.

“I hope this Congress has had a very good learning experience, especially those who are newer to this body,” Senate Majority Leader Harry Reid, a Nevada Democrat, told reporters after his chamber’s action yesterday. “It seems that everything we’ve done this past year has been a knock-down, drag-out fight. There is no reason to do that.”

The agreement doesn’t resolve the deep divide over how to cover the cost through 2012.

As Democrats seek higher taxes on the wealthy, Republicans want to cut the federal workforce and freeze pay for government employees, among other spending-cut options.

**Unemployment Insurance**

Other issues also may arise. Republicans want to attach policies such as a rewrite of the unemployment insurance system or weaker rules for industrial emissions -- both opposed by Democrats. Republicans want to let states drug-test people who receive unemployment benefits and require them to make progress toward earning a high school diploma.

Both parties agree on one matter, saying they want to eliminate lower reimbursements for doctors under Medicare. A two-year fix, averting a 27 percent cut effective Jan. 1, was included in House-passed legislation.

“We passed, in our bill, two year’s worth of a doc fix so that physicians would not have their Medicare reimbursements cut,” said Representative Renee Ellmers of North Carolina, one of the Republican negotiators, said Dec. 22. “Our seniors need to know that they can receive that good health care and continue to do so.”

**Taxes for Wealthy**

The issue of higher taxes for the wealthy has been divisive in this year’s debate over Obama’s $447 billion jobs plan, which included a payroll tax-cut proposal. Few of the plan’s elements became law, in part because of a push in the Democratic- controlled Senate to offset costs with a “millionaires’ surtax” opposed by Republicans. Democrats control 53 Senate seats, seven short of the 60 needed to overcome delaying tactics by opponents of legislation.
Republicans might be in a weaker position in 2012. Senate Republican leader Mitch McConnell of Kentucky has been unable to advance an alternative approach on the payroll tax cut, in part because some members of his caucus don’t think it’s the best way to stimulate the economy.

Boehner’s task also may be more difficult.

“I don’t think it’s a time for celebration,” he told reporters this week. “Our economy is struggling. We’ve got a lot of work ahead of us in the coming year.”

Some Republicans were pleased to see that Boehner cut his losses.

‘Great Danger’

“The great danger would have been if we continued,” said Representative Tom Cole of Oklahoma. “We made our points. We’ve gotten some modifications.”

Some House Republicans said yesterday they didn’t believe Boehner’s agreement to pass the two-month extension put him in immediate danger of losing the support of his House Republican majority.

Representative Sean Duffy, a freshman Republican from Wisconsin, said Boehner was trying to reflect the views of his colleagues. Duffy said he is pleased a tax increase will be avoided in January and doesn’t think the saga will hurt Republicans in the 2012 election.

“I think the American public will look at the economy and job growth and the lack thereof,” Duffy said. “I don’t think this is an indicator of what will happen next year.”

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