National Women's Law Center
Expanding the Possibilities

TAX & BUDGET

A Roadmap to the 2013 Federal Budget Debates

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In the final months of 2012, Congress and President Obama debated measures to address tax increases and spending cuts that were scheduled to take effect in January 2013, often referred to as the "fiscal cliff." Though the American Taxpayer Relief Act (ATRA) enacted on January 2 addressed most of the tax issues involved in the fiscal cliff, it left many important budget issues unresolved – and more cliffhanger budget battles to come.

In March 2013, Congress agreed on funding levels for the remainder of Fiscal Year (FY) 2013, averting a federal government shutdown but leaving the deep, automatic, across-the-board cuts from sequestration largely in place. The House and Senate have each passed budget blueprints for FY 2014, which begins October 1, 2013, but these are profoundly different from one another. And President Obama submitted his own budget proposal to Congress in April.

In the months to come, Congress will need to raise the national debt ceiling to prevent the U.S. from defaulting on bills it has already committed to pay and causing a national – and international – economic crisis. Congress and the President also will need to agree on appropriations bills to fund federal programs in FY 2014. And, as the full impact of sequestration becomes clearer, Congress could take action at any time to stop it. These budget negotiations present an opportunity for Congress to stop harmful budget cuts, raise revenue by requiring the richest Americans and corporations to pay a fair share of taxes, and make investments to support women, families and the economy – or to do just the opposite.

Here is a look back at key provisions of the fiscal cliff deal, the timeline for critical choices that remain before Congress, and the guiding principles that will protect women and their families and promote widely shared prosperity.

The "Fiscal Cliff Deal": The American Taxpayer Relief Act

ATRA makes permanent over 80 percent of the income tax cuts enacted during the Bush Administration, but allows most of the tax cuts for the wealthiest one percent to expire,[1] securing about $630 billion in revenue between 2013 and 2022.[2] This additional revenue represents a step toward a more balanced fiscal policy, but is a small amount relative to the $2.5 trillion cut from programs since FY 2011 to reduce the deficit over the same period, including $1.5 trillion cut from discretionary spending apart from the sequester,[3] and nearly $1 trillion in program cuts from sequestration,[4] not including interest savings.

More information about ATRA is available here,[5] but in brief, ATRA:

- Generally made the Bush-era tax cuts permanent on income up to $450,000 for a couple, $400,000 for an individual.
- Extended for five years the American Opportunity Tax Credit for college expenses and the 2009 improvements in the Child Tax Credit and Earned Income Tax Credit.
- Renewed federal emergency unemployment benefits through 2013.
- Postponed cuts from sequestration for two months, until March 1, 2013.

ATRA passed without addressing the debt ceiling. After signing ATRA into law, President Obama refused to negotiate over raising the debt ceiling, saying that Congress cannot refuse to pay the bills it has incurred. In January 2013, Congress agreed to suspend the debt ceiling without additional program cuts – but only through May 2013. And recently, House Speaker John Boehner (R-OH) has returned to the position he took in

2011: that he will not support an increase in the debt ceiling unless programs are cut by an equal amount. This demand brought the nation to the brink of default in 2011, caused a downgrade in the nation's credit rating and an increase in the nation's borrowing costs, and led to more than $2 trillion in program cuts in the 2011 Budget Control Act.

So budget negotiations will continue – and critical programs will remain on the chopping block for the foreseeable future. The timeline that follows presents the major decision points before Congress.

The Timeline

- **March 1, 2013:** The sequester began to take effect at the end of the two-month delay under ATRA. While Social Security benefits and mandatory programs for low-income people (including Medicaid, SNAP/Food Stamps, Temporary Assistance for Needy Families, and the Child and Adult Care Food Program) generally are exempt from sequestration, discretionary programs that women and their families depend on – such as Head Start, child care, education, and women's health services – could be slashed dramatically. Sequester cuts are projected to result in the loss of hundreds of thousands of jobs and critical services for millions this year alone.[6]

  The sequester is scheduled to be in effect through FY 2021. Congress can act to undo sequestration at any time, but a majority of Members have yet to agree on how to do so. President Obama and Senate Leadership have called for a balanced package of revenue increases and spending cuts to replace the sequester, while Republican congressional leadership has stated that deficit reduction must come solely from cuts. The FY 2014 budget proposals passed by the Senate and House (see below) reflect these very different approaches.

- **March 27, 2013:** The continuing resolution (CR) passed in September 2012 expired. On March 21, Congress approved an appropriations bill to fund government operations through the remainder of fiscal year (FY) 2013, which largely maintains low current funding levels – further reduced by $85 billion in cuts from the sequester.[7]

- **April 10, 2013:** President Obama submitted his FY 2014 budget request to Congress. The President's budget proposes substantial new investments in early care and education for children birth to age five, maintains funding for most programs targeted to low-income people, ends sequestration, continues to implement the Affordable Care Act, makes improvements in tax credits for low- and moderate-income families permanent, and raises some new revenues by closing tax loopholes that benefit the wealthiest Americans. But the budget proposes troubling cuts to Social Security benefits by adopting the "chained Consumer Price Index" and fails to make the additional investments needed to get our economy moving and help families get back on their feet.[8]

- **April 15, 2013:** Deadline for passage of FY 2014 budget resolutions. The House and Senate each passed FY 2014 budget resolutions in March. The House plan, introduced by House Budget Committee Chairman Paul Ryan (R-WI), slashes funding for programs that women and families depend on – including cuts far deeper than the sequester to non-defense discretionary programs, repeal of the Affordable Care Act, and massive cuts to Medicaid, Medicare, SNAP/Food Stamps, and other safety net programs – while giving lavish tax cuts to the wealthiest Americans and corporations.[9] In contrast, the plan introduced by Senate Budget Committee Chairman Patty Murray (D-WA) and approved by the Senate proposes new investments in early learning opportunities and job creation, largely protects core safety net programs, replaces the sequester with a mix of revenues and spending cuts, and advances tax fairness.[10] Debate around FY 2014 budget proposals will likely continue for months.

- **May 19, 2013:** Debt ceiling suspension expires. The Treasury Department probably will be able to pay the bills of the United States until September or October,[11] but Congress will need to raise the debt ceiling before then to prevent the country from defaulting on its obligations.

- **September 30, 2013:** FY 2013 ends. Congress and the President must agree on appropriations for FY 2014 by September 30 so the government can function when the new fiscal year begins on October 1, 2013.

There will be a series of difficult and confusing budget fights in 2013. But the bottom line is simple: vulnerable women and families should not bear the burden of deficit reduction. Many special-interest loopholes and tax deductions that are used by the wealthy and big corporations to avoid paying taxes were untouched by ATRA. Instead of considering more cuts to programs vital to women and families, Congress should ask the wealthy and large corporations to pay their fair share of taxes.

Principles for a Budget that Works for Women and Families

Women and their families need a budget that promotes economic recovery and expands opportunity. To that end, there are three core principles that the 113th Congress must observe as it negotiates measures to address the debt ceiling and avert across-the-board cuts.

1. **Protect vulnerable women and families.** Deficit reduction should not increase poverty or exacerbate hardship for families struggling to make ends meet. Any budget plan must protect key programs that women and their families depend on to improve their health, obtain quality child care and higher education, and help them meet their basic needs during difficult times and as they age.[12] Past deficit-reduction plans have not only protected key supports for low-income people but have also included initiatives to reduce poverty.[13]

   By protecting most core safety net programs, preserving the Affordable Care Act, and making new investments in early childhood programs, the FY 2014 Senate budget resolution largely adheres to this principle (although it contains some cuts that could be problematic). By repealing the Affordable Care Act[14] and drawing at least two-thirds of its massive cuts from programs that serve people with low and moderate incomes, the House budget resolution clearly does not.[15]

2. **Require the wealthiest Americans and corporations to pay their fair share of taxes.** Since FY 2011 began, Congress has enacted about $3.6 trillion of deficit reduction for the years 2013 through 2022, including the sequester. About 80 percent of that deficit reduction comes from spending cuts, while only about 20 percent comes from revenue increases.[16] Substantial new revenue is essential to achieve any measure of balance in overall deficit reduction. To date, corporations have not been required to contribute a penny in additional revenues toward deficit reduction; in fact, many large and profitable corporations do not pay any federal income taxes at all.[17] Moreover, despite the modestly higher tax rates imposed by ATRA, millionaires will continue to benefit from numerous loopholes and preferences in the tax code. Additional measures could secure considerable new revenue from the individuals and corporations with the greatest ability to contribute,[18] putting the nation on a more sustainable fiscal path while supporting the

KEY TERMS

- **Appropriations:** Funds allocated by Congress to individual federal agencies specifying how much money can be spent on programs in a given year.
- **Budget resolution:** A measure passed by a house of Congress to establish overall spending limits and revenue targets for upcoming fiscal years. House and Senate budget resolutions (which can go to a conference to resolve differences and produce a resolution that is voted on by each chamber) are less detailed than the President's budget request; they provide blueprints for budget decisions as Congress considers appropriations bills, but do not specify how much specific programs will be allowed to spend.
- **Continuing resolution (CR):** Legislation that permits government agencies to continue to operate at existing funding levels if a new appropriations bill has not been enacted for a new fiscal year.
- **Debt ceiling:** The statutory limit set by Congress on the amount of total debt that the federal government can assume. If the debt amount would exceed the debt ceiling limit, the government is unable to borrow additional funds to support its operations, triggering a government shut-down and default on existing loans. Congress has the legal authority to raise the debt ceiling limit as needed, and has done so more than 70 times since 1962.
- **Discretionary programs:** Federal programs for which spending must be newly appropriated each year through the annual congressional appropriations process. Examples of discretionary programs include Head Start, funding for K-12 education, job training, Title X family planning, medical research, food safety and environmental protection, domestic violence prevention.
- **Mandatory programs:** Federal programs for which funding is authorized outside of the annual appropriations process. Mandatory programs include entitlement programs like Social Security, Medicare, Medicaid, and the Supplemental Nutrition Assistance Program (SNAP/Food Stamps). People are entitled to receive benefits from these programs if they meet certain eligibility requirements, and spending levels for the programs can vary from year to year depending on the number of people who are eligible. Mandatory programs also include the Temporary Assistance for Needy Families (TANF) program and some funding for child care, for which funds are guaranteed to the states but benefits are not guaranteed to all individuals who may be eligible.
- **Sequestration** (also referred to as "the sequester"): A series of automatic federal spending cuts that are triggered when the government fails to achieve a set of pre-determined budget goals. In the current context, sequestration refers to a set of automatic, across-the-board cuts required by the Budget Control Act (BCA) of 2011. These cuts, totaling about $1.2 trillion (including interest savings) over nine years beginning in 2013, were triggered by the failure of the bipartisan Joint Select Committee on Deficit Reduction (also established by the BCA, and often referred to as the "super-committee") to produce a plan approved by Congress that would reduce the deficit by the same amount.

investments our economy needs and protecting programs and services that women and their families depend on.

The Senate budget resolution for FY 2014 advances tax fairness by calling for $975 billion in new revenues to support critical programs and help reduce the deficit, which would be achieved by closing corporate tax loopholes and limiting unfair tax breaks for the wealthiest Americans. In contrast, the House budget resolution calls for $5.7 trillion in new tax cuts that would reduce taxes for the richest one-tenth of one percent (households with income above $3.3 million) by an average of $1.2 million.[19]

3. Invest in job creation to strengthen the economy. The federal emergency unemployment benefits renewed by ATRA provide critical support for jobless workers and their families, but more is needed to ensure that women and men who want to work can find jobs. Less than half of the jobs lost during the recession have been added since the recovery began; ongoing public sector job losses have slowed the recovery – especially for women.[20] Investments in both physical infrastructure and human capital – such as early childhood development, education, health care, and job training – would both create jobs for workers who need them now and contribute to long-term economic growth.

In addition to its investments in early childhood programs, the Senate budget resolution invests in measures to speed up the economic recovery, including a $100 billion fund to support job training and infrastructure projects that would create new jobs and strengthen the economy. The House budget resolution contains no such investments, and its deep spending cuts would produce a severe drag on the economy, costing an estimated 2 million jobs in 2014 alone.[21]

1 Chye-Ching Huang, Ctr. on Budget & Policy Priorities, Budget Deal Makes Permanent 82 Percent of President Bush's Tax Cuts (Jan. 2013), *available at* http://www.cbpp.org/files/1-3-13tax.pdf.

2 Michael Linden & Michael Ettlinger, Ctr. for Am. Progress, The Deficit Reduction We Have Achieved So Far (Jan. 2013), *available at* http://www.americanprogress.org/issues/budget/news/2013/01/08/49137/the-deficit-reduction-we-have-achieved-so-far/.

3 See Richard Kogan, Ctr. on Budget & Policy Priorities, Congress Has Cut Discretionary Funding by $1.5 Trillion over Ten Years (Nov. 2012), *available at* http://www.cbpp.org/files/9-25-12bud.pdf.

4 The sequester cuts programs by $109.3 billion/year from 2013 through 2021, amounting to $984 billion in savings from direct cuts; the BCA assumes an additional $216 billion in interest savings from the sequester, for total deficit reduction of $1.2 trillion. *See* Richard Kogan, Ctr. on Budget & Policy Priorities, The Pending Automatic Budget Cuts: How the Two "Sequestrations" Would Work, at 3 (Feb. 2013), *available at* http://www.cbpp.org/files/2-26-13bud.pdf.

5 *See generally* NWLC, The "Fiscal Cliff" Deal: The American Taxpayer Relief Act (Mar. 2013), *available at* http://www.nwlc.org/sites/default/files/pdfs/atrafactsheet1.pdf.

6 *See generally* The White House, What You Need to Know About the Sequester: Interactive Map, http://www.whitehouse.gov/issues/sequester/interactive-map (last visited Mar. 14, 2013).

7 *See* Julie Vogtman, NWLC, Government Shutdown Averted, but Harmful Cuts Will Continue (Mar. 21, 2013), http://www.nwlc.org/our-blog/government-shut-down-averted-harmful-cuts-will-continue. ATRA reduced the total amount of the sequester for 2013 from $109 billion to $85 billion, averting two months' worth of cuts.

8 *See generally* NWLC, President Obama's FY 2014 Budget: Key Provisions for Women and Their Families (Apr. 2013), *available at* http://www.nwlc.org/resource/president-obama%E2%80%99s-fiscal-year-2014-budget-key-provisions-women-and-their-families.

9 *See generally* NWLC, The Ryan House Budget FY 2014: Once Again, Gutting Vital Programs for Women and Families, Giving Trillions in Tax Cuts to Millionaires and Corporations (Mar. 2013), *available at* http://www.nwlc.org/sites/default/files/pdfs/ryanbudgetfy2014.pdf.

10 *See generally* NWLC, The FY 2014 Murray Senate Budget: A Fairer Path Forward for Women and Families (Mar. 2013), *available at* http://www.nwlc.org/sites/default/files/pdfs/murraybudgetfy2014.pdf.

11 Shai Akabas & Brian Collins, Bipartisan Policy Ctr., The Debt Limit: Updated X Date Projection (Apr. 26, 2013), http://bipartisanpolicy.org/blog/2013/04/debt-limit-updated-x-date-projection.

12 *See* NWLC, Cutting Programs for Low-Income People Especially Hurts Women and Their Families (Mar. 2013), *available at* http://www.nwlc.org/sites/default/files/pdfs/lowincomefactsheet.pdf.

13 Sophie Feldman & Melissa Boteach, Ctr. for Am. Progress, Timeline: Cutting Poverty and the Federal Deficit Is Possible (Aug. 2012), *available at* http://www.americanprogress.org/issues/poverty/news/2012/08/15/12021/timeline-cutting-poverty-and-the-federal-deficit-is-possible/.

14 *See* NWLC, The Ryan Budget's Catastrophic Health Cuts and Their Impact on Women (Mar. 2013), *available at* http://www.nwlc.org/sites/default/files/pdfs/the_ryan_budget_factsheet_3-13-13.pdf.

15 Richard Kogan & Kelsey Merrick, Ctr. on Budget & Policy Priorities, Chairman Ryan Gets 66 Percent of His Budget Cuts from Programs for People with Low or Moderate Incomes (Mar. 2013), *available at* http://www.cbpp.org/files/3-15-13bud.pdf.

16 The $3.6 trillion total includes approx. $1.5 trillion in programmatic spending cuts with about $200 billion in related interest savings (*see* Kogan, Congress Has Cut Discretionary Funding by $1.5 Trillion over Ten Years, supra note 3), approx. $1 trillion in program cuts from the sequester and $200 billion in related interest savings (*see* Kogan, The Pending Automatic Budget Cuts, supra note 4), and approx. $630 billion in revenue increases with around $90 billion in related interest savings (NWLC calculations from Linden & Ettlinger, *supra* note 2).

17 *See generally* Citizens for Tax Justice, Corporate Taxpayers & Corporate Tax Dodgers: 2008-2010 (Nov. 2011), *available at* http://ctj.org/corporatetaxdodgers/.

18 *See*, e.g., Americans for Tax Fairness, Next Steps Toward Tax Fairness: Options for Closing Loopholes for the Richest 2% and Big Corporations (Feb. 2013), *available at* http://www.chn.org/wp-content/uploads/2013/02/ATFNextStepsFinal2-15-13.pdf.

19 Howard Gleckman, Tax Policy Ctr., House GOP Would Need $5.7 Trillion in Tax Hikes to Offset Ryan Rate Cuts (Mar. 15, 2013), http://taxvox.taxpolicycenter.org/2013/03/15/house-gop-would-need-5-7-trillion-in-tax-hikes-to-offset-ryan-rate-cuts/.

20 NWLC, Stronger Jobs Recovery Reaching Women (May, 2013), *available at* http://www.nwlc.org/sites/default/files/pdfs/mayrecoveryfactsheet.pdf.

21 Andrew Fieldhouse, Econ. Policy Inst., Ryan Proposes Another Path to Fewer Jobs and Slower Growth (Mar. 12, 2013), http://www.epi.org/blog/ryan-proposes-path-jobs-slower-growth/.