

TAX & BUDGET

FACT SHEET

A Roadmap to the Upcoming Federal Budget Debates

September 2012

Over the next six months, Congress will face a series of decisions that will shape federal budget priorities for years to come. Here is a look at the timeline for key decisions, the policy choices before Congress, and the principles that must guide budget decisions to protect women and their families and promote widely shared prosperity.

The Timeline

- **October 1, 2012:** By this date, Congress must pass an [appropriations](#) bill to allow the federal government to function in the new fiscal year (FY 2013). Leaders in Congress have agreed that overall funding levels for the first six months of FY2013 will be slightly above FY 2012 levels in absolute dollars (though not enough to keep pace with inflation). Congress is expected to pass a [continuing resolution](#) (CR) in September; however, Congress still must agree on how funds will be allocated among various programs.
- **December 31, 2012:** Multiple legislative provisions are scheduled to expire. Key provisions that will be involved in budget negotiations include:
 - **Tax cuts.** Tax cuts originally enacted during the Bush administration are set to expire at the end of this year, as are tax cuts for low- and moderate-income families enacted as part of the American Recovery and Reinvestment Act (ARRA) of 2009.
 - **Emergency unemployment insurance.** Since June 2008, when the national unemployment rate was at 5.6 percent, federal emergency unemployment insurance (UI) benefits have been available to supplement the typical 26 weeks of state-funded benefits. Congress has never allowed emergency unemployment benefits to expire when the unemployment rate was above 7.2 percent. Today, unemployment is over 8 percent, but [federal UI benefits are scheduled to expire at the end of the year](#).¹
- **January 2, 2013:** Automatic, across-the-board spending cuts – known as [sequestration](#) (or “the sequester”) – are scheduled to begin. The sequester would cut \$109.3 billion from the federal budget each year between 2013 and 2021, divided equally between defense and non-defense programs.²

While Social Security benefits and key [mandatory programs](#) for low-income people (including Medicaid and SNAP/Food Stamps) generally would be exempt from sequestration, [discretionary programs](#) that women and their families depend on – such as Head Start, child care, and women’s health services – could be slashed dramatically, [cutting jobs and services for millions](#).³ In 2013, sequestration would cut a total of \$38.5 billion from non-defense discretionary programs (an 8.4 percent cut).⁴

The sequester was established by the Budget Control Act (BCA), enacted in August 2011 in response to demands from some Members of Congress who threatened to refuse to raise the national [debt ceiling](#). In the name of deficit reduction, the BCA requires about \$2 trillion in spending cuts – but zero new revenues – over ten years. More than half of these cuts (\$1.2 trillion) are to be enforced through sequestration.
- **February/March 2013:** Congress will need to raise the debt ceiling again – and will need to negotiate a spending bill for the remainder of FY 2013.

The Choices for Congress

The combination of tax cuts, UI and other provisions set to expire at the end of December, in addition to the sequester looming in January, has been described by some as a “fiscal cliff.” Others describe it as a “fiscal slope,”⁵ noting that the economic impact of the changes is likely to be gradual if Congress is still working to reach a budget agreement in January. However, there is widespread agreement that the fragile economic recovery will suffer a significant setback if Congress does not act relatively early in 2013 to prevent the cuts to jobs and services that the sequester would produce and ensure that low- and moderate-income families do not face substantially higher taxes.

To date, the House and Senate have advanced some proposals – but reached no agreement – on how to address the expiring tax cuts and sequestration. The major proposals that provide the backdrop for upcoming negotiations are summarized below, followed by the key principles that Congress must consider as it moves forward to ensure that a budget agreement works for women and their families: protect programs that women and their families depend on, promote job growth and economic recovery, and require the wealthiest Americans and corporations to pay their fair share of taxes.

Tax cuts. The House and Senate have each passed bills that would extend most of the Bush-era tax cuts – but the House bill renews tax cuts that benefit only the very richest Americans while ending tax benefits for lower-income families.

- The House bill, **H.R. 8.**, would extend the Bush-era income tax cuts, including for the richest two percent of Americans (those with income above \$250,000 per couple), and extend the 2010 estate tax cuts for the richest 0.3 percent (estates over \$7 million per couple). However, it would end several tax cuts for low- and moderate-income families enacted in 2009 (improvements in the Child Tax Credit and Earned Income Tax Credit and the new American Opportunity Tax Credit for college expenses). As a result, **25 million middle- and lower-income families would lose tax benefits in 2013**, pushing millions back into poverty – but millionaires would not lose a penny of tax cuts (worth an average of \$160,000 next year).⁶
- The Senate bill, **S. 3412**, would extend the Bush-era tax cuts for income up to \$250,000 per couple, but would generally allow them to expire on income

above that level, generating approximately **\$1 trillion in savings over ten years**.⁷ It would maintain the 2009 tax cuts for low- and moderate-income families (the AOTC and improvements in the CTC and EITC).

Sequestration. The House has passed legislation that would replace part of the sequester in 2013 – but the consequences of the House leadership’s approach would be worse than the sequester itself for low- and moderate-income families.

- In May, the House passed a bill (H.R. 5652) that would forestall automatic cuts in discretionary programs in 2013 by repealing key provisions of the Affordable Care Act; making deep cuts to Medicaid, the Children’s Health Insurance Program, and SNAP/Food Stamps; limiting eligibility for the refundable Child Tax Credit; and eliminating the Social Services Block Grant, which provides funding to states to support child care and other services for children, the elderly, and other vulnerable people. The bill also would allow Congress to boost defense spending for FY 2013 while cutting non-defense discretionary programs in FY 2013 nearly as much as they would be cut under the sequester. It does not seek to achieve any savings by eliminating or narrowing tax loopholes. Under the bill, the BCA’s sequestration would remain in effect for FY 2014 through 2021, and in FY 2013 for the non-defense mandatory programs subject to the sequester. H.R. 5652 would implement parts of the **Ryan budget**, which proposes additional cuts in social programs and new tax cuts for the wealthiest and corporations.⁸

- The Senate has not passed a plan to replace any part of the sequester. Senate Majority Leader Harry Reid (D-NV) has stated that any acceptable alternative to sequestration must represent a balanced approach to deficit reduction, including new revenues. A majority of the Senate – but fewer than the 60 members required to overcome a filibuster – voted for the “Paying a Fair Share Act” (S. 2230), which would ensure that households with annual income over \$1 million pay a minimum 30 percent tax rate, as many middle-income families do, and raise needed revenue.

Other issues. Congress has not yet acted to address federal emergency UI benefit programs that expire at the end of 2012; it already reduced the number of additional weeks of benefits available to workers in many states when it extended these programs for 2012. It also has not addressed raising the debt ceiling.

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 Congress must observe as it negotiates a package of measures to address expiring provisions and avert across-the-board cuts to vital programs.

- 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. Past deficit-reduction plans have not only protected key supports for low-income people but have [included initiatives to reduce poverty](#).⁹
- 2. Support jobless workers and invest in job creation.** The deep recession that began in December 2007 cost workers nearly 7.5 million jobs before it officially ended in June 2009. Nearly 30 percent of the jobs lost during the recession were women's jobs, but women have gained only 21 percent of the 2.7 million net jobs added between June 2009 and July 2012, [mainly because cuts in public sector jobs have eliminated many more jobs for](#)

[women than men](#).¹⁰ As of July 2012, more than four in ten jobless women and men were still looking for work after more than six months of unemployment.

The economy still has a long way to go to achieve a full recovery. Federal emergency UI benefits must be maintained to help the millions who remain unemployed for six months or more – and to boost the economy, since families generally spend benefits quickly to meet basic needs. In addition, investments in human capital (e.g., early childhood development, education, health care, and job training) as well as physical infrastructure would create jobs for women and men and contribute to long-term economic growth.

- 3. Require the wealthiest Americans and corporations to pay their fair share of taxes.** While a wide range of programs were cut in FY 2011-2012 and funding for discretionary programs overall was cut under the BCA, the very wealthy and corporations have so far not been required to contribute a penny in additional revenues toward deficit reduction. Securing substantial new revenue from the individuals and corporations with the greatest ability to contribute will enable Congress to meet deficit reduction goals and chart a more sustainable fiscal path forward while investing in the job creation measures our economy needs and protecting programs and services that women and their families depend on.

KEY TERMS

- **Appropriations:** Funds allocated by Congress to individual federal agencies specifying how much money can be spent on programs in a given year.
- **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 shutdown 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.
- **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 \$1.2 trillion over nine years beginning January 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.

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- 1 See Nat'l Employment Law Project, Phase-Out of Federal Unemployment Insurance (June 2012), *available at* http://unemployedworkers.org/page/-/UI/2012/FactSheet_UI_Phase-Out.pdf?nocdn=1.
- 2 Richard Kogan, Ctr. on Budget & Policy Priorities, How the Across-the-Board Cuts in the Budget Control Act Will Work, at 2-3 (April 2011), *available at* <http://www.cbpp.org/files/12-2-11bud2.pdf>. \$109.3 billion/year in cuts from 2013 through 2021 amounts to \$984 billion savings from direct cuts; the BCA assumes an additional \$216 billion in interest savings.
- 3 See Sen. Tom Harkin, Under Threat: Sequestration's Impact on Nondefense Jobs and Services (July 2012), *available at* <http://harkin.senate.gov/documents/pdf/500ff3554f9ba.pdf>.
- 4 Kogan, *supra* note 2, at 4.
- 5 Chad Stone, Ctr. on Budget & Policy Priorities, Misguided "Fiscal Cliff" Fears Pose Challenges to Productive Budget Negotiations (June 2012), *available at* <http://www.cbpp.org/files/6-4-12bud.pdf>.
- 6 NWLC, H.R. 8 Leaves No Millionaire Behind but Ends Tax Cuts for a Third of Families with Children (July 2012), *available at* http://www.nwlc.org/sites/default/files/pdfs/final_hr8_taxbudgetfederalfactsheet.pdf.
- 7 See, e.g., Americans for Tax Fairness, Time to Pay Their Fair Share: Virginia Can't Afford to Extend the Bush-Era Tax Cuts for the Wealthy Few (July 2012), *available at* <http://www.americansfortaxfairness.org/state-reports/>.
- 8 See NWLC, Ryan Budget FY 13: Gutting Vital Programs for Women and Families, Giving Trillions in Tax Cuts to Millionaires and Corporations (April 2012), *available at* <http://www.nwlc.org/sites/default/files/pdfs/ryanbudgetfy13summaryfn.pdf>.
- 9 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/>. See also NWLC, Cutting Programs for Low-Income People Especially Hurts Women and Their Families (Aug. 2012), *available at* http://www.nwlc.org/sites/default/files/pdfs/final_lowincomefactsheet.pdf.
- 10 NWLC, Modest Recovery Reaching Women (Aug. 2012), *available at* <http://www.nwlc.org/sites/default/files/pdfs/augustmodestrecoveryfactsheet.pdf>.