

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. This combination of looming tax increases and spending cuts, along with other expiring provisions like federal unemployment benefits, was often referred to as the "fiscal cliff."

A deal was reached in the closing days of 2012, and on January 2, 2013, President Obama signed into law the American Taxpayer Relief Act (ATRA). It extends a number of expiring provisions and raises some revenue from the wealthiest Americans but leaves many important budget issues unresolved and many tax loopholes benefiting corporations and the very wealthy untouched.

Here is a look 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 primarily addresses the tax issues involved in the fiscal cliff. It makes permanent **over 80 percent** of the tax cuts enacted during the Bush Administration,¹ securing about \$624 billion in revenue from the wealthiest taxpayers between 2013 and 2022 – a small amount relative to about **\$1.5 trillion cut from programs** in 2011 and 2012 to reduce the deficit over the same ten-year period.²

Specifically, ATRA:

- **Maintains income tax cuts for most Americans.** ATRA makes the Bush-era tax cuts permanent for about 99 percent of Americans. It also extends 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,

preventing 25 million middle- and lower-income families from losing tax benefits in 2013.³ ATRA did not extend the payroll tax holiday that temporarily lowered the payroll taxes that fund Social Security from 6.2 to 4.2 percent.

- **Raises some revenue from the very rich.** ATRA raises **approximately \$624 billion** in revenue from the very wealthiest households, primarily by:
 - allowing Bush-era cuts to income tax rates to expire on taxable income above \$450,000 for couples and \$400,000 for individuals;
 - taxing capital gains and dividends at a 20 percent rate for households above those income levels; and
 - reinstating limits on personal exemptions and itemized deductions for tax filers with adjusted gross income above \$300,000 for married couples and \$250,000 for individuals.⁴

ATRA also slightly increases the tax rate on the very largest estates above 2012 levels, but it makes permanent most of a reduction in the estate tax in effect between 2010 and 2012.⁵ The law does not close any corporate tax loopholes; in fact, ATRA extends a number of tax provisions, **which mostly benefit specific industries**,⁶ through 2013.

- **Renews federal emergency unemployment benefits through 2013.** Federal emergency unemployment benefits provide a lifeline to jobless workers who still cannot find work after exhausting their state benefits (typically after 26 weeks) and keep dollars flowing into the economy. Without the extension in ATRA, **two million long-term jobless workers would have lost unemployment benefits** in January 2013 alone.⁷
- **Postpones automatic, across-the-board spending cuts until March 1, 2013.** These cuts – known as **sequestration** (or "the sequester") – were established by the Budget Control Act (BCA), enacted in

August 2011. 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.⁸ ATRA reduced the total amount of the sequester for 2013 from \$109 billion to \$85 billion, averting two months' worth of cuts. The \$24 billion cost was paid for with an equal mix of revenues and different spending cuts.

ATRA does not cut benefits from Social Security, Medicaid, or Medicare, as had been proposed during the negotiations around the fiscal cliff. But it also fails to resolve some critical budget issues. It merely delays the across-the-board cuts required by the sequester for two months. ATRA also did not raise the national [debt ceiling](#), which is necessary to prevent the U.S. from defaulting on bills it has already committed to pay and causing a national – and international – economic crisis. In 2011, House Speaker Boehner refused to raise the debt ceiling unless programs were cut by an equal amount. This demand brought the nation to the brink of default, caused a downgrade in the nation's credit rating, and led to the deep cuts in the 2011 Budget Control Act. However, in 2013, 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, a deal was reached to suspend the debt ceiling without additional spending cuts, but only through May 2013.

So budget negotiations will continue – and critical programs will be back on the chopping block in the very near future. The timeline that follows presents the major decision points that the 113th Congress will face in the months ahead.

The Timeline

- **March 1, 2013:** The sequester takes 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, [cutting jobs and services for millions](#).⁹

President Obama has 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.

- **Early March, 2013:** President Obama is expected to submit his FY 2014 budget request to Congress, which will propose funding levels for government programs and recommend tax and revenue measures.
- **March 27, 2013:** By this date, Congress must pass an [appropriations](#) bill to allow the federal government to function during the remainder of fiscal year (FY) 2013. Congress passed a [continuing resolution](#) (CR) in September 2012, but it only funds government operations through the first six months of FY 2013.
- **April 15, 2013:** By this date, the House and Senate must each pass a [budget resolution](#) for FY 2014. The House and Senate budget committees are responsible for drafting budget resolutions for their respective chambers to serve as a framework for budget decisions. The budget resolutions are less detailed than the President's budget request; they set overall revenue targets and annual spending limits for federal agencies, but do not identify budgets for specific programs.¹⁰ Nevertheless, they provide an important statement of priorities.

Under the agreement suspending the debt ceiling, if either body of Congress does not pass a budget resolution, members of that body will have their paychecks put into an escrow account as of April 16 until that body adopts a budget resolution.

- **May 19, 2013:** Debt ceiling suspension expires. The Treasury Department will likely be able to pay the bills of the United States for a few weeks after this date,¹¹ but Congress will soon need to raise the debt ceiling to prevent the United States from defaulting on its obligations.
- **September 30, 2013:** FY 2013 ends. Congress must appropriate funding 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 shouldn't 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

In May of 2012, and again in December, the House passed legislation that would replace part of the sequester 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.](#)¹³ (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.) The consequences of this approach would be worse than the sequester itself for low- and moderate-income families. Instead, the 113th Congress should look to past deficit-reduction plans that have not only protected key supports for low-income people but have also [included initiatives to reduce poverty.](#)¹⁴

2. Require the wealthiest Americans and corporations to pay their fair share of taxes. Since FY 2011 began, Congress has enacted about [\\$2.4 trillion](#) of deficit reduction for the years 2013 through 2022.¹⁵ At least 70 percent of that deficit reduction comes from spending cuts, while only about 30 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 corporations do not pay any federal taxes at all.](#)¹⁷ Moreover, despite

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 spending limits and revenue targets for upcoming fiscal years. House and Senate budget resolutions (which may be reconciled into a single resolution that is voted on by each chamber) provide blueprints for budget decisions as Congress considers appropriations bills.
- **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 \$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.

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

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.¹⁹

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.

- 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 NWLC, H.R. 8 Leaves No Millionaire Behind but Ends Tax Cuts for One-Third of Families with Children (July 2012), available at http://www.nwlc.org/sites/default/files/pdfs/final_hr8_taxbudgetfederalfactsheet.pdf. This fact sheet describes H.R. 8 as introduced in the House in July 2012; the bill was substantially amended in the Senate and in conference prior to its enactment as the American Taxpayer Relief Act.
- 4 Huang, *supra* note 1.
- 5 Id.
- 6 Citizens for Tax Justice, Revenue Impacts of the Fiscal Cliff Deal (Jan. 2013), available at <http://ctj.org/pdf/fiscalcliffdealrevenueimpacts.pdf>.
- 7 See NWLC, Renewing Federal Emergency Unemployment Insurance Benefits: Vital for Women & Families – and the Economy (Dec. 2012), available at <http://www.nwlc.org/sites/default/files/pdfs/uifactsheetdecember.pdf>.
- 8 See Richard Kogan, Ctr. on Budget & Policy Priorities, Two Sequestrations: How the Pending Automatic Budget Cuts Would Work, at 4 (Dec. 2012), available at <http://www.cbpp.org/files/12-28-12bud.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.
- 9 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>. Senator Harkin's report estimates the impact of a 7.8 percent across-the-board cut to non-defense discretionary programs. Because ATRA replaced the first two months of the sequester in 2013 with revenue raisers and specific spending cuts, and because Congress has appropriated new funds in 2013 for federal unemployment insurance and Hurricane Sandy relief, the sequester beginning March 1 would cut approximately 5.2 percent from non-defense discretionary programs in 2013 – still likely to cause the loss of jobs and services for millions. Richard Kogan, Ctr. on Budget & Policy Priorities, How Big Are the Automatic "Sequestration" Cuts Scheduled for March 1? (Feb. 11, 2013), <http://www.offthechartsblog.org/how-big-are-the-automatic-sequestration-cuts-scheduled-for-march-1/>.
- 10 For more information, see Nat'l Priorities Project, Federal Budget 101, Federal Budget Process, <http://nationalpriorities.org/en/budget-basics/federal-budget-101/federal-budget-process/> (last visited Jan. 24, 2013).
- 11 See Donald Marron, Tax Policy Center, Five Key Facts About the House Debt Limit Bill (Jan. 22, 2013), http://taxvox.taxpolicycenter.org/2013/01/22/five-key-facts-about-the-house-debt-limit-bill/?wpisrc=nl_wonk.
- 12 See NWLC, Cutting Programs for Low-Income People Especially Hurts Women and Their Families (Dec. 2012), available at <http://www.nwlc.org/sites/default/files/pdfs/lowincomefactsheetdecember.pdf>.
- 13 See Judy Waxman & Joan Entmacher, NWLC, Letter in Opposition to the Sequester Replacement Act (H.R. 4966) and the Sequester Replacement Reconciliation Act (H.R. 5652) (May 2012), available at http://www.nwlc.org/sites/default/files/pdfs/nwlc_opposes_reconciliation_bill.pdf. The House passed H.R. 5652 on May 10, 2012, and passed a nearly identical bill (H.R. 6684, the Spending Reduction Act) on December 20, 2012.
- 14 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/>.
- 15 Linden & Ettlinger, *supra* note 2.
- 16 See *id.* The \$2.4 trillion total includes approx. \$1.5 trillion in programmatic spending cuts with about \$200 billion in related interest savings, and approx. \$630 billion in revenue increases with around \$70 billion in related interest savings. See also 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>.
- 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 NWLC, Stronger Recovery Reaching Women (Jan. 2012), available at <http://www.nwlc.org/sites/default/files/pdfs/januaryrecoveryfactsheet.pdf>.