

January 28, 2013



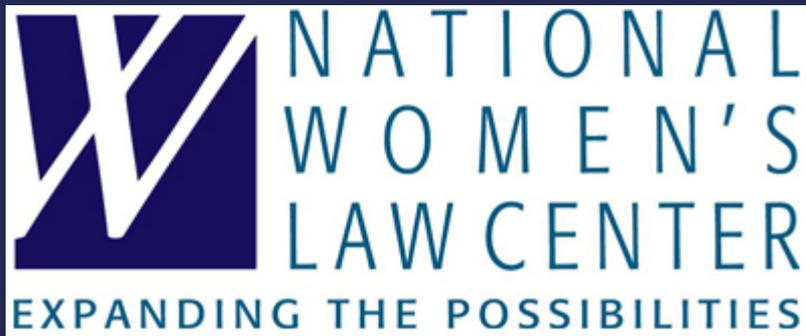
## **Fiscal Cliff Notes**

*Almost*  
**~~Everything~~ you  
need to know**

**about federal fiscal showdowns**

**past, present, and future**

## Co-sponsored by



### Speakers:

Representative Christopher Van Hollen  
Joan Entmacher, National Women's Law Center  
Deborah Weinstein, Coalition on Human Needs

### Moderated by:

Ellen Teller, Food Research and Action Center



**Ellen Teller,  
Moderator**

Director of Government  
Affairs,  
Food Research and  
Action Center

## Representative Chris Van Hollen

- Represents 8<sup>th</sup> CD, MD
- Ranking Democrat on the House Budget Committee
- Took the lead for the Democrats in recent House fiscal cliff debate
- *Washington Post*: Rep. Van Hollen is a “bona fide budget expert.”





## Joan Entmacher

Vice President for Family  
Economic Security,  
National Women's  
Law Center



**Deborah Weinstein**

Executive Director,  
Coalition on Human  
Needs

# What was the “fiscal cliff,” 2012 edition?

- Bush-era tax cuts—set to expire
- 2009 improvements in tax credits for working families--set to expire
- Federal unemployment insurance benefits—set to expire
- Across-the-board spending cuts (sequester)—set to begin

# What happened?

- Congress and the President reached a deal at the 11<sup>th</sup> hour
- American Taxpayer Relief Act (ATRA) signed Jan. 2, 2013

# ATRA: Cliff Notes Summary

- Bush-era tax cuts
  - Permanently extended for 99%, limited for top 1%
- 2009 improvements in tax credits
  - extended for 5 years
- Emergency unemployment insurance
  - extended for 1 year
- Across-the-board spending cuts (sequester)
  - averted for two months

# ATRA & Bush-era tax cuts

- Made permanent on income up to \$450,000 for couples, \$400,000 for individuals
- On income above that:
  - Marginal tax rates returned to prior levels (up to 39.6%)
  - Capital gains/dividends taxed at 20%
- Restored certain limits on deductions and personal exemptions for couples with incomes above \$300,000, individuals above \$250,000
- Much of 2010 estate tax cut made permanent
  - Estates of \$10 million couples/\$5 million individuals exempt, taxable assets above exemption taxed at 40%

# ATRA & Revenues

- Raises \$624 billion from the very wealthy compared to 2012 policies
- First major revenue-raising bill in 20 years
- Revenues still contribute relatively little to deficit reduction
  - \$1.5 trillion cuts to programs since 2011 (apart from sequester)
  - \$624 billion new revenues

# ATRA & improved family tax credits

ATRA extends for 5 years the 2009 improvements in

- Refundable Child Tax Credit
- Earned Income Tax Credit
- American Opportunity Tax Credit (refundable credit for college expenses)
- Prevents 25 middle- and lower-income families from losing the benefits of these tax credits

ATRA did not extend the “payroll tax holiday;” Social Security payroll tax returns to 6.4% from 6.2%

# ATRA & Federal unemployment insurance benefits

- Federal UI benefits help jobless workers who can't find work after exhausting state UI benefits (typically 26 weeks or less)
- Extended through 2013
- Prevents two million long-term jobless workers from losing UI benefits this month alone

# ATRA & the sequester

- Delayed the sequester until March 1
- Reduced amount of the sequester for 2013 from \$109 billion to \$85 billion
- Paid the \$24 billion cost with an equal mix of revenues and spending cuts

# ATRA: Other provisions

## ATRA did:

- Postpone Medicare doctors' pay cut for 1 year
- Permanently index Alternative Minimum Tax
- Renew package of business and individual tax breaks for 2012 and 2013

## ATRA didn't:

- Cut Social Security, Medicare or Medicaid benefits – which had been discussed
- Close tax loopholes
- Avert the sequester for 2013
- Raise the debt ceiling

# Fiscal Cliffhanger 2013, Episode 1: Raising the debt limit

- “Debt limit”: statutory limit on the debt the U.S. can assume. Congress periodically raises it so U.S. can pay bills it has incurred
- In 2011, Speaker Boehner refused to raise the debt limit unless programs were cut by an equal amount
- Threat brought U.S. close to default, credit rating downgraded
- 2011 Budget Control Act raised the debt ceiling, in exchange for cutting \$2 trillion from programs over 10 years (including \$1.2 trillion through the sequester) – with no new revenues

# What happened this time?

- President Obama refused to negotiate over raising the debt ceiling, said Congress cannot refuse to pay bills it already incurred
- Some business leaders and Republican leaders agreed that threatening to refuse to raise the debt ceiling was irresponsible and dangerous
- In January 2013, a deal was reached to suspend the debt ceiling—without any additional spending cuts—but only through May 2013.

# Fiscal Cliff Notes: What's Next



## **Fiscal Cliff Notes: Key Dates**

- **March 1:** When postponed sequester begins
- **March ?:** President's FY 14 budget
- **March 27:** When 6 months' temporary FY 13 funding runs out (CR)
- **April 15:** Congressional FY 14 Budget Resolutions due
- **May 18:** End of debt limit suspension

# Cuts in Context

## 10 States with biggest loss in federal funds, FY11 - FY 12

- Federal funds = **34%** of state funding in FY11.
- Average reduction in federal funds to states, FY11-FY12 = **- 8.2%**

Washington:	-25.4%
Hawaii:	-23.5%
Illinois:	-19.0%
Georgia:	-16.4%
New Hampshire:	-14.6%
Florida:	-14.4%
Colorado:	-14.3%
Massachusetts:	-14.1%
Texas:	-14.1%
Pennsylvania:	-14.0%

# Where did states cut?

- **In FY 12, compared to FY 11:**
  - Elementary and secondary ed: -1.9%
  - Higher ed: -4.1%
  - Public assistance: -13.1%
  - Medicaid: +1.2%
- **In FY 13, number of states making cuts:**
  - Elementary and secondary ed: 7
  - Higher ed: 16
  - Public assistance: 12
  - Medicaid: 12
  - Corrections: 16

# *How much less than in FY 2010?*

*Domestic/Internat'l cut 9%;  
Defense frozen at 2010 level*

- Adult job training: ↓ 22.5 percent
- Adult basic education: ↓ 19.5 percent
- IDEA education: ↓ 12.8 percent
- LIHEAP grants to states: ↓ 33.3 percent
- Public housing capital fund: ↓ 35 percent
- WIC: ↓ 20.9 percent
- Substance abuse treatment: ↓ 29.9 percent
- Maternal and Child Health: ↓ 16.4 percent

# The Coming Cuts

Fiscal Year	Total Disc. Cap	\$ Cut from Baseline	% Cut from Baseline
2012	\$1.043t	\$44b	4%
2013	\$1.043t	\$66b	6%
2014	\$1.066t	\$68b	6%
2015	\$1.086t	\$73b	6%
2016	\$1.107t	\$79b	7%
2017	\$1.131t	\$87b	7%
2018	\$1.156t	\$95b	8%
2019	\$1.182t	\$103b	8%
2020	\$1.208t	\$111b	8%
2021	\$1.234t	\$119b	9%

## 10 years of deeper cuts:

### FY 13: \$85.3 billion cut:

Security: \$42.6b

Non-Security: \$42.6b

### FYs 14-21:

#### \$109.3 billion a year:

- \$54.7b Defense
- \$54.7b Not Defense

Many, but not all, low-income mandatory programs are exempt from these cuts

*Medicaid, SNAP, TANF, SSI, Pell Grants, UI, some child care, most child welfare...*

# Auto-cuts reduced by \$24b in FY 13

Old Law			New Law		
	In billions	%		In billions	%
Defense, disc:	\$54.6	9.4%	Defense, disc:	\$42.5	7.3%
Defense, mand:	\$ 0.1	10.0%	Defense, mand:	\$ 0.1	7.8%
Non-Def, disc:	\$38.0	8.2%	Non-def, disc:	\$26.4	5.1%
Non-def, mand:	\$ 5.5	7.6%	Non-def, mand:	\$ 5.0	5.3%
Medicare:	\$11.1	2.0%	Medicare:	\$11.2	2.0%
<b>Total:</b>	<b>\$109.3</b>		<b>Total:</b>	<b>\$85.3</b>	

# Examples of Auto-cuts

## OMB estimated 8.2% cut

WIC:	\$543m
LIHEAP:	\$285m
Child Care, disc:	\$187m
Substance abuse, MH:	\$275m
Housing vouchers:	\$1.53b
Homeless assist. grants:	\$156m
Training & Employment Services:	\$262m
Special Education:	\$1.036b

## Re-calculated at 5.1%

WIC:	\$337.72m
LIHEAP:	\$177.26m
Child Care:	\$116.30m
Substance abuse, MH:	\$171.04m
Housing vouchers:	\$951.59m
Homeless assist. grants:	\$ 97.02m
Training & Employment Services:	\$162.95m
Special Education:	\$644.34m

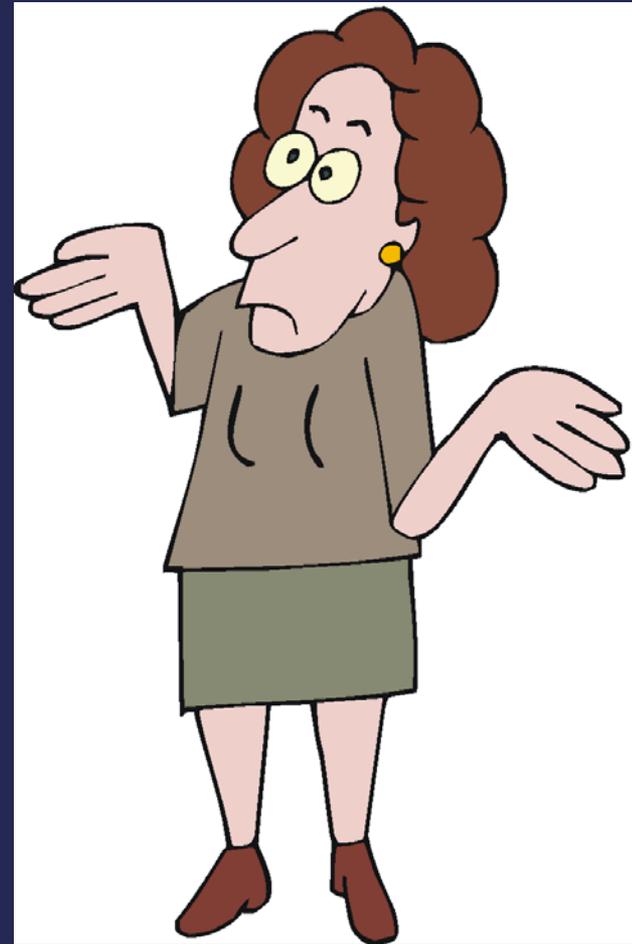
# Impact of Automatic Cuts

(aka “sequestration,” assuming 7.8%)

- ✂ 750,000 **fewer** infants, children and moms receiving WIC
- ✂ 413,000 **fewer** adults and youth getting job training
- ✂ 51,000 **fewer** veterans in ed/training
- ✂ 1.8 million **fewer** low-income schoolchildren with reading and math help
- ✂ 734,000 **fewer** households with home heating/cooling aid
- ✂ 185,000 **fewer** households receiving rental vouchers
- ✂ 96,000 **fewer** children in Head Start; 80,000 fewer children in child care
- ✂ 34,000 **fewer** women screened for cancer
- ✂ 1.5 million **fewer** low-income people helped in community action agencies (through Community Services Block Grant)
- ✂ 169,000 **fewer** admissions to substance abuse treatment

# If we replace the auto-cuts, what do we do instead?

- *Option A:* nothing; let them expire
- *Option B:* let them go into effect
- *Option C:* spare the Pentagon; cut domestic more
- *Option D:* replace \$1.2t with other spending cuts – to SNAP, Medicaid, Medicare...



# Government Shutdown on March 28?

- When the 6 month temporary spending bill – aka a Continuing Resolution (CR) – runs out (March 27), discretionary programs will shut down.
- ***A problem:*** spending on “security” programs too high to fit within existing cap. \$7 billion must be cut from the Pentagon.

# House Budget Resolution

- Reports it will get to balance in 10 years
- That's much faster than the Ryan budget
- *Ryan budget for FY 13:*
  - Cuts **SNAP** by \$134b over 10 years: equal to dropping 8 million people or cutting benefits \$22-27 per person per month
  - Cuts **Medicaid** by over \$800b over 10 years: equal to cutting 14-27m people by 2021 (23%-46%)

# Return of the debt ceiling...May 19

- House has suspended debt limit until May 19.
- If Senate also suspends, most likely limit avoided through at least July.
- Consequences of default: “catastrophic”



# We can overcome the cliffs



- We cannot reduce the deficit by cutting services without hurting people and stalling the economy.
- *There are alternatives!*

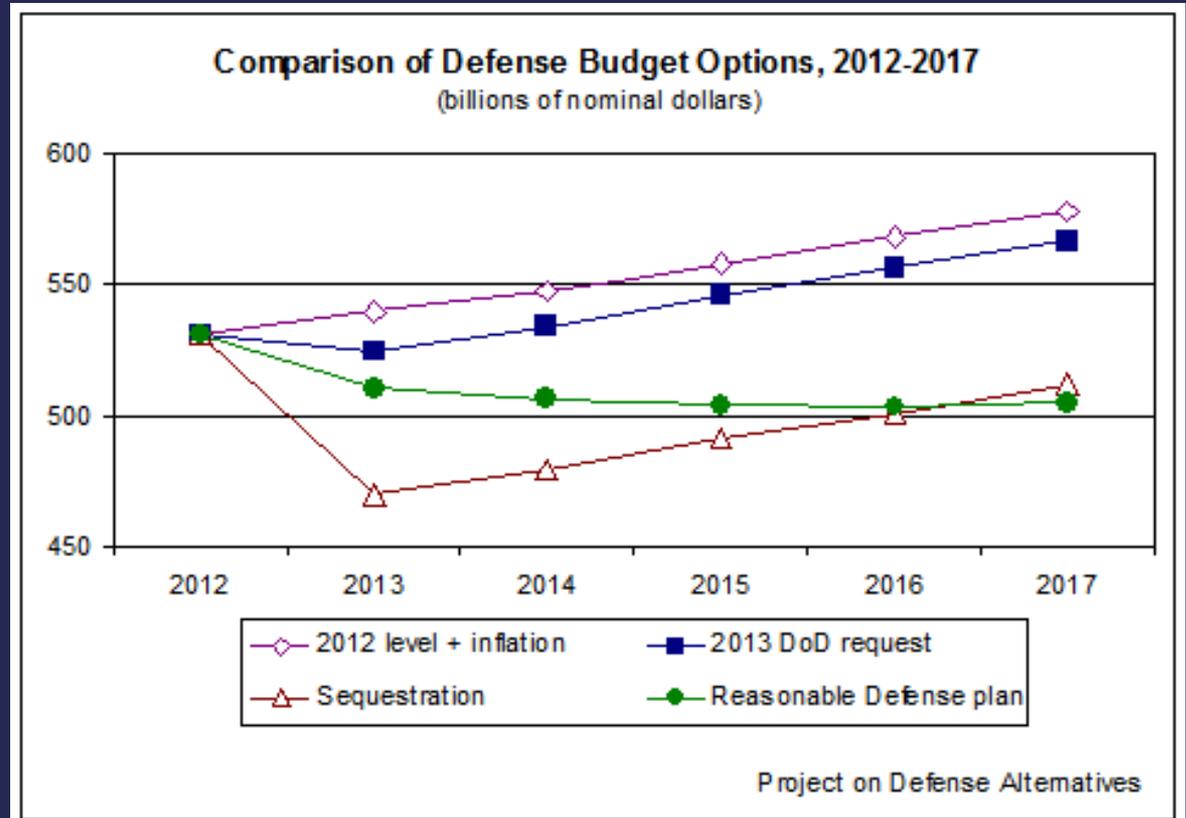
# Strengthening America's Values and Economy (SAVE) For All

## Principles:

- ✓ Protect low-income and vulnerable people
- ✓ Promote job creation to strengthen the economy
- ✓ Increase revenues from fair sources
- ✓ Seek responsible savings from the Pentagon and other areas

# Is there room to cut the Pentagon?

- If sequestration takes effect through 2021, Pentagon will still have more than it had at height of Cold War (in real terms).
- After cuts in 2013, U.S. will still make 40% of world's military expenditures.



# A few Pentagon Savings

- Save **\$16.62b** by buying cheaper jet instead of F-35C
- Reduce ground forces to prewar levels: save **\$16.16b**
- Reduce # of deployed nuclear weapons to 1,100 by 2022: save **\$28b**
- **Military experts say Pentagon can be cut by \$500b or more over 10 years.**

# Protect vital programs, make corporations & the wealthy pay their fair share

Voters agree:

- Corporations and top 2% should pay more in taxes
- Deficit-reduction plans should include increased taxes on corporations and rich as well as spending cuts
- Revenue from closing loopholes should be used for public investments and deficit reduction, not cutting tax rates

# Corporations aren't paying their fair share of taxes

- Corporate taxes contributed just 8% of federal revenue in 2011, down from 22% in 1961
- 26 Fortune 500 corporations made \$125 billion in profits and paid ZERO in federal income taxes from 2008 to 2011.

# Corporations that paid no federal income tax, 2008-2011



# Ways to close corporate tax loopholes

- Tax profits made offshore the same as profits made in the U.S.: \$600 billion/10 years
  - Currently, U.S. corporations can defer paying tax on profits they make offshore. This gives them an incentive to shift jobs overseas and use dodgy accounting schemes to make it look like profits were earned in tax havens.
  - More limited reforms of the international tax system would raise \$148-\$347 billion/10 yrs.

# More corporate tax loopholes

- Eliminate writeoffs for corporate meals and entertainment: \$140 billion
- End special oil, gas, and coal tax breaks: \$25 billion
- Close “Facebook loophole”: \$25 billion
- End special tax breaks for inventory: \$67 billion
- Eliminate corporate jet, horse breeder loopholes: \$3 billion

Total: \$235 billion over 10 years

# A sales tax on Wall Street trades

- A small tax of \$3 on each \$10,000 (0.03 percent) of trades (stocks, bonds, derivatives, other financial products): \$353 billion over 9 years
- Also would discourage short-term speculation

# The very rich aren't paying their fair share of taxes

- Incomes at the very top have soared; ATRA raised taxes only modestly
- Richest taxpayers get the biggest tax breaks from deductions and exclusions
  - Taxpayer in top bracket who pays \$10,000 in mortgage interest gets \$3,960 in tax savings
  - Middle-class worker in 15% bracket who pays the same \$10,000 gets just \$1,500
- Limiting tax breaks for the very wealthy to 28% would affect only the richest 2% and raise about \$520 billion/10 years

# Various loopholes allow the wealthy to avoid tax on much of their income

- Tax capital gains on inherited assets that have never been taxed: c. \$500 billion.
  - Close the “carried interest” loophole that allows private investment fund managers to pay lower tax rates than average workers: \$21 billion
  - Eliminate the John Edwards/Newt Gingrich “subchapter S” loophole: \$11 billion
  - Deny mortgage interest deduction for vacation homes and yachts: \$10 billion
  - Close tax loophole for derivatives traders: \$3 billion.
- Total: \$545 billion over 10 years

# How much revenue would these options raise?

- Tax corporations on offshore profits \$600 b
  - Close other corporate loopholes \$235 b
  - Tax Wall Street trades \$353 b
  - Limit tax deductions for top 2% \$520 b
  - Close other loopholes for the rich \$545 b
- Total \$2.253 trillion over 10 years

# Additional options for raising revenue

- Tax dividends and capital gains income for wealthy investors at the same rate as income from work
- Tax the income of the ultra rich at a higher rate than the merely rich
- Restore a robust estate tax

We can do something  
about this.

Hint:



# Take Action

## January 30 day of action:

- Join with Americans for Tax Fairness, National People's Action, Health Care for America NOW!, Center for Community Change, organized labor, etc.
- Hashtag #jobsnotcuts Thunderclap ([www.americansfortaxfairness.org](http://www.americansfortaxfairness.org))
- Emailable letter at [www.chn.org](http://www.chn.org)
- Events in states: press conferences, “Balance Due” actions, Corporate Tax Dodge Ball, FDR birthday theme (it's January 30)
- For help finding an event near you, contact Angie Evans at [aevans@chn.org](mailto:aevans@chn.org)

# More activities planned for February 18-24

- Set up meetings with Members during this recess period.
- Will have state fact sheets you can use at these meetings, in the press.
- Other events being planned – to get info, sign up!

# To connect to the info you need:

- National Women's Law Center:

[www.nwlc.org](http://www.nwlc.org)

- Coalition on Human Needs:

[www.chn.org](http://www.chn.org)

- Americans for Tax Fairness:

[www.americansfortaxfairness.org](http://www.americansfortaxfairness.org)