

# TAX & BUDGET

## FACT SHEET

### The “Fiscal Cliff” Deal: The American Taxpayer Relief Act

March 2013

*In the closing days of 2012, Congress and President Obama reached a deal to address tax increases and spending cuts that were scheduled to take effect in January 2013, often referred to as the “fiscal cliff.” On January 2, 2013, the President signed the American Taxpayer Relief Act (ATRA) into law. It extends a number of expiring provisions and raises some revenue from the wealthiest Americans but leaves many key budget issues unresolved – including the automatic, across-the-board spending cuts known as sequestration (or the “sequester”), which went into effect on March 1 after a two-month delay imposed by ATRA.*

ATRA primarily addresses the tax issues involved in the fiscal cliff. It makes permanent **over 80 percent** of the individual tax cuts enacted during the Bush Administration, securing about \$624 billion in revenue from the wealthiest taxpayers between 2013 and 2022<sup>1</sup> – 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<sup>2</sup> and nearly \$1 trillion in program cuts from sequestration,<sup>3</sup> not including interest savings.

Specifically, ATRA:

- **Makes the Bush-era income tax cuts permanent for about 99 percent of Americans.** However, 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.
- **Extends improved tax credits for low- and moderate-income families.** ATRA extends for five years the refundable 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.**<sup>3</sup>

- **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.<sup>5</sup>

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.<sup>6</sup> The law does not close any corporate tax loopholes; in fact, ATRA extends a number of tax provisions, **which mostly benefit specific industries,**<sup>7</sup> 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.<sup>8</sup>

• **Postpones arbitrary, across-the-board spending cuts (sequestration) until March 1, 2013.**

These cuts 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 are to be enforced through sequestration.<sup>9</sup> 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 delayed the across-the-board cuts required by the sequester for two months, and those cuts have now started to take effect. Although Congress can act to undo sequestration at any time, a majority of Members have yet to agree on an approach to do so; President Obama and Senate leadership have called for a balanced package of revenue increases from closing tax

loopholes and spending cuts to replace the sequester, while House leadership has stated that deficit reduction must come solely from program cuts.

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 John Boehner (R-OH) 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. The Treasury probably will be able to continue to pay the nation's bills for a couple of months after that, but Congress will need to raise the debt ceiling this summer to prevent the U.S. from defaulting on its obligations.

The issues left unresolved by ATRA ensure that budget negotiations will continue well into 2013 – and critical programs will remain on the chopping block for the foreseeable future. For more information about this year's budget battles, see [A Roadmap to the 2013 Federal Budget Debates](#).

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 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>.

3 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>.

4 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](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.

5 Huang, *supra* note 1.

6 *Ibid.*

7 Citizens for Tax Justice, Revenue Impacts of the Fiscal Cliff Deal (Jan. 2013), available at <http://ctj.org/pdf/fiscalcliffdealrevenueimpacts.pdf>.

8 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>.

9 See Kogan, The Pending Automatic Budget Cuts, *supra* note 3.