The Fiscal Cliff and the Need for Revenues

www.cbpp.org
Perfect Storm of Fiscal Cliff/Slope, Debt Limit, & Government Funding Lapse

- Sequestration begins in January 2013
- Debt limit is hit in early 2013
- Tax cuts, SGR, & emergency UI expire in December 2012
- Current FY13 appropriations funding ends on March 27, 2013
Sequestration

- Automatic, roughly across-the-board spending cuts (9 years: 2013-2022)
- $109 billion a year; Roughly $1 trillion over 9 years
- Primarily hits defense and non-defense appropriations
- 50% from defense; 50% from all other nonexempt spending
- Exemptions include Medicaid, Social Security exempt; Medicare cuts limited to provider payments and to 2%
- There are “Worse Fates than Walking off the Fiscal Cliff” - Carlyle Group
Components of a Deficit Agreement

Deficit Deal: 3-legged stool

- Health/other entitlements
- Discretionary spending
- Revenues (reduce deficit? Lower rates?)
Bush Tax Cuts: Unaffordable, High-Income First to Go

Cost of extending Bush tax cuts (including AMT interaction), 2013-2022

- Upper-income Bush tax cuts: $968 billion
- Other Bush tax cuts: $2.6 trillion

Note: Upper-income includes the cost of continuing estate and gift taxes at current parameters versus 2009 parameters. The total cost of AMT interaction is attributed to other Bush tax cuts, although some portion is in fact attributable to upper-income. Source: CBPP based on data from the Office of Management and Budget.
The Case for Letting the High-Income Tax Cuts Expire

Proposed Extension of Bush Tax Cuts Favors Millionaires

(Average Dollar Benefit From Extending All of the 2001 and 2003 Tax Cuts)

Source: Urban-Brookings Tax Policy Center (T10-0133, T10-0132)
The Case for Letting the High-Income Tax Cuts Expire

The Bush Tax Cuts Are Regressive

(Percent change in after tax income in 2011 resulting from extension of 2001, 2003 Tax Cuts)

Note: proposal permanently extends AMT patch, and excludes any effect in estate tax.
Raising Threshold for Extending Bush Tax Cuts Would Cost $366 Billion Over First Decade

Revenues saved compared to continuing all Bush tax cuts, 2013-2022, billions*

- $829 billion
- $366 billion
- $463 billion

Revenue loss from moving threshold from $250,000 to $1 million

*Excludes additional savings from reduced interest on the debt.
**Savings exclude any reductions in estate tax cuts.
Source: Joint Committee on Taxation
The Case for Letting the High-Income Tax Cuts Expire

Stark Contrast in Plans to Continue Estate Tax Cut While Weakening Tax Credits For Working Families

<table>
<thead>
<tr>
<th>Estates receiving 2010 estate-tax cuts, relative to 2009 law, in 2013</th>
<th>Families adversely affected by not extending EITC and CTC improvements in 2013</th>
</tr>
</thead>
<tbody>
<tr>
<td>Number of Estates</td>
<td>Number of families</td>
</tr>
<tr>
<td>7,450</td>
<td>13,115,145</td>
</tr>
<tr>
<td>0.3%</td>
<td></td>
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</tbody>
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Sources: Citizens for Tax Justice for families and children affected by EITC and CTC improvements, and Tax Policy Center for estate tax numbers (see http://www.cbpp.org/cms/index.cfm?fa=view&id=3850).
Most Who Don’t Owe Federal Income Tax Are Workers, Elderly, Disabled, or Students

Households who owed no federal income tax in 2011

- Workers who pay payroll taxes: 61%
- Elderly: 22%
- Not working due to illness or disability: 7%
- Students: 3%
- Other: 7%

*Other includes early retirees and those who are unable to find work.

Note: For household heads who fall into more than one category, we assigned them to a single category in the following order: workers who pay payroll tax, elderly, not working due to illness or disability, students, other.

The Case for Letting the High-Income Tax Cuts Expire

Average Federal Income Taxes Near Historic Low

Average federal income tax rate for a median-income family of four

15%

The Case for Letting the High-Income Tax Cuts Expire

Taxes No Barrier to Economic Growth in 90s

(Average annual growth in period following tax change)

Source: CBPP calculations from Bureau of Labor Statistics and Bureau of Economic Analysis