

U.S. CHAMBER OF COMMERCE



**Carson Valley
Chamber of Commerce
February 20, 2013**

The Fiscal Cliff – Is It Over...Really?



1912-2012
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The Deal – Big Tax Provisions

- **Income tax rates permanently extended** for individuals below \$400,000, families below \$450,000.
- **Permanent fix for Alternative Minimum Tax.**
- **Wealthier taxpayers face rate increases**, higher taxes on capital gains and dividends, phase out of personal exemptions, limits on itemized deductions.
- **Payroll taxes rise 2 percentage** points to traditional 6.2% (employees' share).

The Deal – Other Key Provisions

- Estate tax permanently increased to 40%, with first \$5 million exempted.
- Tax breaks for working families extended 5 years. (College expenses, children, EITC.)
- Business tax “extenders” extended for another year. (R&D, expensing, wind, others.)
- Emergency unemployment benefits extended one year. (Affects 2 million people/families.)

The Deal – Big Things Left Out

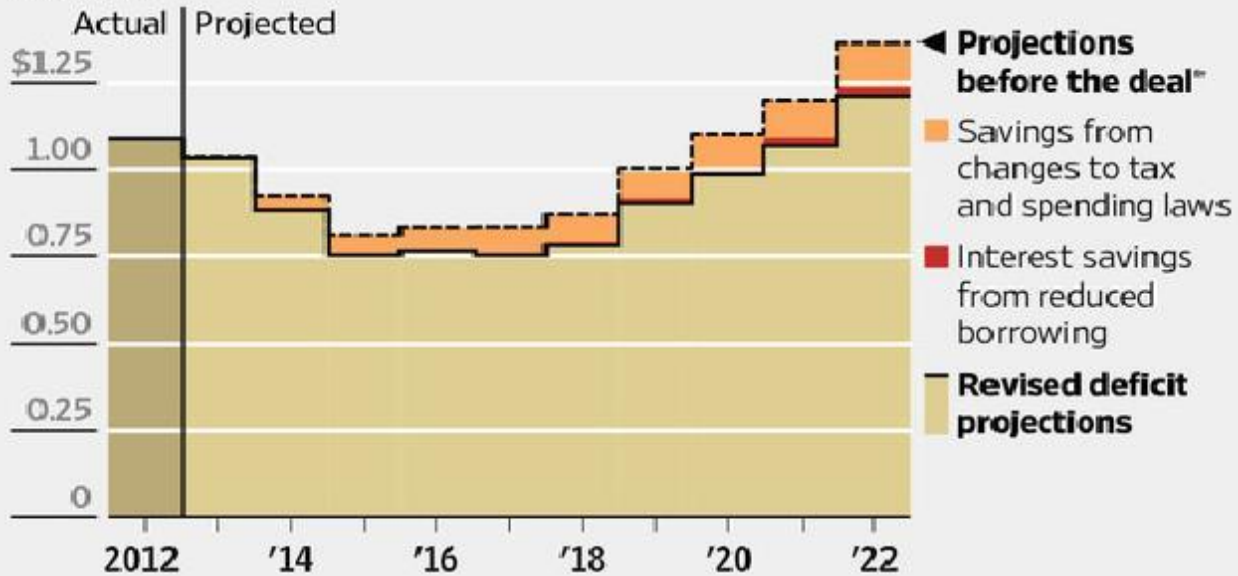
- **Budget sequestration** delayed 2 months – but not fixed.
- **Debt ceiling** not addressed in deal, then pushed back 3 months.
- **Growth-oriented tax reform** postponed.
- **Runaway spending** not curbed.
- **Entitlement programs** still headed toward insolvency.

The Deficit: Before and After

A Dent in the Deficit

Impact of the fiscal-cliff deal on annual deficit projections

In trillions



*Congressional Budget Office August 2012 alternative scenario, which assumes then-current policies, including extension of all Bush tax cuts and alternative minimum tax fix

Sources: Congressional Budget Office (previous projections);
White House Office of Management and Budget (changes)

The Wall Street Journal

Federal Spending, Deficits and Debt

Federal Deficit

- 2011 deficit was \$1.3 trillion.
- 2012 deficit projected at \$1.1 trillion
(The *fourth consecutive* annual deficit exceeding \$1 trillion.)

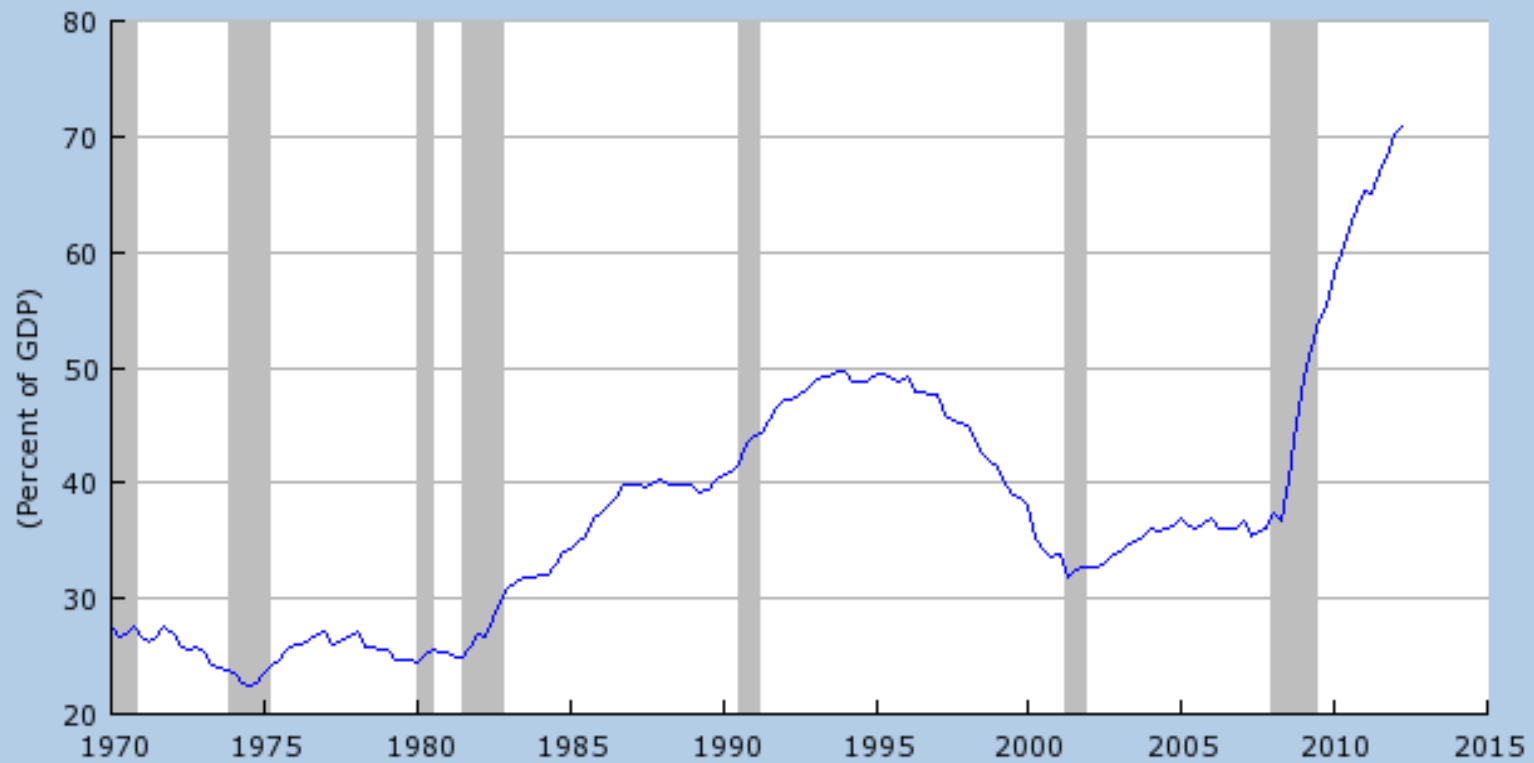
Federal Spending, Deficits and Debt

Federal Debt

- Gross debt now exceeds *\$16 trillion*.
- Could lead to higher interest rates, a weak dollar, more inflation, less private investment, lower economic and job growth, and decline in our global competitiveness and living standards.

Federal Debt

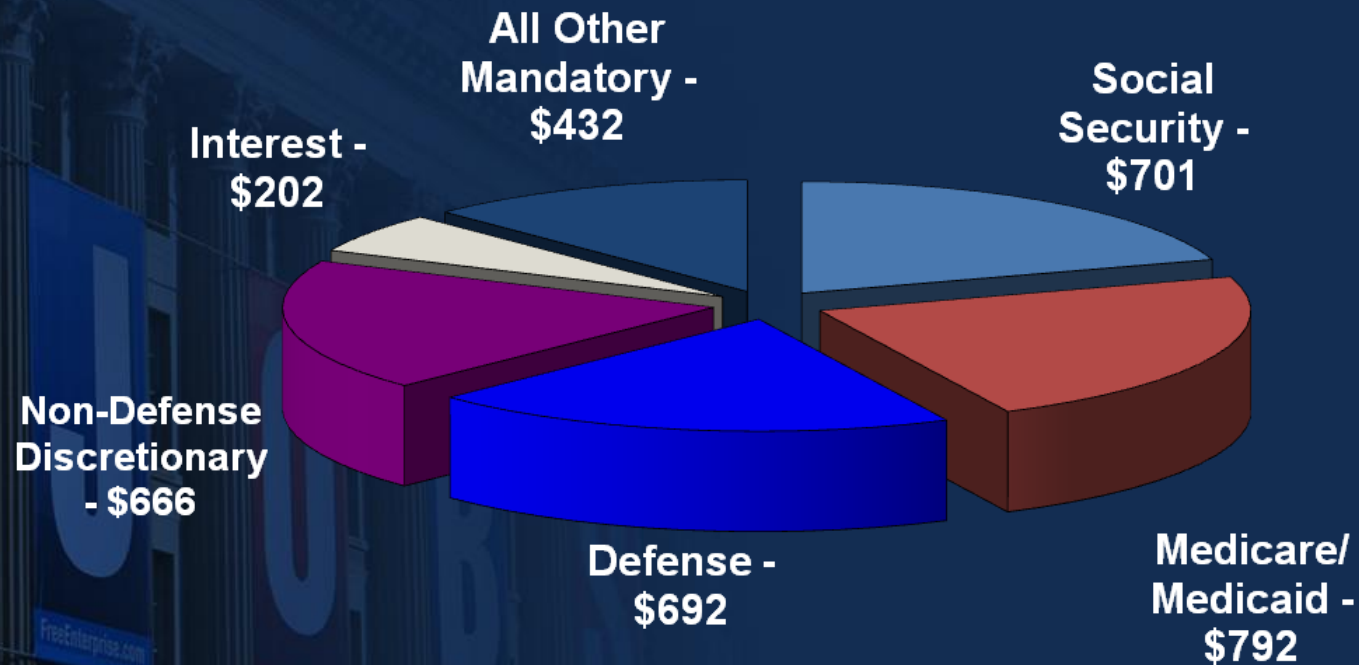
Federal Debt Held by the Public as Percent of Gross Domestic Product (FYGFGDQ188S)
Source: Federal Reserve Bank of St. Louis



Shaded areas indicate US recessions.
2012 research.stlouisfed.org



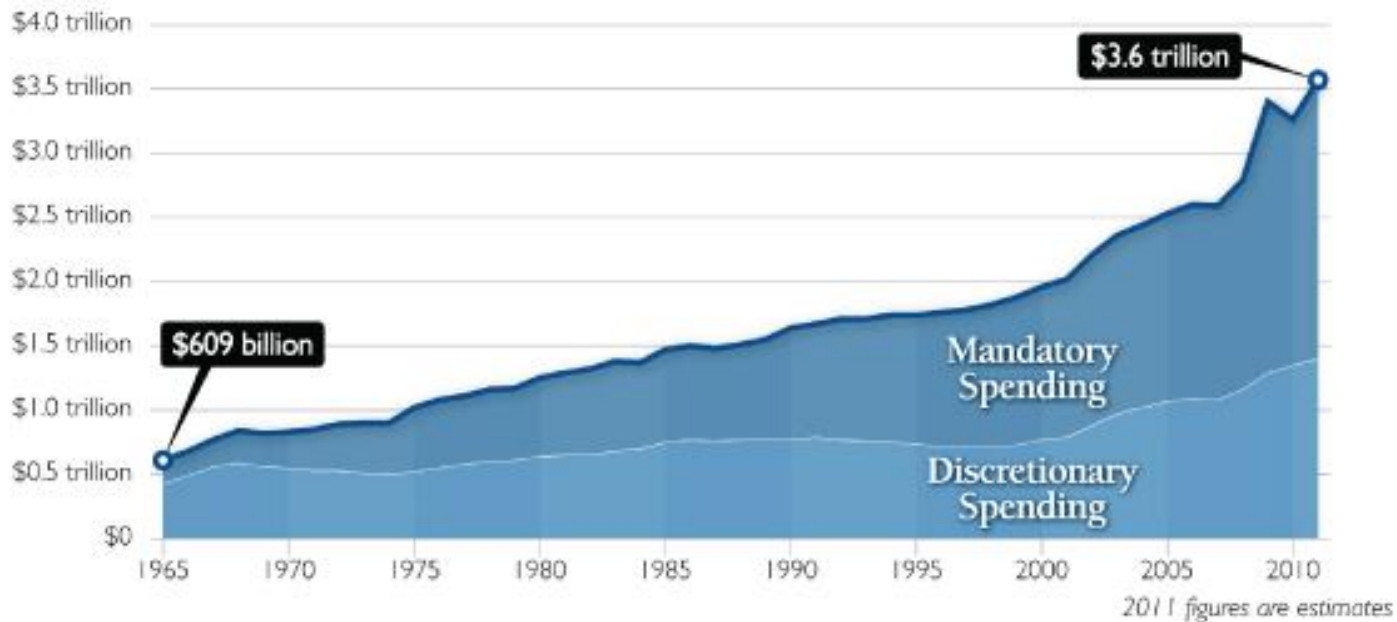
Spending Composition



***More Than Half Of Spending On “Auto-Pilot”
Biggest Driver Is Aging Baby-Boomer Generation***

Spending History

INFLATION-ADJUSTED TRILLIONS OF DOLLARS (2010)



Source: White House Office of Management and Budget.

Sequestration

Budget Control Act of 2011 – Set the stage

- Debt limit increase - \$900 billion increase in debt limit and \$917 billion in discretionary budget cuts.
- Super Committee - 12 member Committee failed to adopt \$1.2 trillion in deficit.
- The Act mandates **\$1.2 trillion in Spending Cuts** over ten years beginning **this year**.
- **Sequester delayed 2 months; \$85 billion in cuts over 7 months begin March 1.**

The Budget

- U.S. Chamber believes that enhancing economic and job growth is a prerequisite to achieve a balanced budget, but growth alone will not be enough.
- **Congress must reform entitlement programs and restructure the tax code** to bring revenue and spending back into alignment.
 - **Reform entitlements** – Comprises over 55% of federal spending.
 - **Reform the U.S. tax code** – To improve efficiency and drive economic growth and bring revenue and spending back into alignment.

Comprehensive Tax Reform

- Lower the corporate tax rate
- Adopt a territorial tax system
- Simplify tax code
- Make reforms permanent

Key Dates – The Cliffs Ahead

- **March 1:** Sequestration starts unless fix is found.
- **March 27:** Spending authority for FY 2013 expires (with 6 months still to go).
- **May 19:** Hit debt ceiling; Treasury can juggle funds to delay impact for a while.
- **October 1:** FY 2014 begins.

America's Small Business Summit!



Save the Date:

April 29 – May 1, 2013 | Washington, D.C.

For more information, visit

www.uschambersummit.com

U.S. Chamber of Commerce

Questions?

Dick Castner
Executive Director
Western Regional Office
818.884.0702
dcastner@uschamber.com