

Not Again! *Another* Fiscal Cliff This Fall?

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Another Fiscal Cliff This Fall?

- **Appropriations** for FY2014 are needed by Oct 1
 - If specific appropriation bills aren't passed, there is the possibility of a **shut down**
 - The most likely scenario is the enactment of a **Continuing Resolution (CR)**, but at what level & for how long?
 - If either defense or non-defense CR amounts exceed the FY2014 caps, OMB must implement a **sequester** 15 days after Congress adjourns. **Even a CR at FY2013 levels would trigger a sequester!**
- **Debt Limit:** increase needed by Nov, maybe Dec?
- **Tax Extenders:** 55 provisions expire Dec 31, including:
 - Tax Credit for Research & Experimentation
 - Deduction for State & Local General *Sales* Taxes
- **Doc Fix:** Medicare payments to physicians are scheduled to be cut about 27% on Jan 1

All Proposals Exceed the 2014 Caps

Budget Authority, in billions of dollars.

Sources: CBO *Analysis of the President's 2014 Budget*, May 2013; Bipartisan Policy Center.

| | <u>2012</u> Enacted | <u>2013</u> After Sequester | <u>2014</u> Caps | <u>2014</u> House | <u>2014</u> President & Senate |
|--------------------------------------|------------------------|-----------------------------------|---------------------|----------------------|--------------------------------------|
| Defense Discretionary | 554 | 509 | 498 | 552 | 552 |
| Non-Defense Discretionary | <u>517</u> | <u>477</u> | <u>469</u> | <u>415</u> | <u>506</u> |
| Total | 1,071 | 986 | 967 | 967 | 1,058 |

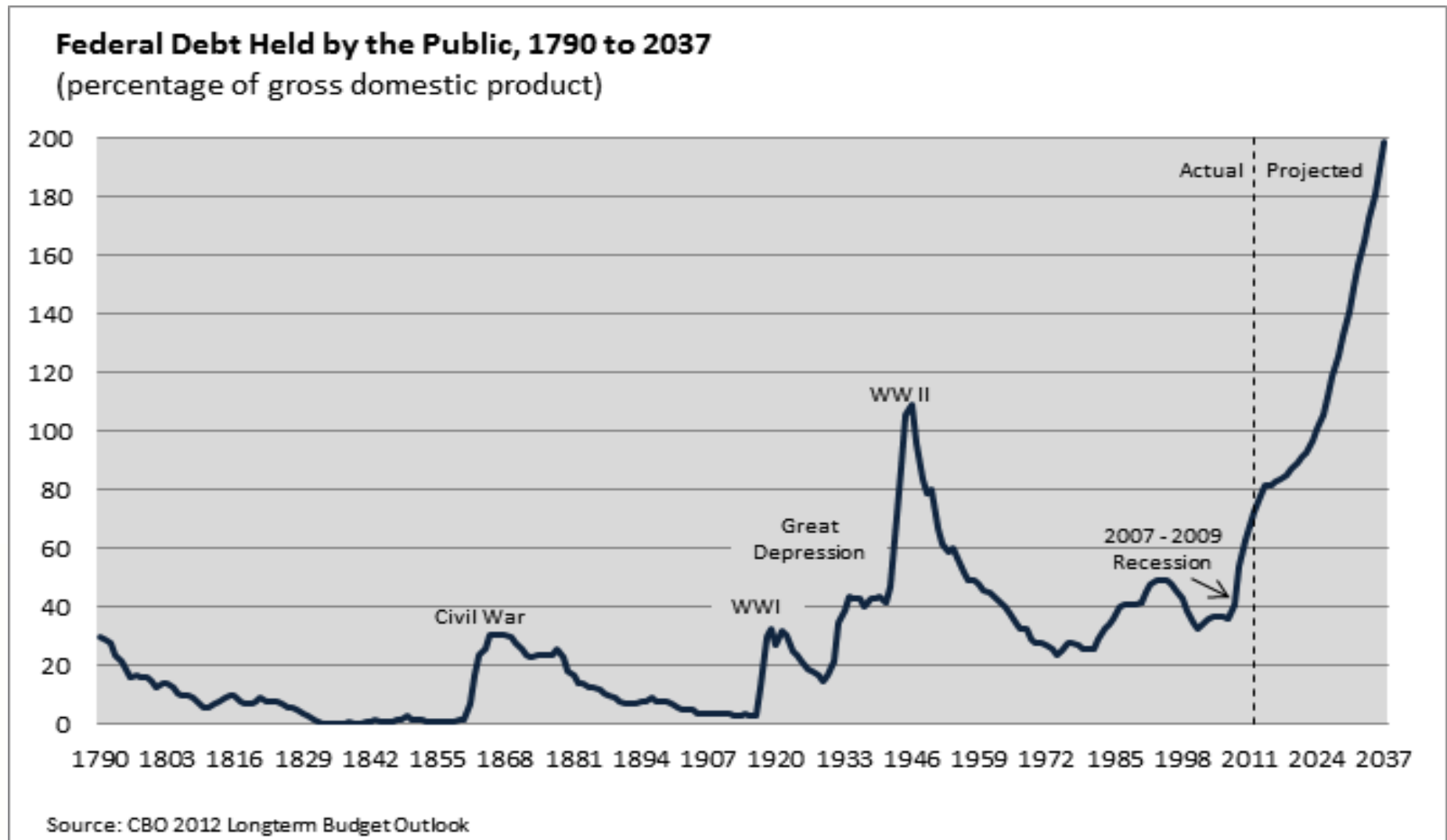
The Caps Do Increase from 2014-21, but Only About 2.6%/Year

Budget Authority, in billions of dollars.

Source: CBO *Updated Budget Projections*, May 2013.

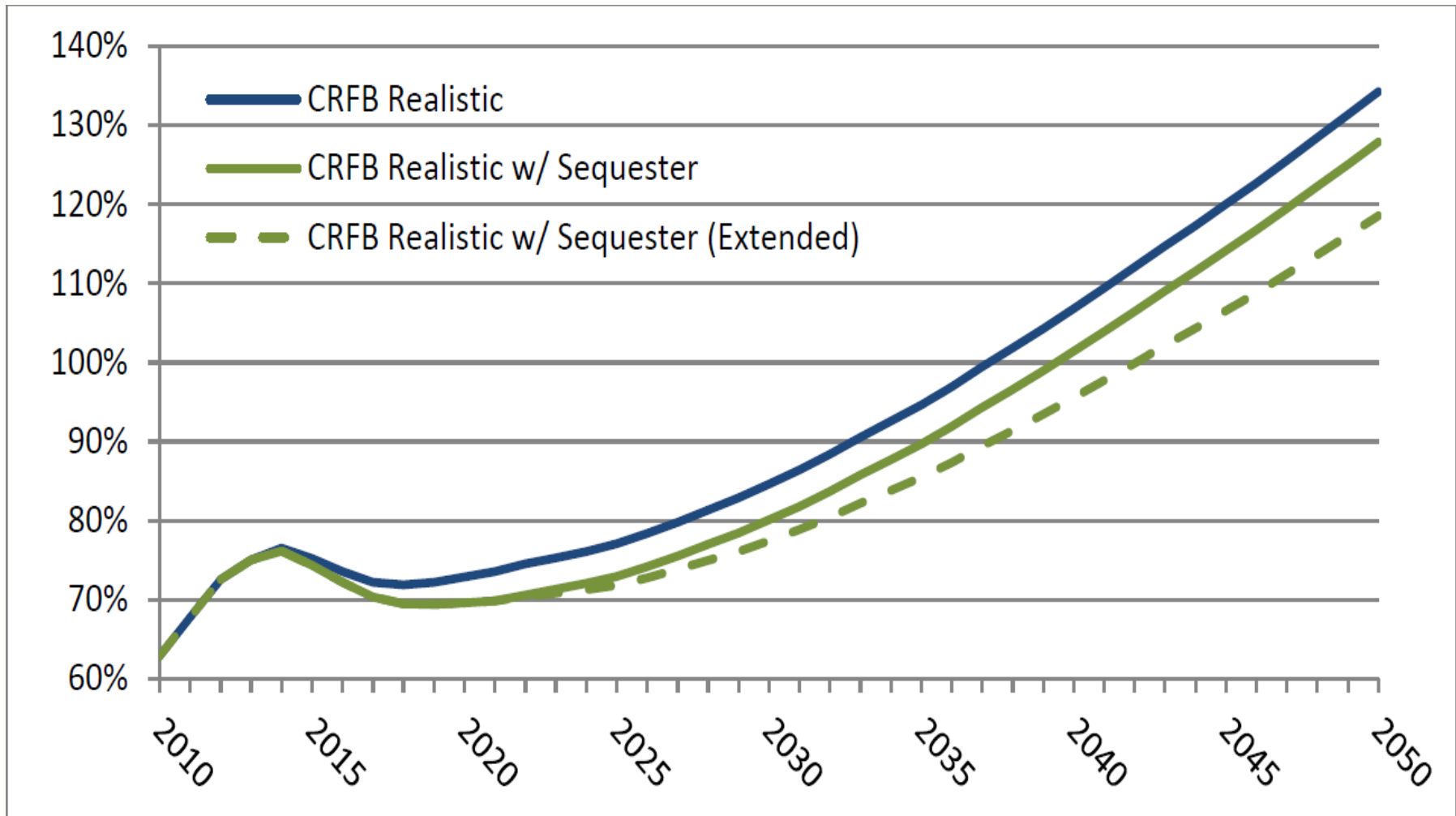
| | <u>2013</u> Enacted | <u>2014</u> Cap | <u>2015</u> Cap | <u>2016</u> Cap | <u>2017</u> Cap | <u>2018</u> Cap | <u>2019</u> Cap | <u>2020</u> Cap | <u>2021</u> Cap | <u>2022</u> Proj. | <u>2023</u> Proj. |
|-------------|------------------------|--------------------|--------------------|--------------------|--------------------|--------------------|--------------------|--------------------|--------------------|----------------------|----------------------|
| Defense | 509 | 498 | 512 | 523 | 536 | 549 | 562 | 576 | 590 | 605 | 621 |
| Non-Defense | <u>477</u> | <u>469</u> | <u>483</u> | <u>493</u> | <u>504</u> | <u>517</u> | <u>531</u> | <u>544</u> | <u>557</u> | <u>571</u> | <u>586</u> |
| Total | 986 | 967 | 995 | 1,016 | 1,040 | 1,066 | 1,093 | 1,120 | 1,147 | 1,177 | 1,207 |

The Major Federal Fiscal Issue Is Long-Term Sustainability: How to Control the Debt & at What Level of Government?



Some Debt Reduction Accomplished, but Problems Persist

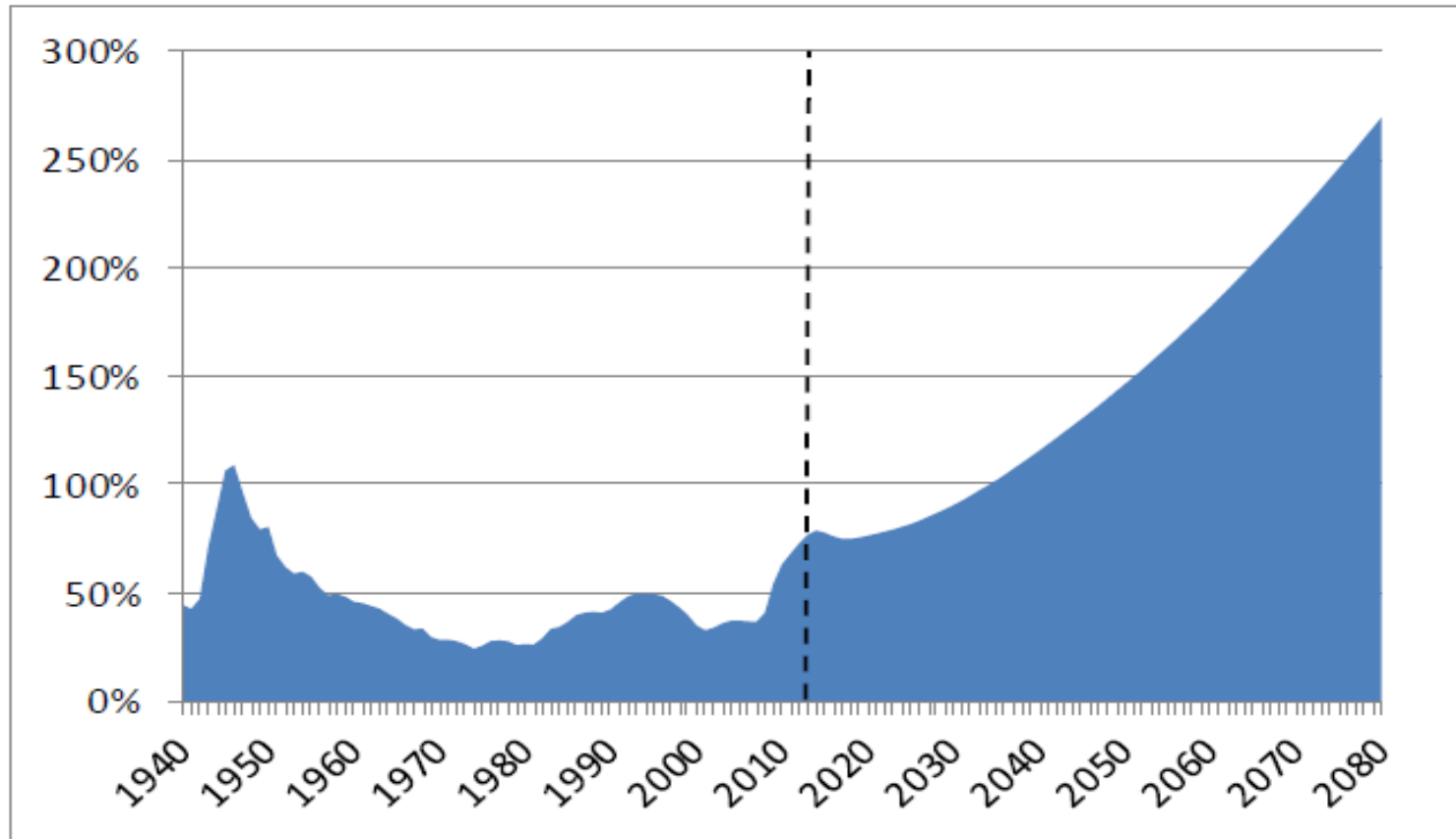
Debt as a % of GDP. Source: Committee for a Responsible Federal Budget (CRFB)



Note: CRFB has not updated its long-term model, but rather incorporated CBO's updated baseline projections into its 2012 model. Projections should be viewed as very rough.

And the Longer Out You Look, the Worse it Gets!

Debt as a % of GDP. Source: CRFB



Note: The CRFB Realistic Baseline assumes the continuation of expiring tax provisions, sequestration is repealed, scheduled cuts to Medicare providers are patched (the “doc fix”), and war and disaster funds are drawn down as scheduled instead of growing with inflation.

Most Deficit Reduction So Far Has Come From Discretionary Spending

Deficit reduction from FY 2013-22. \$ in billions.

| | Appropriations for FY2011 | Budget Control Act of 2011 | American Taxpayer Relief Act of 2012* | Sequester March 1, 2013 | Total |
|-------------------------|---------------------------|----------------------------|---------------------------------------|-------------------------|-------------------|
| Discretionary Spending | \$615 | \$850 | \$25 | \$790 | \$2,280 |
| Mandatory Spending, net | -- | -- | -5 | 169 | 164 |
| Revenues, net | -- | -- | 545 | -- | 545 |
| Interest | <u>105</u> | <u>135</u> | <u>85</u> | <u>169</u> | <u>494</u> |
| Total: | \$720 | \$985 | \$650 | \$1,128 | \$3,483 |
| Total: as a % of GDP | .4% | .5% | .3% | .6% | 1.7% |

Sources: CBO; Committee for a Responsible Federal Budget; *The Economist*.

*Includes \$75B in tax cuts & \$30B in extended unemployment benefits that added to deficits.

More Revenues, Less Spending, or Both?

% of GDP. CBO Projections as of dates shown.

| | <u>1987-2011</u> Average | <u>2012</u> Actual | <u>2022</u> Feb 2013 | <u>2037</u> Aug 2012 |
|-----------------------|-----------------------------|-----------------------|-------------------------|-------------------------|
| Spending | | | | |
| Medicare | 2.5 | 3.5 | 4.1 | 6.7 |
| Medicaid | 1.2 | 1.6 | 2.2 | 3.7 |
| Social Security | 4.4 | 5.0 | 5.4 | 6.2 |
| All Other | 10.3 | 11.3 | 8.0 | 9.6 |
| Nondefense | (3.7) | (4.1) | (2.6) | na |
| Defense | (4.2) | (4.2) | (3.0) | na |
| Other | (2.4) | (3.0) | (2.4) | na |
| Interest | <u>2.4</u> | <u>1.4</u> | <u>3.2</u> | <u>9.5</u> |
| Total Spending | 20.8 | 22.8 | 22.9 | 35.7 |
| Revenues | <u>17.9</u> | <u>15.8</u> | <u>19.0</u> | <u>18.5</u> |
| Deficits | -2.9 | -7.0 | -3.9 | -17.2 |
| Debt | 44 | 73 | 76 | 199 |

Are the House, Senate, & President's FY2014 Budget Proposals Conducive to Compromise?

Long-term impacts as a % of GDP relative to CBO baseline, assuming no real growth in revenues or discretionary after 2023. Source: CRFB.

| | <u>2023</u> | | | <u>2037</u> | | |
|------------------------|--------------|------------------|---------------|--------------|------------------|---------------|
| | <u>House</u> | <u>President</u> | <u>Senate</u> | <u>House</u> | <u>President</u> | <u>Senate</u> |
| <u>Revenue</u> | 19.1 | 19.7 | 19.8 | 19.1 | 19.7 | 19.8 |
| <u>Spending</u> | | | | | | |
| Health Care | 4.6 | 6.1 | 6.1 | 6.1 | 8.1 | 8.2 |
| Social Security | 5.4 | 5.3 | 5.4 | 5.9 | 5.9 | 5.9 |
| Discretionary | 4.7 | 5.0 | 4.9 | 3.6 | 3.8 | 3.7 |
| Other Mandatory | 1.8 | 2.4 | 2.3 | 1.8 | 2.4 | 2.3 |
| Interest | <u>2.3</u> | <u>3.0</u> | <u>2.9</u> | <u>1.3</u> | <u>3.6</u> | <u>3.4</u> |
| Total Spending | 18.8 | 21.8 | 21.6 | 18.7 | 23.8 | 23.5 |
| <u>Surplus/Deficit</u> | .3 | -2.1 | -1.8 | .4 | -4.1 | -3.7 |
| <u>Debt</u> | 52 | 69 | 67 | 25 | 74 | 69 |

The Top Ten Tax Expenditures

2014-18, \$ in billions. Source: OMB *FY2014 Budget, Analytical Perspectives*.

| <u>Rank</u> | <u>Tax Expenditure</u> | <u>Cost</u> |
|-------------|---|-------------|
| 1 | Exclusion of employer payments for health insurance | 1,206 |
| 2 | Deductibility of mortgage interest on owner occupied homes | 640 |
| 3 | Provisions that benefit states | 495 |
| | Deductibility of state & local income, sales & property taxes | (292) |
| | Exclusion of interest on public purpose state & local bonds | (203) |
| 4 | Tax treatments of 401(k)-type retirement plans | 478 |
| 5 | Exclusion of imputed rental income | 437 |
| 6 | Treatment of capital gains | 331 |
| 7 | Deductibility of charitable contributions | 320 |
| 8 | Tax treatment of employer pension plans | 308 |
| 9 | Accelerated depreciation of machinery & equipment | 273 |
| 10 | Treatment of capital gains on home sales | 263 |

The Reintroduction of the Pease Provision Affects States

2013 Marginal Tax Rates for selected provisions. Married filing jointly; employee only¹. Recent changes bolded.

| Income ² | Federal Income | Social Security | Medicare Base | Medicare Investment ³ | Pease ⁴ | Total |
|-------------------------|----------------|-----------------|---------------|----------------------------------|--------------------|--------------|
| 0-\$17,850 ⁵ | 10.0 | 6.2 | 1.45 | 0 | 0 | 17.65 |
| \$17,850-72,500 | 15.0 | 6.2 | 1.45 | 0 | 0 | 22.65 |
| \$72,500-113,700 | 25.0 | 6.2 | 1.45 | 0 | 0 | 32.65 |
| \$113,700-146,400 | 25.0 | 0 | 1.45 | 0 | 0 | 26.45 |
| \$146,400-223,050 | 28.0 | 0 | 1.45 | 0 | 0 | 29.45 |
| \$223,050-250,000 | 33.0 | 0 | 1.45 | 0 | 0 | 34.45 |
| \$250,000-300,000 | 33.0 | 0 | 2.35 | 3.8 | 0 | 39.15 |
| \$300,000-398,350 | 33.0 | 0 | 2.35 | 3.8 | .99 | 40.34 |
| \$398,350-450,000 | 35.0 | 0 | 2.35 | 3.8 | 1.05 | 42.20 |
| \$450,000+ | 39.6 | 0 | 2.35 | 3.8 | 1.19 | 46.94 |

¹Employers don't pay the additional .9% Medicare Base or 3.8% Medicare Investment taxes.²Taxable income for Federal Income; earned income for Social Security & Medicare Base; AGI for Medicare Investment & Pease.³Applies to the lessor of net investment income or the excess of Modified AGI over \$250,000.⁴Reduces itemized deductions (except medical, investment interest, & casualty & theft) by 3% of the amount by which AGI exceeds \$300,000, but not more than 80% of the value of itemized deductions. Excludes PEP (Personal Exemption Phaseout) which reduces the \$3,900/person exemptions by 2% for each \$2,500 increment in exemptions for AGI over \$300,000.⁵Excludes Earned Income & other credits for low income filers.