

Back to Work, Obama Is Greeted by Looming Fiscal Crisis

Nov 8, 2012 **The New York Times**

Washington

Fiscal Cliff

Buenos Aires





What is the Fiscal Cliff?

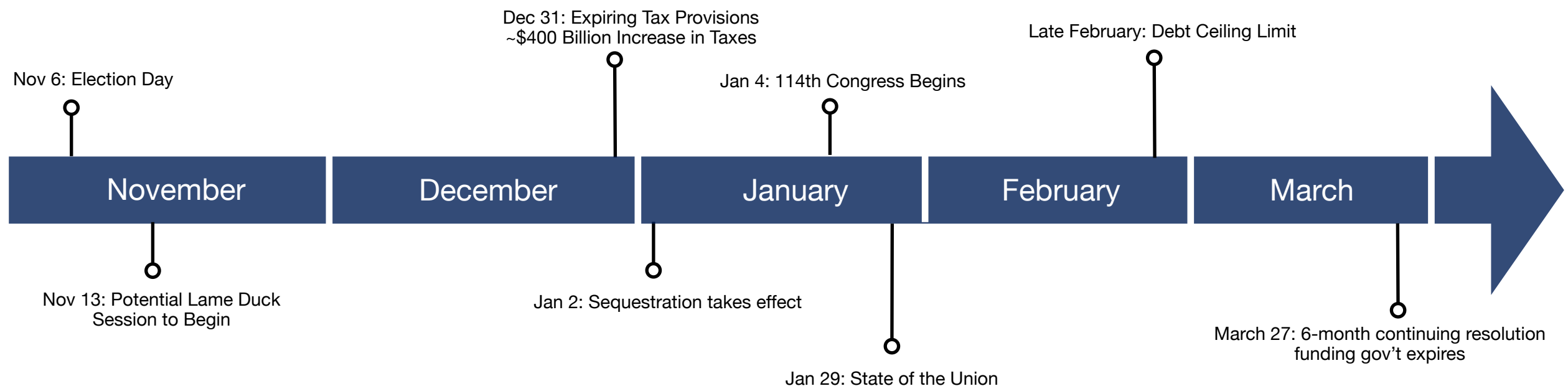
The fiscal cliff refers to the combination of tax increases and budget cuts set to take place at the beginning of 2013:

- ✓ Expiration of the Bush-era tax cuts
- ✓ Increase in the payroll tax
- ✓ Expiration of Alternative Minimum Tax patch
- ✓ Implementation of 'Obamacare'
- ✓ Automatic spending cuts associated with sequestration
- ✓ Reductions in Medicare payments



"In simple terms: if U.S. policymakers do nothing, a number of temporary tax cuts will expire and significant across-the-board spending reductions will kick in on January 1, 2013. The combined effect of these measures could result in a huge fiscal contraction, which would derail the economic recovery." - International Monetary Fund: 7/12

Fiscal Cliff Timeline

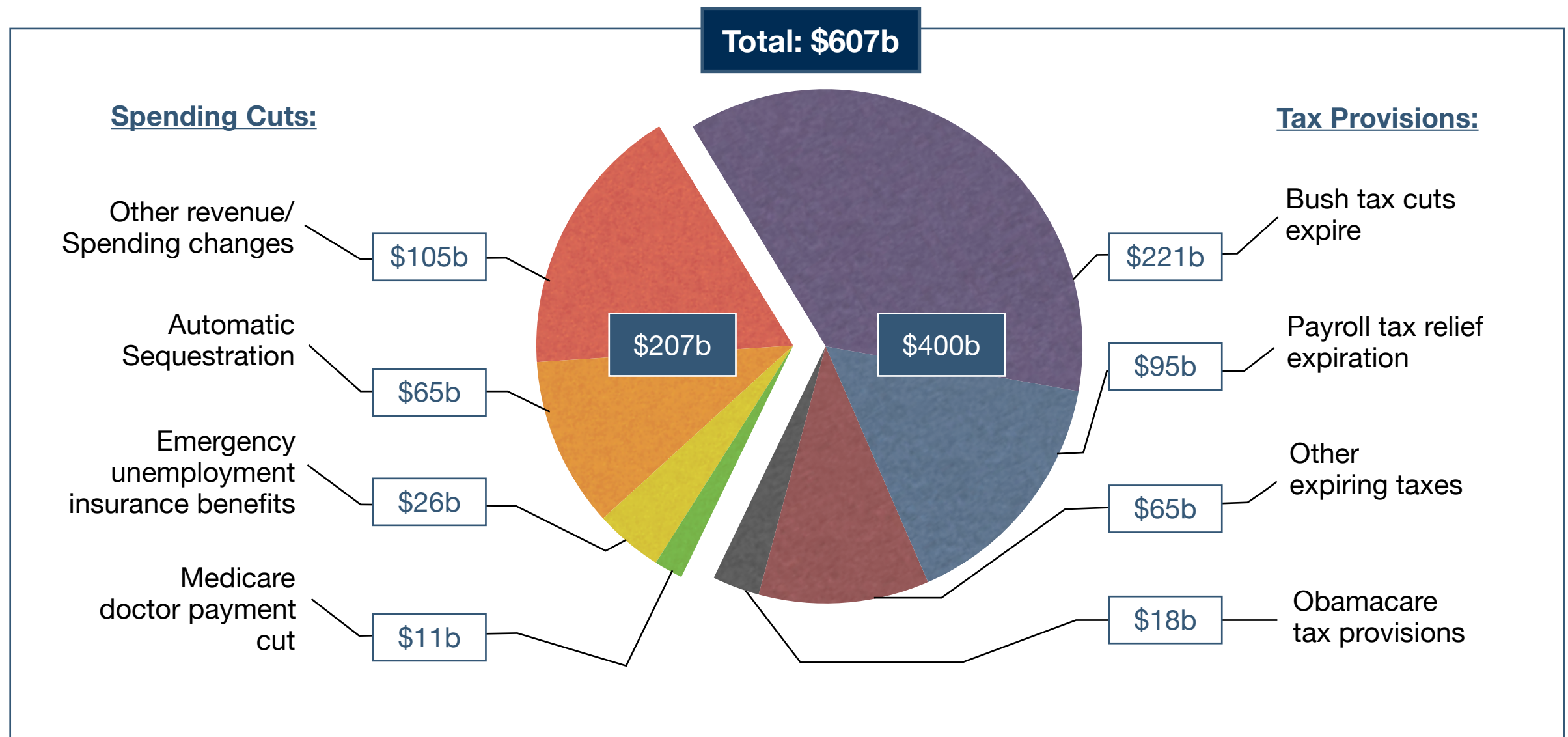


Fiscal Cliff Economic Breakdown



If Congressional action is not taken, a combined \$607 in deficit reductions (spending cuts + tax increases) will automatically take effect at the end of the year.

- 2/3 of the deficit reductions will come from tax increases, while only 1/3 will come from spending cuts.
- Those supporting more tax increases over spending cuts have a stronger negotiating position as the status quo supports their position.



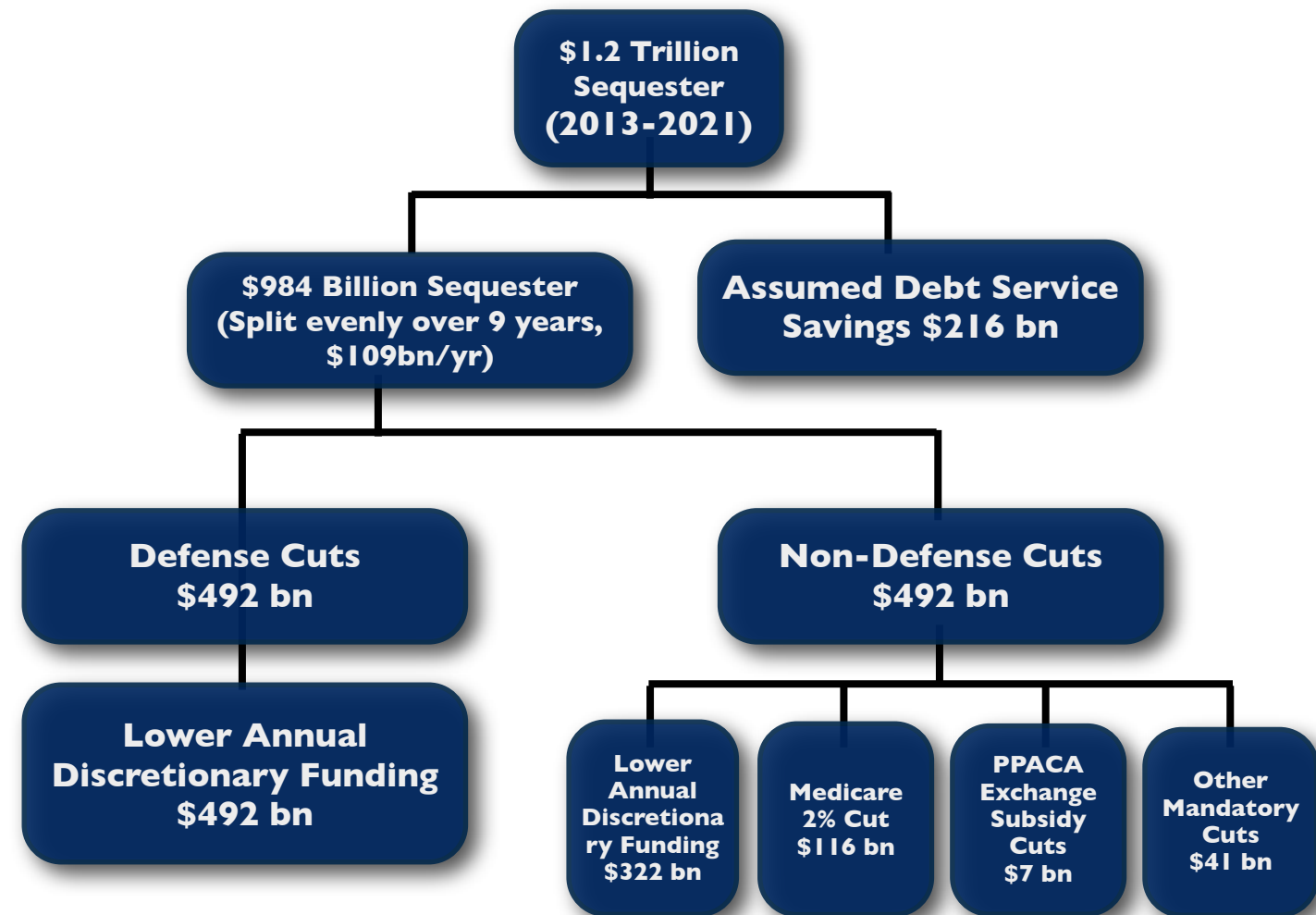
Fiscal Cliff - Spending Cuts



Sequestration

The Automatic Sequestration Spending cuts :

- ☒ 1.2 trillion in cuts split evenly over a 9 year period
 - ➡ 50% Defense
 - ➡ 50% Non-Defense
- ☒ The across-the-board cuts severely reduce Federal government employment and programs (by between 8 and 10%).
- ☒ Entitlements generally exempted



Other Scheduled Cuts

- ☒ Expiration of Emergency Unemployment Benefits- The 2009 stimulus bill extended the period individuals could receive unemployment insurance from 26 weeks to 99 weeks.
- ☒ Medicare Doc Fix- Congress routinely blocks the “sustainable growth rate” for medicare doctor payments and the current period expires at the end of 2012.



Individual Income Tax Rate

Individual income tax rates are a set to revert back to pre-Bush era rates at the end of the year.

- Currently individual income tax rates are as follows: 10%, 25%, 28%, 33% and 35%.
- Without action, rates will return to pre-2001 rates: 15%, 28%, 31%, 36%, and 39.6%.

Current Rates	Without Action
10%	15% ↑
25%	28% ↑
28%	31% ↑
33%	36% ↑
35%	39.6% ↑

Additional Potential Tax Increases

Estate Tax	<ul style="list-style-type: none">• Current rate: 35%, estate exemption of nearly \$5M.• Without action, rate increases to 55%, estate exemption falling to \$1M.
Capital Gains Tax Rate	<ul style="list-style-type: none">• Current rate is between 15% and 5%, depending on income.• Without action, rate increases to between 20% and 10%.
Dividend Tax Rate	<ul style="list-style-type: none">• Current rate: 15% for most taxpayers.• Without action, rate increases to 39.6%.
Alternative Minimum Tax (AMT)	<ul style="list-style-type: none">• Currently, individuals making \$48,450 are exempt from AMT.• Without action, 26 million households could face up to \$3,700 in new taxes.
Payroll Tax Holiday	<ul style="list-style-type: none">• Currently, employees pay 2% less in Social Security payroll taxes than what is traditionally paid• Without action, it is estimated low-income workers will pay several hundred dollars more, while high-income workers will pay \$2,340 more.

Four Fiscal Cliff Scenarios in Lame Duck



There are a number of issues that could be raised during a lame duck session. In terms of fiscal cliff,

Possible Scenarios

Analysts predict

Likely

Less Likely

Short Term Fix or "Punt"

1

- ✓ Partial extension of Bush Tax Cuts
- ✓ Delay of sequester
- ✓ Some deficit reduction

Partial Renewal

2

- ✓ Some but not all Bush Tax Cuts extended

Stalemate

3

- ✓ Bush Tax Cuts Expire
- ✓ Sequester implemented

"Grand Bargain"

4

- ✓ Spending cuts \$1 to \$3 trillion
- ✓ New revenue up to \$1 trillion
- ✓ Possible extension of Bush Tax Cuts
- ✓ Possible delay of sequester
- ✓ Create process for tax reform
- ✓ Entitlement reform
- ✓ Raise debt ceiling

Congressional Leaders

Senate Majority Leader Harry Reid



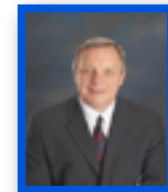
"Now that the election is over, it's time to put politics aside and work together to find solutions. The strategy of obstruction, gridlock and delay was soundly rejected by the American people. Now, they are looking to us for solutions. We have big challenges facing us in the months ahead. Democrats and Republicans must come together, and show that we are up to the challenge." (11/7/12)

Speaker of the House John Boehner



"Lame ducks aren't noted for doing big things. And frankly I'm not sure that lame ducks should do big things. So the most likely outcome would be some type of a bridge. I would think that would be the best you can hope for, and even that is going to be very difficult to do" (11/5/12)

Senator Dick Durbin



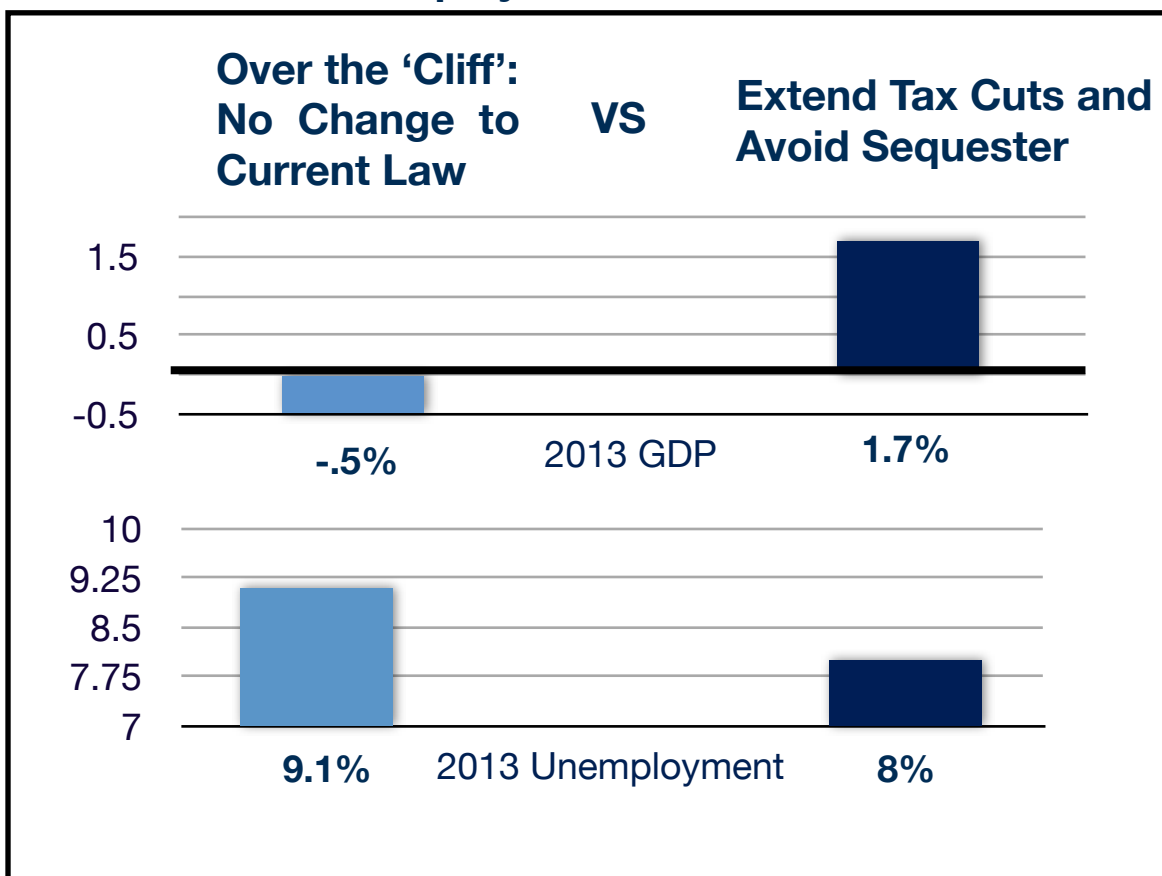
"There is a sentiment moving towards a bipartisan solution, and we have to wait for the outcome of the election. People are obviously holding back until they see that." (7/29/12)

Stock Market Response to Fiscal Cliff



Market Impact

2013 GDP and Unemployment Estimates- 2 Scenarios



source: CBO August 2012 Budget and Economic Outlook

Timothy Geithner, Treasury Secretary: "Many people who look at this say that, yes, you'd at least get a recession out of this because the cumulative size of those cuts -- tax increases and spending cuts -- are very, very large relative to the economy." 7/24/12

G7 European Policy Message: "If policymakers fail to reach consensus on these two issues, the United States' economy could face major uncertainties that would hurt economic growth in 2013 and would have significant spillovers to the rest of the world." 10/01/12

Fed Chairman Ben Bernanke: "If the fiscal cliff isn't addressed, as I've said, I don't think our tools are strong enough to offset the effects of a major fiscal shock so we'd have to think about what to do in that contingency," 9/13/12

THE WALL STREET JOURNAL.

**U.S. Stocks
Stumble Following
Election as Fiscal
Cliff Looms**

11/07/12

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**IMF chief Lagarde
warns against U.S.
fiscal cliff**

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Bloomberg

**G-20 Tells U.S. to
Avoid Fiscal Cliff as
Focus Widens**

11/05/12

Washington Gearing Up For Fiscal Cliff



Numerous outside groups will be involved in the fiscal cliff debate



"If we were playing with fire in the debt ceiling, we'll be playing with nitroglycerine now when it comes to the fiscal cliff."

David Cote, Honeywell CEO and part of the Fix the Debt campaign.



"What is the grand bargain? It boils down to lower tax rates for rich people — paid for by benefit cuts for Social Security, Medicare and Medicaid. These are precisely the issues that are being debated so vigorously in the campaign, and voters do not want anything to do with such a deal."

Richard Trumka, president of the AFL-CIO.



"There is much work ahead of us...after all, it is time for our nation to heal and for Americans to come together."

Jay Timmons, president of the National Association of Manufacturers



"We need to speak out as CEOs... Politicians generally address things when their back's against the wall...We have the threat of going into a recession in the first quarter...This is a very uncertain moment."

BlackRock CEO Larry Fink



"When you got people walking around up there on the Hill saying we should let this happen, chilling effect doesn't cover [it] in terms [of] the way it damages the psyche."

Matthew Shay, National Retail Federation president and CEO.



"The fiscal cliff is imposing a negative drag on business lending, hiring, spending, and investment right now"

The Financial Services Roundtable



What We Do

Sphere Consulting is a leading communications and government relations consultancy located blocks from the White House. At Sphere, we engineer and manage campaigns to help our clients target and influence policy leaders, the media and the public. Our team provides a suite of communications and advocacy solutions for clients facing everything from a national media crisis to complex policy debates or challenging multinational transactions. Sphere's approach centers around an experienced leadership team with superior connections in both U.S. policy and global media circles, backed by extensive in-house capabilities proven to get results.

Senior Leadership

Jim Courtovich, Managing Partner

Jim Courtovich has over twenty years of public affairs and crisis communications experience and has managed some of the most significant business and policy debates throughout the world. He has expertise in a wide range of communications from media relations to opponent management. As a former commercial banker, senate aide, political campaign manager, and head of an NGO, Jim brings a unique perspective and understanding of how business, public policy, and the media intersect.

Christine Ciccone, Executive Vice President

Christine Ciccone has over 25 years of public affairs experience in Washington, DC. As a lawyer with corporate, political, legislative and executive branch experience, she has a record of success in the strategic alignment of business, political and policy interests. Having held senior level positions at a \$36 billion Fortune 100 company and a \$1.6 billion global energy company, she understands the diversity of interests that impact the private sector, and how to effectively advocate those interests.

