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The Fiscal Cliff Deal

The outcome of last-minute negotiations to avoid the fiscal cliff.

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At the eleventh hour, Congress and President Obama reached a deal to address the fiscal cliff. As the analysis below shows, the deal focused on tax revenue and included a number of changes to the tax code, including a permanent extension of the Bush-era tax cuts on income below $450,000 for families and below $400,000 for individuals.

This deal left major issues unresolved, including the debt ceiling, the automatic spending cuts known as sequestration, and a final version of a budget to fund the federal government in the current fiscal year.

What's In the Deal:

The Issue	What Happened	What It Means	What's Next
Bush-Era Tax Cuts: The Bush-era tax cuts were scheduled to expire on Dec. 31, 2012. The tax cuts benefited nearly every American taxpayer, though they offered the most generous benefits to the wealthiest Americans.	Congress permanently extended tax rates on income below $400,000 for individuals and $450,000 for couples, and raised the rate on capital gains and dividends from 15 percent to 20 percent for income above the same threshold.	Bush-era rates become permanent for middle-class taxpayers and many wealthy Americans, while tax rates rise for a group roughly corresponding to the wealthiest 1 percent of households.	Changes are permanent unless Congress revisits the issue by taking up comprehensive tax reform.
Payroll-Tax Holiday: As a result of a payroll-tax holiday enacted in 2010, workers have temporarily paid payroll taxes at a rate of 4.2 percent instead of 6.2 percent. Payroll taxes fund the Social Security program.	The payroll-tax holiday expired.	All working Americans will see their payroll tax rate rise by 2 percentage points, or around $1,000 per year for the average	The expiration is permanent.

		worker. Trust fund revenue into Social Security will increase.	
Unemployment Benefits: Emergency unemployment benefits for the long-term unemployed were scheduled to expire on Dec. 31.	Congress extended unemployment benefits for another year.	Around 2 million Americans will retain jobless benefits that would have expired in the absence of a deal.	If the unemployment rate remains high at the end of 2013, lawmakers will likely revisit this issue next December.
Earned Income Tax Credit and Child Tax Credit: An expansion of these tax credits – which primarily benefit middle-class and low-income families – was scheduled to expire on Dec. 31.	Congress extended the expansion of both tax credits for five years.	Eligible families will continue to benefit from both tax credits.	The extension will expire in five years.
Estate Tax: At the start of 2013, the estate tax rate was scheduled to rise to the Clinton-era level of 55 percent, and the tax exemption for estates smaller than $5 million would have dropped to $1 million.	The estate tax will rise from the current rate of 35 percent up to 40 percent, but Congress retained the exemption for estates up to $5 million.	Some wealthy families will see taxes rise on inheritances.	Changes are permanent unless Congress revisits the issue by taking up comprehensive tax reform.
Alternative Minimum Tax: The AMT was originally meant to ensure that high-income taxpayers don't pay too little in taxes as a result of deductions and other tax preferences. But the AMT was not originally indexed to inflation, and it threatened to raise taxes for middle-income taxpayers.	Congress indexed the AMT to inflation so that it will affect only high-income taxpayers.	Middle-income families will not see higher taxes due to the AMT.	The change was permanent.
Pay Cut to Medicare Doctors: Legislation from 1997 was intended to reduce payments to Medicare doctors in order to keep Medicare costs on a sustainable path. Those pay cuts have been postponed every year for a decade.	Congress once again postponed the pay cut to Medicare doctors, though they planned to offset the measure with still-to-be-determined spending cuts.	There will be no immediate change in payments to Medicare doctors.	Lawmakers likely will revisit this issue in 2013 to prevent cuts from taking effect in 2014.
Milk Cliff: Failure to extend a current milk program would have caused changes in subsidies based on a 60-year-old law. This could have led to an artificial doubling in the	Congress extended the existing government program for dairy farmers.	Milk prices are not expected to rise.	The deal solved the problem for just nine months, requiring additional action by Congress in 2013 to prevent

price of milk for consumers.			price hikes.
Limits on Tax Deductions and Exemptions: The Personal Exemption Phaseout (PEP), and a limit on itemized deductions known as Pease, were scheduled to take effect in 2013 after being reduced and then eliminated in recent years.	Congress allowed PEP and Pease to be reinstated for individuals earning more than $250,000 and families earning more than $300,000.	Some wealthy families will see their taxes rise through these limits on tax deductions and exemptions.	Changes are permanent unless Congress revisits the issue by taking up comprehensive tax reform.
Tax Extenders: A package of tax policies known as tax extenders was scheduled to expire at the end of 2012. These included tax breaks for businesses and corporations for things like research and development, as well as benefits for individual taxpayers and policies specific to the energy sector.	Congress extended tax extenders for businesses, individuals, and the energy sector.	Businesses and corporations, individuals, and the energy sector will continue to receive these tax benefits.	Lawmakers will have to revisit tax extenders in 2013 or these tax policies will expire.
Pay Freeze in Congress: A pay freeze for members of Congress has been in effect since 2011. President Obama lifted it earlier this year to allow a cost-of-living increase in 2013.	Congress reimposed a pay freeze on member salaries.	Members of Congress will not receive a cost-of-living increase.	Lawmakers may consider lifting the pay freeze later this year.

Not in the Deal, But Likely on the Horizon:

The Issue	What Happened	What It Means	What's Next
Entitlement Programs: Some lawmakers sought reductions in Social Security benefits and a higher eligibility age for the Medicare program as part of fiscal cliff negotiations.	No changes were made to Social Security or Medicare benefits.	Eligible Americans will continue to receive Social Security and Medicare benefits as normal.	Lawmakers are likely to take up these issues in 2013.

Ahead in Early 2013:

The Issue	What Happened	What It Means
Spending Cuts: Due to legislation passed in August 2011, automatic spending cuts were scheduled to cut $55 billion from domestic programs – like infrastructure and education – and another $55 billion from military funding beginning in January 2013.	Cuts were postponed until March 1. Lawmakers intend to offset the delay in these cuts by taxing transfers between traditional Individual Retirement Accounts (IRAs) and Roth IRAs, and through discretionary spending cuts.	Programs ranging from Head Start to weapons programs will not see immediate budget cuts.
Budget Deal: Congress has yet to enact a budget for fiscal year 2013, which began on Oct. 1, 2012. In September Congress enacted a stop-gap spending measure, known as a continuing resolution, which will keep the government operating until March 27.	The fiscal cliff legislation did not deal with a budget for the current fiscal year.	Funding for all federal agencies expires in March. Lawmakers must pass additional legislation to keep the government running.
Debt Ceiling: The debt ceiling is the legal limit on the level of debt the federal government can hold, and the debt is expected to reach that limit early in 2013. Congress has the authority to raise the debt ceiling as needed.	The fiscal cliff deal did not address the debt ceiling.	Absent an increase in the debt ceiling in 2013, the government will shut down and default on existing loans.

NOTE ABOUT SOURCES: The fiscal cliff deal is breaking news. This report draws on information from a variety of sources, including The Government Printing Office, The Congressional Budget Office, The White House, and The Washington Post. The Center on Budget and Policy Priorities, Tax Policy Center, and the National Employment Law Project provided additional reference material.