FALL OUTLOOK

Congress is stretching its summer recess beyond Labor Day and will not return for two more weeks. We do not expect much to change between now and then so here’s our early fall preview.

A debt ceiling increase remains the primary “must do” item. Item two on the list is some sort of deal to fund the government for some period of time when Congress fails to fund the government in time for the next fiscal year, which begins on October 1, 2013.

There is likely to be at least one short-term “continuing resolution” to fund the government at current levels while everybody waits to see what kind of deal (or if a deal) jells around the debt ceiling increase. The debt ceiling has been reached already but the government has been avoiding the need for borrowing by re-arranging some payments. Those options will be exhausted in late October or early November.

The possibilities for a deal with the debt ceiling increase as the centerpiece range from just an increase in the ceiling to one that includes tax reform and entitlement programs reform. An increase with an adjustment in the sequestration impact probably stands a better chance than the tax reform/entitlement programs reform add-ons. “Defunding” health care reform is probably on the outer limits of deal making but some movement on codifying the employer mandate delay and adding in an individual mandate delay might have a better chance.

But at this point, this is all speculation. Thus, it seems like a good time for a “just the facts ma’am” primer since there is no new news upon which to report.

What is the current debt ceiling?

The current “statutory” limit on total debt is just under $16.7 trillion but the No Budget, No Pay Act of 2013 (Public Law 113-3) suspended the debt ceiling from February 4, 2013, through May 18, 2013. The Act also specified that the amount of borrowing that occurred during that period should be added to the previous debt limit of $16.394 trillion. So on May 19, the current limit was adjusted to account for that additional borrowing and the limit stands at $16.699 trillion.

Of the $16.699 trillion in outstanding debt subject to limit, roughly $11.9 trillion is held by the public and about $4.8 trillion is held by government accounts such as trust funds.

As noted above, the Treasury can employ various accounting devices to delay the need to borrow additional funds. It is currently estimated that it will run out of options in late October or November.

Tax Revenues. How much are we expected to collect in a year?

(For the fiscal year 2013 which ends in September (in $ billions))

<table>
<thead>
<tr>
<th>Revenue Type</th>
<th>Amount (in billions)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Individual Income Taxes</td>
<td>1,333</td>
</tr>
<tr>
<td>Social Insurance Taxes</td>
<td>952</td>
</tr>
<tr>
<td>Corporate Income Taxes</td>
<td>291</td>
</tr>
<tr>
<td>Excise taxes</td>
<td>85</td>
</tr>
<tr>
<td>Estate and gift taxes</td>
<td>19</td>
</tr>
<tr>
<td>Federal Reserve</td>
<td>80</td>
</tr>
<tr>
<td>Customs duties</td>
<td>31</td>
</tr>
<tr>
<td>Other miscellaneous receipts</td>
<td>22</td>
</tr>
<tr>
<td>Others Subtotal</td>
<td>237</td>
</tr>
<tr>
<td>Total</td>
<td>$2,813</td>
</tr>
</tbody>
</table>

(For those of us who have a hard time with the m’s, b’s, and t’s, that total is $2.8 trillion®)

Where does it go?

For 2013, the Congressional Budget Office estimates that $1.15 trillion in budget authority has been provided for discretionary programs and $2.02 trillion for mandatory spending programs.
Tax Expenditures (also known as exclusions, credits and deductions) for 2013 (expressed in $billions)

For Individuals

**Exclusions**
- Employer-sponsored health insurance $248
- Net pension contributions and earnings 137
- Capital gains on assets transferred at death 43
- A portion of Social Security and Railroad Retirement benefits 332

**Deductions**
- State and local taxes 77
- Mortgage interest 70
- Charitable contributions 39
- Preferential Tax Rates on Capital Gains and Dividends 161

**Credits**
- Earned income tax credit 61
- Child tax credit 57

**Business Tax Expenditures**

(For 2011 (expressed in $billions.))

This interesting chart shows you the amount of the tax expenditure taken by C Corporations and the percentage of total revenues foregone by the C Corporations that use it, so you can extrapolate the pass-through entities’ amount and percentage. So, for example, if C Corporations used $76 billion in deductions for accelerated depreciation, the total tax expenditure was $118.6 billion and the pass-through entities’ share was $42.5 billion.

C Corporations claimed $76.14 billion for accelerated depreciation of machinery and equipment which represents 64.2% of the total tax expenditure claimed by all businesses.

The amounts of the C Corporations’ portion of various tax expenditures and the percentage of the total business use of the tax expenditure that represents follows:

- Deduction for U.S. production activities $9.84 74.9%
- Credit for increasing research activities $8.30 94.7%
- Exclusion of interest on public purpose State and local bonds $7.57 28.9%
- Credit for low-income housing investments $5.84 95.0%
- Exclusion of interest on life insurance savings $2.42 11.05%
- Deductibility of charitable contributions, other than education and health care $1.43 4.8%
- Energy production credit deduction $1.41 90.4%
- Special Employee Stock Ownership Plan rules $1.03 68.7%
- Excess of percentage over cost depletion, fuels $1.01 84.9%
- Expensing of research and experimentation expenditures $.96 N/A

**HAPPY LABOR DAY!**