



SMALL BUSINESS  
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## **TOLERANCE LEVELS**

The current group psychology exercise in Washington is something akin to “test the waters” or “float a trial balloon.” For the last few weeks, Republicans and Democrats have been seeing whether there is significant negative reaction to letting the sequester take effect. The reaction they have gotten has led them to believe it would be a relative “soft” landing perception wise if they do that. The reality for the agencies and those agencies’ constituencies will not be so soft but a necessary reality.

The Democrats are cooking up a replacement strategy that includes tax loophole elimination and different spending cuts. As we all know, somebody’s “loophole,” is somebody else’s important tax incentive. We will be keeping an eye on the list that emerges. We have been prepared to absorb our share of the pain, but “fair and balanced” will be the watchwords for the next three weeks.

There is a possible third outcome. There might be a deal that alters the sequester so the agencies have to deal with the top line cut number but they get to pick and choose the winners and losers within the agency instead of “across the board” in all aspects.

As we have explained before, the actual percentages are moving targets that depend on a number of variables determined on the day sequestration takes effect. *Lately, you may have heard numbers that sound bigger than what you have heard before.* This is a classic example of how the same facts can come out looking different depending on your prism.

The Office of Management and Budget (OMB) now calculates that sequestration will require an annual reduction of roughly 5 percent for nondefense programs and roughly 8 percent for defense programs. Says OMB, “However, given that these cuts must be achieved over only seven months instead of 12, the effective percentage reductions will be approximately 9 percent for nondefense programs and 13 percent for defense programs.”

According to the Congressional Budget Office (CBO) the latest estimate for the sequestration cuts look like this: budgetary resources for defense (other than spending for military personnel) will be cut by around 8 percent across the board, and nondefense funding that is subject to the automatic reductions will be cut by between 5 percent and 6 percent. According to that estimate, discretionary outlays will drop by

\$35 billion and mandatory spending will be reduced by \$9 billion this year as a direct result of those procedures; additional reductions in outlays attributable to the cuts in 2013 funding will occur in later years.

## **STATE OF THE UNION**

A common observation in Washington about President Obama’s Inaugural Address was that it sounded like a State of Union address with a number of specific goals and objectives. The question now is whether we will hear some new objectives and goals in the State of the Union.

The word on the street is “jobs” for the State of the Union. In addition to the social issues, we expect to hear about clean energy, education and training, comprehensive tax reform and infrastructure funding.

Rare is the State of the Union address that does not include a “shout out” to small business. Consistent with the positioning for the sequestration battle, the President probably will note the importance of maintaining lending programs for small business. It will be interesting to see whether they can find something new in the small business cupboard to promote. Some recycled tax initiatives are what I am guessing.