U.S. House of Representatives
Committee on the Budget
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Stop the Sequester Job Loss through 2014 Act

KEY POINTS: The Congressional Budget Office estimates that the economic drag from the sequester will cost us 750,000 American jobs this year alone. Democrats are offering a balanced approach of spending cuts and revenue increases to replace the sequester for fiscal years 2013 and 2014. House Republicans have refused to take up Democratic alternatives four times this year while failing to put forth their own plan to replace these senseless and counterproductive cuts.

Sequestration will cost 750,000 jobs this year and harm the economy.

- The sequester will cost about 750,000 jobs in calendar year 2013 alone, according to CBO.
- CBO estimates that the sequester that went into effect on March 1 will lower economic growth from 2.0% to 1.4% this year alone, a cut of nearly one-third.
- In its May 1 policy statement, the Federal Reserve stated that "fiscal policy is restraining economic growth," a strong hint to lawmakers to repeal and replace the sequester, among other changes.
- Sequestration was included in the Budget Control Act of 2011 as a deficit reduction mechanism that was so painful that it would encourage a fair and balanced, bipartisan agreement. While we support spending cuts as part of a balanced approach to deficit reduction, it is a big mistake to allow sequestration to make arbitrary and harmful cuts across-the-board.

"Stop the Sequester Job Loss through 2014 Act" replaces the sequester.

- Rep. Van Hollen has introduced a new bill (H.R. 2060) that eliminates the sequester through fiscal year 2014 entirely while reducing the deficit by more than the amount of the scheduled across-the-board spending cuts. It makes specific policy choices that reduce the deficit in a balanced way, with about half from spending cuts and half from revenue increases.
- The bill also calls for a balanced solution to stop the full multi-year sequester.

Every bipartisan group considering our fiscal challenges has recommended a balanced approach to deficit reduction.

- The majority of Americans support the conclusion of every bipartisan commission that we should take a balanced, bipartisan approach to reducing the deficit that increases revenue and decreases spending.
- However, Republicans insist that revenue increases are off the table for further deficit reduction. Instead, they have pushed for a lopsided approach that: increases the tax burden on middle-income Americans to finance a deep tax rate cut for the wealthy; shreds the social safety net for vulnerable Americans; and fails to protect Medicare or student loans from sequester for even one year.

Republicans block a vote on proposals to overturn sequestration.

- Not only have House Republicans refused four times this year to allow a vote on Democratic proposals to replace the sequester, this year they have not even put forward any proposals to stop the sequester. In fact, some Republicans have publicly declared they wanted the sequester to go into effect.

Van Hollen bill takes a balanced approach to deficit reduction in the long term.

H.R. 2060 calls for replacing sequestration for all scheduled years with a balanced, bipartisan approach that:

- Reduces the deficit through both increasing revenues and decreasing spending;
- does not increase the tax burden on middle-income Americans;
- promotes economic growth while achieving deficit reduction; and
- protects the Medicare guarantee and the social safety net for vulnerable Americans.

Van Hollen bill replaces the sequester through 2014 with a balance of spending cuts and revenue.

This bill contains specific policy choices – a mixture of about half spending cuts and half revenue increases – to replace the sequester through fiscal year 2014. The savings include the following:

1. **Repeal Subsidies to Big Oil and Gas Companies** – In a time of record oil profits, this bill repeals several costly tax incentives that subsidize the major integrated oil companies (e.g., Exxon-Mobil, Chevron, Shell, and BP) to do what they would do in any case: produce oil. These subsidies are:
   a. Section 199 deduction for domestic production activities, meant to subsidize the beleaguered manufacturing sector, but which has inadvertently been subsidizing highly lucrative oil production;
   b. "Last-In, First Out" (LIFO) method of inventory accounting that lets oil companies deduct the cost of oil most recently added to inventories (which costs the most when oil prices are rising) from their taxable income; and
   c. Deduction for intangible drilling costs that subsidizes the development and drilling of new wells in the U.S. – an activity that oil companies would engage in without the subsidy given the high price of oil.

2. **Implement a "Buffett Rule"** – Billionaire investor Warren Buffett has observed that he pays a lower effective tax rate than his secretary because he receives the bulk of his income in the form of capital gains, which enjoy preferential tax treatment. Starting in 2014, the Buffett Rule is meant to ensure that middle class families will not confront higher effective tax rates than the wealthy. The bill would impose a minimum effective tax rate of 30 percent on adjusted gross incomes (less charitable deductions) above $2 million (phasing in for taxpayers with AGI between $1 million and $2 million).

3. **Refocus farm subsidies** – The agriculture safety net must be better targeted, while continuing to help farmers effectively manage risk. Direct payments – made regardless of yields, prices, farm income or size – are difficult to defend in times of record crop yields and prices.

4. **Match the President's defense spending levels** – The bill caps discretionary defense spending at the levels the President requested through 2021 rather than at the higher defense caps originally set by Budget Control Act.