# The Fiscal Cliff and YOU



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You could not pick up a newspaper or watch the news in December 2012 without hearing about the "fiscal cliff" and Congress's work to prevent the United States from going over the cliff.

Well, the Dec. 31, 2012, deadline has come and gone, leaving many to wonder, "Now what?"

## What's the fiscal cliff?

Jan. 1, 2013, was slated to be the day when multiple and dramatic budget-effecting events were to occur if Congress did not take action, including

- the provisionally lowered payroll and income tax rates were set to expire, along with the alternative minimum tax (AMT), long-term unemployment benefits, dairy and farm subsidies, and the estate tax rate, and
- automatic federal budget cuts totaling $1.2 trillion—known as sequestration—would trigger the process to begin lowering the federal budget deficit across all federal agencies after the congressionally chartered "Super Committee" failed to agree on how to cut the federal budget.
- The combination of these tax hikes and federal budget cuts all at once would likely have dealt a negative shock to our economy. According to most economists, the effect could have been so detrimental to our national economy that many referred to them collectively as the fiscal cliff.

## What did Congress do?

In the early hours of 2013, Congress passed legislation that President Obama signed into law preventing significant income tax increases for the overwhelming majority of Americans.

Ultimately, passage of the legislative package is good news for ALPA members. Importantly, the automatic sequestration budget cuts for fiscal year 2013 were delayed for two months to give Congress more time to work on an alternative deficit-reduction package. This is key to keeping federal agencies that ALPA and the airline industry rely on—including the FAA, the Department of Homeland Security (DHS), and the Transportation Security Administration (TSA)—running at maximum capacity and efficiency.

The provisionally lowered income tax rates that were temporarily enacted in 2001 and again in 2003 were made permanent for Americans

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earning less than $400,000 a year ($450,000 for couples). The measure makes permanent the current estate tax exemption level but increases the top tax rate from 35 percent to 40 percent. It also includes a permanent patch to prevent the higher AMT from affecting middle-income families. The law does not extend the payroll tax holiday, allowing that temporary tax cut to expire.

Also included in the bill is an extension of long-term unemployment benefits for one year, and an extension of a number of farm programs, including policies that keep the price of dairy products artificially low for consumers. The package freezes pay for members of Congress and prevents for one year a scheduled cut to physician Medicare payment rates and extends several other expiring health-care programs.

To help pay for some of these changes, the law also permits 401(k) plans to be amended to give participants the option of converting their pre-tax accounts to after-tax Roth accounts, resulting in the collection of income taxes on the accounts in the year of conversion rather than in the year of distribution.

## What does this mean for ALPA members?

Failing to address these fiscal challenges would have likely slowed the growth of the U.S. economy, which would reduce the modest gains in air traffic seen recently. The Congressional Budget Office estimates that inaction by Congress could have slowed the growth of consumer spending by 1.7 percent and resulted in a loss of 0.5 percent in the gross domestic product. Additionally, automatic federal budget cuts would significantly reduce the FAA's budget, triggering reductions in air traffic, limited air service, and job losses. As many as 5,000 flights per day would have to be cancelled. This translates into hundreds of millions of dollars not being spent on air travel, reduced growth for airlines, and a negative effect on pilot careers.

The debate about individual tax rates is over for now, which is good news for the U.S. economy in the short term. Larger and more complicated issues, however, remain that Congress needs to address. The country is poised to hit its debt limit again, meaning the country can no longer borrow money, which negatively affects the nation's credit status. Congress will need to address this issue in the first quarter of 2013.

Additionally, with only a short-term delay in the automatic federal budget cuts, Congress will again need to find an alternative path to reducing federal spending and increasing revenue, without doing harm to the FAA, the TSA, and other agencies that ALPA members rely on. Wall Street, U.S. creditors, and the world are watching closely to see what action Congress will take in early 2013.

## What's to come?

While these issues are debated in Congress, ALPA's Government Affairs Department staff and dedicated volunteers are working tirelessly to protect ALPA members from harm. Some deficit-reduction packages floated in Congress have proposed to add a new tax on employer-provided health-care benefits and a reduced cap on permissible contributions to retirement plans. ALPA opposes both of these provisions and is working with Congress to find solutions that do not negatively affect our members.

Watch for future articles in *Air Line Pilot* and other ALPA publications for more details, and subscribe to the Pilot Partisan blog (http://pilotpartisan.com/) for regular updates from the Government Affairs Department.