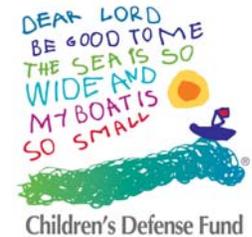


# Analysis of President Obama's FY 2013 Budget Proposal

March 2012



In these tight economic times, the President's FY 2013 budget proposes critical investments to support healthy child development and fight poverty while taking steps towards addressing inequities in the U.S. tax code. President Obama's FY2013 budget includes \$3.67 trillion in new budget authority, a 3.7 percent reduction from 2012. Of this, 31 percent would fund discretionary spending, and 62 percent would fund mandatory spending. Priorities for increased funding in the President's budget include education, early childhood development, health and vulnerable youth.

Despite this overall good news for children, there is cause for concern. Under the Budget Control Act of 2011, budget caps requiring \$1 trillion in spending cuts over the next ten years remain in place. While the President's budget takes the positive step of proposing to replace these automatic across-the-board spending cuts ("sequestration") with a mix of spending cuts and revenue increases, in so doing it abandons the critical commitment to extracting savings equally from both defense and non-defense sectors. This approach would leave non-defense discretionary programs that provide critical lifelines for children and families vulnerable to deeper cuts in future years. Moreover, a number of important programs that serve vulnerable children and families face deep budget cuts in this proposal, including LIHEAP and the Community Services Block Grant.

## Health

The President's budget invests in children's health through continued implementation of the **Affordable Care Act** (ACA), which will provide access to health coverage for more than 95% of children in America. However, a number of programs affecting children's health were level-funded or cut. Specifically, the budget:

- Includes \$1 billion in new funds for the Centers for Medicare and Medicaid Services to continue administering Medicare, Medicaid and the Children's Health Insurance Program (CHIP), with \$864 million targeted for development of systems that will help inform and enroll individuals in **health insurance exchanges** created under the ACA starting in 2014.
- Proposes to rescind \$6.7 billion in unspent state funds from the performance pool for the **Children's Health Insurance Program** (CHIP). This rescission is in addition to a \$6.3 billion rescission from the fund in FY2012. While these funds are not needed at present, it is disappointing that the collective \$13 billion taken from CHIP is not being redirected to improve child health as originally intended.
- Proposes savings in **Medicaid** through a variety of mechanisms, at least one of which could have a major impact on children: the budget would "blend" the match rates for states for CHIP and Medicaid, resulting in a total savings of \$17.9 billion from FY 2017 to FY 2022. The rate at which the federal government matches funds is higher for CHIP than for Medicaid to ensure that states have appropriate incentives to enroll children in health coverage. If the proposed "blended" match rate is designed in such a way that it cuts payments to states for covering children, it could reduce incentives for states to engage in outreach to enroll more children in coverage.

- Includes an extension of **Transitional Medical Assistance** to low-income families leaving welfare for work until the ACA-created health insurance exchanges are operational on January 1, 2014.

#### *Increases Funding For:*

- **Health Centers** with \$3.1 billion in funding. These funds will support the creation of more than 25 new health centers that provide primary and preventive health services to 21 million people across the country regardless of their ability to pay. Additionally, the budget provides continued support for existing health centers.
- The **Vaccines for Children** Program, which provides vaccines at no cost to children who might not otherwise be vaccinated because of inability to pay. The proposed \$4.3 billion in funding for FY 2013 represents a \$265 million increase over last year.

#### *Decreases Funding For:*

- **CHIP Outreach and Enrollment Grants**, which support nationwide activities to identify and enroll eligible children in CHIP and Medicaid, with a cut of \$13 million. These grants have funded innovative methods to enroll eligible children across the country in health coverage. During the last year, they have played a critical role in enrolling an additional 1.5 million children in Medicaid and CHIP and contributing to the continued reduction of the number of eligible but unenrolled children. CDF, in conjunction with the American Association of School Administrators, was selected as a recipient of a 2011 CHIPRA grant to fund school-based outreach.
- The **Prevention and Public Health Fund**, created by the ACA to promote good health and wellness, with a \$4.5 billion cut over 10 years. Additionally, \$900 million of the \$1.2 billion allotted for the Fund in FY 2013 would go to the Centers for Disease Control (CDC).
- The **CDC** by \$664 million or more than 11%. The CDC provides funds to state and local health departments to promote quality of life through prevention and control of disease, injury, and disability. On top of cuts last year, funding for CDC has been cut by almost 20% since FY 2010. Of particular importance for children, the budget:
  - Eliminates the \$79 million **Preventive Health and Health Services Block Grant**, including programs related to Nutrition, Physical Activity and Obesity (\$34 million) and School Health (\$13.5 million). Instead, the budget consolidates programs into one general chronic disease fund.
  - Cuts the **Section 317 Immunization Program** that provides vaccine services to low-income and uninsured children, adolescents and adults by \$59 million.
  - Cuts funding for **Birth Defects, Developmental Disabilities, Disability and Health** by nearly 10%, from \$137 million to \$125. CDC is proposing to streamline these activities into several different programs.
- **Children's Hospital Graduate Medical Education** by nearly two-thirds, from \$265 million to \$88 million. This program supports physician training at children's hospitals to ensure a strong

pediatric and pediatric subspecialist workforce. The 60 children's hospitals that benefit from this program train 40 percent of general pediatricians and 43 percent of pediatric specialists.

*Provides Level Funding For:*

- The **Maternal and Child Health block** grant at \$640 million. This program supports and funds improved health care for the nation's children and infants and has served more than 39 million individuals.
- **School-based health centers** at \$50 million. School-based health centers provide primary medical care, mental health services, preventive care, and social services for two million children and young adults. Additional investments for these facilities in FY 2012 expanded health care access to nearly 500,000 additional children and adolescents.

## Nutrition

At a time when nearly one in four households with children is struggling to put food on the table, the budget cancels the pending cuts to the **Supplemental Nutrition Assistance Program** ("SNAP" or food stamps) that had been scheduled to go into effect in 2013, thereby strengthening the nation's nutrition safety net. SNAP serves more than 46 million people, three quarters of whom are families with children. Canceling these pending cuts will avert a loss in benefits of \$60 per month for a family of four. In addition, the budget:

*Increases Funding For:*

- The **Supplemental Nutrition Program for Women, Infants, and Children (WIC)** by \$423 million to keep pace with demand for nutritional assistance to support 9.1 million low-income and nutritionally at-risk pregnant and post-partum women, infants, and children up to age 5.
- The **Summer Food Service Program** by \$29 million to \$441 million to help expand access for low-income children to nutritious meals children when school is out during the summer months. Currently, almost 2.3 million children are reached by the program, but that is only one out of every nine low-income children who received a free or reduced-price school lunch during the school year.

*Provides Level Funding For:*

- The **Healthy, Hunger-Free Kids Act of 2010**, which strengthens child nutrition programs and increases children's access to healthy meals and snacks. This will support the 32.4 million children who are expected to participate in the **National School Lunch Program** and the 13.1 million children in the **School Breakfast Program**.

## Early Childhood

The budget offers promising increases in early care and education and proposes to increase funding for all of the major federal funding streams for early learning programs including Head Start, child care and home visiting.

### *Increases Funding For:*

- **Head Start** by \$85 million over FY 2012. This would maintain the American Recovery and Reinvestment Act (ARRA) expansion, allowing the 962,000 children currently participating to continue. These funds would also support the implementation of new regulations to strengthen the program by requiring low-performing grantees to compete for continued funding.
- The **Child Care and Development Block Grant** by \$825 million to offer subsidized child care dollars to families who need it. These funds would include a \$300 million investment for a new child care quality initiative that states would use to invest directly in programs and teachers to improve the services that children receive in child care settings. This increase would also ensure that more than 70,000 additional children would be eligible to receive services.
- **Part C of the Individuals with Disabilities Education Act (IDEA)** by \$20 million (five percent) to support programs that benefit infants and toddlers with special needs.
- Evidence-based early childhood **home visiting programs** by \$50 million to improve health and developmental outcomes for families in at-risk communities.
- A third round of **Early Learning Challenge Grants** to help states improve their early care and education systems through a portion of the \$850 million investment in Race to the Top funding.

### *Provides Level Funding For:*

- Several early childhood initiatives including **Part B, Section 619 of IDEA (pre-school special education), and the Child Care Access Means Parents in School (CCAMPIS) program.**

## Education

The President's budget provides \$69.8 billion in discretionary spending for the Department of Education; this is an increase of 2.5 percent, or \$1.7 billion above the FY 2012 enacted level. The request protects funding for critical education programs and builds on several of the Administration's initiatives for education reform. In particular, the budget:

### *Makes New Investments Including:*

- A new \$5 billion competitive grant program, modeled after Race to the Top, which will challenge states and districts to work with their teachers and unions to comprehensively **reform the teaching profession.**

- A new 25 percent set-aside in the \$2.5 billion teacher quality formula grant to support programs that build evidence on ways to best **recruit, prepare and support effective teachers and principals**.
- The new **Hawkins Centers for Excellence**, a \$30 million competitive grant program to improve and expand teacher education programs at minority-serving institutions, a significant pipeline for preparing a diverse teaching workforce.
- A \$1 billion **Race to the Top: College Affordability and Completion program**. This competitive grant program would provide funding to challenge states to spur higher education reform focused on affordability and improved outcomes across state colleges and universities.
- A new \$55.5 million **First in the World (FITW) initiative** to increase college access and completion. Modeled on the successful K-12 Investing in Innovation (i3) program, FITW would focus on improving college completion—with a particular focus on low-income and minority students. Up to \$20 million of FITW funds would be set aside for projects involving minority-serving institutions.

*Increases Funding For:*

- The **Race to the Top** program by \$300 million. The \$850 million competitive grant program will provide further support for state and local education reforms and innovations designed to close achievement gaps, improve student achievement, and increase high school graduation and college enrollment rates.
- **Promise Neighborhoods** by \$40 million, to provide a total of \$100 million for competitive grants to support the development and implementation of plans for comprehensive neighborhood projects that include a continuum of family and community services.

*Provides Level Funding For:*

- The \$14.5 billion **Title I formula grant program** to support state and local efforts to help disadvantaged students in high poverty schools get on track for college and career.
- The \$533.6 million **School Improvement Grant program** that provides awards to local school districts to support the implementation of rigorous interventions in persistently low-achieving schools.
- The **Pell Grant program** by providing the necessary resources to sustain the maximum award of \$5,635 through the 2014-15 award year.
- The \$150 million **Investing in Innovation (i3)** competitive grant program, to continue support for the development of innovative evidence-based approaches to improve student achievement and graduation rates, and to close achievement gaps.

## Child Welfare

The overwhelming majority of child welfare programs that support families, prevent child abuse and neglect, promote adoption and permanency, and provide supports for older youth in and aging out of foster care remained at their current funding levels. Specifically, the budget:

- Includes an additional \$2.5 billion in mandatory funds over ten years to provide incentives to states to align performance with improved outcomes for children in **foster care** and for those who are receiving in-home services from the child welfare system. It would also require that child support payments made on behalf of children in foster care be used in the best interest of the child.
- Creates a new **teen pregnancy prevention program** specifically targeted to youth in foster care. The new program would provide competitive funds to local or state child welfare agencies with the strongest plans to reduce pregnancy among youth in foster care. Funding would derive from Title V Abstinence Education funds that are not drawn down by states; however, grantees are not limited to the Title V definition of Abstinence Education.
- Proposes to make the Adoption Tax Credit permanent and extend the Affordable Care Act's provisions through 2013, which would include an increase of \$1,000 in the maximum adoption tax credit and making the credit refundable for two years (so taxpayers can receive the tax credit even if they do not owe tax for that year).

### *Increases Funding For:*

- The **Foster Care Program** by \$107 million, for a total request in FY 2013 of \$4.4 billion in budget authority to provide maintenance payments to children and new incentive-based funds. The Administration projects that fewer children will be served in foster care in FY2013 due to an increase in the number of children moving into adoption or guardianship. An average of 165,000 children per month are estimated to be served in FY 2013, which is 3,300 fewer children than the year before.
- A **foster care reform incentive program** by \$252 million in mandatory funds to support improvements in foster care and other child welfare programs. Specifically this would improve outcomes for children involved in the child welfare system by: reducing length in care; increasing permanency; structuring proper oversight and monitoring of the use of psychotropic drugs; providing appropriate therapeutic services; building capacity for effective interventions; and addressing trauma. This would also require that child support payments made on behalf of children in foster care be used in the best interests of the child.
- The **Guardianship Assistance program**, totaling \$90 million in funding, reflecting an increase in the number of children participating in Guardianship. In FY2013, it is estimated that 3,000 more children will be in this program than in the previous year.
- **Adoption Assistance**, an increase of \$42 million above the FY 2012 enacted level, for a total of \$2.5 billion in budget authority. This reflects an estimated increase of 15,500 children eligible for the Adoption Assistance program in FY2013.

## Other Vulnerable Youth

The President's FY2013 budget provides important funding for programs that serve some of our country's most vulnerable youth. Specifically, the budget:

- Provides funds for a new interagency initiative targeted at “disconnected youth,” identified as youth ages 14 to 24 who are neither working nor in school, to better help prepare them for college and/or career success. The Administration on Children and Families includes \$10 million for this new initiative: \$5 million are included in a new “Disconnected Youth” program and another \$5 million included in the **Social Services Research and Demonstration** funding. This \$5 million will be used in close cooperation with an additional \$5 million from the Department of Education and \$10 million from the Department of Labor as part of a cross-agency effort to identify and test new ways to strengthen services for disconnected youth. This initiative would streamline the intake process, better coordinate services for youth in multiple systems, or pilot new service models for specific high-risk youth groups like youth aging out of foster care.
- Provides \$260 million for **teen pregnancy prevention and related efforts**. This includes \$105 million for community-based and faith-based efforts to reduce teen pregnancy using evidence-based models and promising programs needing further evaluation. The budget also includes \$4 million for the evaluation of teen pregnancy prevention activities. In addition, the CDC will receive \$15 million for a five-year project to promote teen pregnancy prevention activities and reduce the number of unintended pregnancies through science-based prevention approaches.
- Includes new funds in child welfare to **prevent domestic sex trafficking of youth**. A total of \$5 million will be provided through a competitive child welfare services grant program to improve coordination among the different systems most likely to come into contact with victims of domestic sex trafficking, such as child welfare, law enforcement, courts, and programs that work with runaway and homeless youth. These funds will also be used to train staff to better identify and serve these youths.

## Preventing Family Violence

The President's budget increased funding for **Family Violence Prevention and service programs** by \$7 million to \$139 million. These programs support domestic violence shelters and services for victims of domestic violence and their children. Specifically the budget increased funding for the **Family Violence Prevention program** by \$5 million and the **Domestic Violence Hotline** by \$2 million.

## Mental Health and Substance Abuse

The President's budget included overall program funding for **substance abuse and mental health services** in FY2013 of \$3.152 billion, an overall reduction of \$196 million below the FY 2012 enacted level. Several program cuts were consolidated into other existing and new services. The budget also proposed a cut of \$29 million for **Children's Mental Health Services** in FY2013.

## Juvenile Justice

The President's budget would restore funding to important programs in the area of juvenile justice and delinquency prevention to levels that are higher than congressional appropriations for FY 2012, and come closer to providing adequate support for states to effectively promote public safety, prevent delinquency, reform and improve systems, reduce disproportionate minority contact, and protect children and youth from harm, particularly from the dangers of being confined with adult inmates.

- Includes the creation of a new "Race-to-the-Top"-like program, the **Evidence-Based Competitive Juvenile Justice Demonstration Grant Program** with a \$20 million request that would fund grants on a competitive basis to states, tribes, localities, local governments, non-profit organizations, private entities, and universities that invest in evidence-based and innovative practices leading to juvenile justice systems reforms and better outcomes for children.
- The budget would support a number of juvenile justice and child safety **initiatives to help states and localities address juvenile delinquency** and childhood exposure to violence, and improve child-serving systems such as the **Community-Based Violence Prevention Initiatives program, Children Exposed to Violence programs, and the National Forum on Youth Violence Prevention.**

### *Increases Funding For:*

- **The Juvenile Justice and Delinquency Prevention Act's (JJDP) Title II State Formula Grants program** with a \$30 million increase over the FY 2012 final budget, to a total of \$70 million. Title II funding supports state compliance with federal law and creates incentives for research-based practices and innovations to build effective and equitable juvenile services aimed at positive youth and family outcomes. Title II also provides technical assistance to improve juvenile justice systems.
- **The JJDP Title V Delinquency Prevention Program**, which would see an increase of \$20 million with no set asides for other statutory purposes. **Title V** is the only federal program that provides delinquency prevention funding at the local level to reach at-risk youth and help keep them out of the juvenile justice system. Title V has been used to bring together local government, law enforcement, the courts, youth service providers, youth development organizations and others to build sustainable prevention efforts.
- **The Community-Based Violence Prevention Initiatives Program**, by \$17 million for a total of \$25 million. This initiative would fund programs that reduce violence using public health and other community-based strategies focusing on street-level outreach and conflict mediation within communities to change norms around violence and delinquency.

### *Decreases Funding For:*

- **Youth Mentoring programs** by \$20 million for a total of \$58 million. Grants for youth mentoring support faith- and community-based, non-profit and for-profit agencies to expand existing mentoring strategies and programs. Youth mentoring grants also support efforts to develop, implement, and test mentoring strategies for youth in the juvenile justice systems, foster care systems, and during reentry. Technical assistance is also offered.

- The **Department of Justice (DOJ)** by 0.4 percent to \$27.1 billion. The **Office of Justice Programs**, which oversees the Office of Juvenile Justice and Delinquency Prevention, would be funded at \$1.7 billion, a decrease of \$300 million from FY 2012.

## Child Safety

The President's budget would reorganize but continue support for child safety programs. **The Missing and Exploited Children Program**, with a request of \$67 million, was moved to a different section of DOJ's budget. Funding for the **Victims of Child Abuse Program** (funded at \$18 million in FY 2012) was not included, but \$23 million was included for **Children Exposed to Violence programs** (also known as the Attorney General Holder's special initiative, **Defending Childhood**). Defending Childhood is an initiative to address childhood trauma due to exposure to violence as a witness or as a victim.

## Prisoner Re-entry Programs

The President's FY 2013 budget proposes \$80 million for various adult and juvenile offender reentry programs and research, as authorized by the **Second Chance Act (SCA)**. SCA supports comprehensive approaches to reducing recidivism and securing a successful transition after periods of incarceration by providing services such as employment training, substance abuse treatment, and mentoring. It also includes \$85 million for Department of Labor programs authorized by the **Workforce Investment Act** to help adult and youth ex-offenders and at-risk youth earn and maintain employment by providing counseling, job training, drug treatment, and other transitional supports to former prisoners as they reintegrate into their communities. These programs help reduce recidivism by preparing young ex-offenders and school dropouts for employment, with a priority for projects serving high-crime, high-poverty areas.

## Efforts to Combat Violence Against Women

The President's FY 2013 budget includes \$412.5 million for **Violence Against Women Programs** to reduce violence against women and provide services to victims of violence, including domestic abuse, sexual assault, dating violence and stalking. This includes \$144.5 million of discretionary funding in the **Crime Victims Fund** for violence against women programs that focus on assisting victims.

## Youth Employment and Job Training

The President's FY 2013 budget demonstrates a continued commitment to helping low-income youth access job training and employment opportunities. Specifically, it:

### *Decreases Funding For:*

- **Job Corps** by \$52.9 million, which will be achieved by closing a small number of underperforming centers. Job Corps provides education and job training opportunities to low-income youth.

### *Provides Level Funding For:*

- **YouthBuild, Trade Adjustment Assistance Community College and Career Training Grants**, and the **Youth Programs** portion of the **Workforce Investment Act**, which funds a wide range of programs that prepare youth for academic and employment success. The proposal also carries over funding from FY2012 for the **Pathways Back to Work** program, a part of the American Jobs Act that would focus on subsidizing employment and providing training to low-income youth.

### **Supports for Families**

Overall, the President's budget contains a number of decreases in supports to families, partly due to administrative savings achieved through program consolidation. It creates a new **State Paid Leave Fund** that would receive \$5 million in new funding in the budget. This program would help states set up paid leave programs by providing technical assistance and other support. Although funding was maintained to cover existing households in **subsidized rental housing**, this is achieved in part by increasing the minimum rents paid by very low-income tenants from \$50 to a mandatory \$75 a month. Additionally, while the **Child Support Enforcement and Family Support** programs were cut by \$181 million to \$3.9 billion, the budget includes a new Child Support and Fatherhood initiative that would promote better 'pass-through' of payments and encourage continuing parental involvement with their children. In addition, the budget:

### *Decreases Funding For:*

- The **Low Income Home Energy Assistance Program** by \$452 million to \$3 billion. This is attributed to the declining costs of natural gas and electricity, and because only a small percent of households use heating oil, the cost of which is at an all-time high. A cut of this magnitude is estimated to cut off assistance for one million households. In FY 2009, 7.7 million households received LIHEAP assistance.
- The **Family Self-Sufficiency Program** that would consolidate two existing programs at a \$60 million funding level—with a \$15 million decrease in overall funding achieved through administrative savings. This program will provide service coordination to all HUD-assisted residents by linking them with employment assistance, job training, child care, and other services.
- The **Lead Hazard Control and Healthy Homes** program by \$1 million through consolidation. This program provides grants focused on controlling lead-based paint hazards in low-income housing and assessing and controlling other housing-related hazards that contribute to childhood diseases and injuries.

### *Level Funding For:*

- **Aid for Needy Families (TANF)** at \$17.351 billion including Supplemental Grants. TANF funds provide cash assistance for a variety of services and supports for low-income families, including: income assistance, child care, education and job training, transportation, and aid to children at risk of abuse and neglect. Despite TANF's success in lifting children out of poverty, TANF caseloads have declined due to harsh cuts in benefits and eligibility policies, even as

the need for assistance has grown due to the economy. The most recent data from FY2011 shows more than 3.3 million children benefited from TANF cash assistance monthly.

## Supports for Communities

The President's budget increases **Homeless Assistance Grants** funding by \$319 million, to a total of \$2.2 billion. Most of these funds would go toward competitive 'Continuum of Care' grants in which local communities design and implement homeless assistance programs. It includes a request for **Choice Neighborhoods** that would increase funding by \$29 million to \$149 million. This would allow for the inclusion of four to six new neighborhoods in this program, which focuses on revitalizing low-income housing and communities.

## Tax Proposals

Overall, President Obama's FY 2013 budget proposes a number of changes to tax credit programs that benefit low- and middle-income families. It also proposes maintaining tax cuts for middle-income and lower-income families while increasing taxes for those with higher incomes. In addition to the proposals below, the budget would continue the payroll tax cut and extend/increase unemployment benefits for the rest of 2012. Specifically, the budget:

### *Permanently Expands Tax Credits for Low- and Middle-Income Families By*

- Making the **American Opportunity Tax Credit** (AOTC) permanent and indexing the full credit amount and phase-out thresholds to inflation. The AOTC replaces the Hope Scholarship and provides a partially refundable credit of up to \$2,500 for four years of qualified college tuition and other expenses. The full credit is available to individuals with an adjusted gross income (AGI) of \$80,000 or less, or \$160,000 or less for married couples filing a joint return, and phases out for incomes above these levels. In 2011 an estimated 9.4 million families with college students received an AOTC, with an average credit of \$1,900. Over \$4 billion in 2011 AOTC refunds are expected to go to low-income families with no federal income tax liability.
- Permanently expanding the **Earned Income Tax Credit** (EITC) for larger families. This change, which was first implemented under ARRA in 2009, establishes a new phase-in range for families with three or more children, resulting in a larger maximum credit of \$5,891 (compared to \$5,236 for families with two children) and a longer phase-out range for these families. The proposal also calls for altering the EITC requirements so that eligible individuals who live with a qualifying child but who are not claiming that child may claim the small EITC for workers without a qualifying child. Currently, such individuals are not eligible for any EITC benefits. In 2009 the EITC lifted 6 million people – including 3 million children – out of poverty and decreased the child poverty rate by almost one-third. The EITC lifts more children out of poverty than any other program.
- Greatly increasing the phase-down threshold for the **Child and Dependent Care Tax Credit**, which is worth up to 35 percent of up to \$3,000 in eligible expenses for one child or dependent and \$6,000 for two or more. The threshold at which benefits begin to phase-down would be moved from an AGI of \$15,000 up to \$75,000. The value of the credit would be nearly doubled

for families with income less than \$75,000 and increased for families earning less than \$103,000. In 2009 almost 6.3 million families claimed this credit.

- Making three changes to the **Child Tax Credit** permanent. The first two changes, enacted in 2001, doubled the credit from \$500 to \$1,000 and made the refundable portion of the credit available to more families. The second change, enacted under ARRA in 2009, lowered the income threshold to claim the credit to \$3,000 from \$12,850. In 2009 the Child Tax Credit kept 2.3 million people out of poverty, including 1.3 million children.
- Excluding **state and local EITC and Child Tax Credits from Supplemental Security Income (SSI) and resource tests** (federal credits are already excluded). This will make more individuals eligible for SSI benefits.
- Continuing funding to the **Volunteer Income Tax Assistance sites** at the same level as FY2012 (\$12 million). These sites provide a free avenue for low- and middle-income taxpayers to receive tax advice and help them claim the tax credits for which they are eligible.

#### *Maintains some of the Bush Tax Cuts while Increasing Taxes on the Wealthy*

- **Maintaining the Bush tax cuts for the first \$250,000 of income (married) or \$200,000 (unmarried).**
- **Allowing the Bush tax cuts to expire for earnings over \$250,000 (married) or \$200,000 (unmarried).**
- **Reducing the value of itemized deductions and other tax preferences to 28 percent for individuals with incomes over \$200,000 and families with incomes over \$250,000.** This change would return the deduction rate to the level it was at the end of the Reagan Administration. Certain deductions, such as medical expenses and investment interest, would be exempt.
- **Ending the additional estate tax cuts implemented at the end of 2010.** The estate tax rules would remain very generous even after this change, with the first \$3.5 million of an individual's estate (\$7 million for couples) remaining exempt. The change proposed in the budget would only eliminate a reduction in the taxes being paid by estates that exceed these limits – which are the estates of the top one-quarter of one percent of Americans.
- **Taxing carried interest as ordinary income.** This change would require many hedge fund managers, private equity partners, and other managers in partnerships to pay ordinary income rates (instead of the 15 percent capital gains rate) on their labor income, which is known as “carried interest.”
- **Replacing the Alternative Minimum Tax (AMT) with the “Buffett Rule,”** under which no millionaire should pay a lower effective tax rate than a middle-class family.
- **Eliminating special depreciation rules for corporate aircraft.** Currently corporate aircraft have a depreciation schedule of five years. This change would impose a seven-year depreciation schedule – in line with commercial aircraft – and would reduce the deficit by \$2 billion over 10 years.

## *Reforms Corporate Taxes*

- **Eliminating \$40 billion over 10 years in tax breaks to oil and gas companies.** About one-fourth of the savings would be invested in job creation by bolstering domestic manufacturing. The proposal also eliminates some much-smaller coal tax subsidies.
- **Reducing subsidies that move jobs and shift profits out of the United States.** This package of reforms would increase revenue by \$147.5 billion over the next decade.

*Subsequent to the release of the President's FY 2013 budget, the White House released a memo recommending significant changes to the corporate tax system, arguing that the current system is uncompetitive and overly complex due to an overall high rate combined with tax reductions available through loopholes and tax expenditures.*

*Key tenets of the Administration's subsequent proposal include:*

- *Eliminating many loopholes and subsidies while lowering the overall corporate tax rate. The federal tax rate would be reduced from 35 percent to 28 percent, and all loopholes and tax expenditures for specific industries would be eliminated with only a few exceptions that are "critical to broader growth or fairness." These exceptions include a lower tax rate for manufacturing, extending incentives for investment in clean energy, and making the Research and Experimentation Tax Credit permanent.*
- *Reforming taxes on foreign earnings. A new minimum tax would be required on overseas profits, and tax deductions for moving productions overseas would be removed. There would be new incentives for domestic production, such as a 20 percent income tax credit for the expenses of moving operations back into the U.S.*