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**The Balancing Act**
Cut Handouts, Not Jobs

The Balancing Act eliminates the haphazard cuts in the sequester and ensures that we reduce our long-term deficit in a balanced way. The bill equalizes budget cuts and revenue by closing loopholes for America’s wealthiest individuals and corporations. It also creates over 1 million jobs by investing in infrastructure, teachers, and putting money in consumers’ pockets, paid for by cutting wasteful Pentagon spending to achieve balance with non-defense cuts.

In 2011 and 2012, Congress and the President enacted **$1.7 trillion** in deficit reduction, slashing everything from loans for college students to funds needed to fix our crumbling roads and bridges. The 2011 budget alone included $600 million in cuts to community health centers, $503 million in cuts to the Women and Infant Children nutrition program, $1.6 billion in cuts to environmental programs, $400 million in cuts to home energy assistance, $296 million in cuts to the Community-Oriented Policing Services (COPS) program, and $150 million in cuts to the National Science Foundation. Middle Class Americans shouldn’t be forced to pay the price for cuts like these while we maintain a bloated Pentagon budget and give massive tax breaks to millionaires and billions of dollars in subsidies to oil companies.

In January 2013, Congress and the President took the first step towards a more balanced approach to deficit reduction, enacting **$737 billion** in revenue and interest savings. Yet to date, **more than two-thirds** of deficit reduction has come from cuts to critical programs.

We cannot afford to make deeper cuts to vital investments and to lifelines for many working families, but the “sequester” enacted under the Budget Control Act would do just that. The Balancing Act would repeal the sequester, which would save over 600,000 jobs in 2013 alone. Instead, it achieves the same long-term deficit reduction by closing tax loopholes and by asking the wealthiest among us to contribute a little more.

In doing so, the Balancing Act rectifies the inequitable approach to deficit reduction taken so far. By **replacing the sequester with $960 billion in revenue,** the Act achieves a **1:1 ratio** of cuts to revenue. The Balancing Act would close tax loopholes that encourage companies to ship jobs overseas, that pay billions of dollars annually to the highly profitable fossil fuel industry, and that allow tax breaks for yachts and corporate jets. It would also limit deductions from the wealthiest tax payers, close loopholes for hedge fund managers, and close estate tax loopholes.

In 2011, US corporations paid an effective tax rate of just 12%, the lowest level in the last forty years. Likewise, tax rates for the wealthiest families have plunged, with households earning more than $1 million a year paying only 23% of their income in tax in 2007 – down nearly 10 points from the mid-1990s.

In addition, the Balancing Act eliminates **$278 billion** in wasteful Pentagon spending – the amount needed to equalize cuts to the defense and non-defense side of the budget – and invests the savings in our number one economic priority – job creation. By focusing our Pentagon budget on 21st century threats and making smart decisions about the weapons we need in the modern era, we can invest in a one-year tax credit of $800 for low- and middle-income families, prevent up to 280,000 teacher layoffs, modernize 35,000 public schools, and make infrastructure investments that if sustained could protect 3.5 million jobs by 2020.

If enacted, the Balancing Act would result in more than $3.3 trillion in total deficit reduction since 2010, and would do so in a fair, balanced approach that protects working families who continue to work harder and harder for less and less.
The Balancing Act
Closing Loopholes to Equalize Cuts and Revenue

AFTER ROUND 1:
2011-2012
100% $1.7 Trillion

AFTER ROUND 2:
American Taxpayer Relief Act
30% $737 Billion
70% $1.7 Trillion

AFTER ROUND 3:
The Balancing Act
50% $1.7 Trillion
50% $1.7 Trillion

Revenue
Cuts to programs

The Balancing Act
Cutting Wasteful Pentagon Spending and Investing to Create One Million Jobs

2011-2012
60% $894 billion
40% $616 billion

AFTER THE BALANCING ACT
50% $894 billion
50% $894 billion

Domestic Cuts
Defense Cuts
OVERVIEW

The Math:

- Round 1: $1.7 trillion in cuts
- Round 2: $737 billion in revenue
- Round 3: The Balancing Act
  - Achieves 1:1 Revenue and Cuts – by replacing sequester ($948 billion) with revenue
  - Achieves 1:1 Defense and Non-Defense Cuts – by eliminating $278 billion in wasteful Pentagon spending and investing it in job creation
  - Job investment provisions would create over 1 million jobs
- Total long-term deficit reduction from the three rounds of over $3.3 trillion

Replace Sequester with Revenue:

- 28 Percent Limitation on Certain Deductions and Exclusions ($482B)
- Close Carried Interest Loophole ($17B)
- Close Loopholes for Jets and Yachts ($4B)
- Close International Tax System Loopholes ($161B)
- End Fossil Fuel Subsidies ($94B)
- Close Exclusion of Foreign-Earned Income Loophole ($71B)
- Close Corporate Deductions for Stock Options Loophole ($25B)
- Close Estate Tax Loopholes ($23B)
- Close S Corporation Loophole ($13B)
- Reduce Corporate Meal and Entertainment Deduction to 25% ($70B)

Invest in Job Creation:

- Making Work Pay Extension for 1 year ($61B)
- Support for Teachers and School Modernization ($55B)
- Transportation Infrastructure Investments ($160B)

Cut Pentagon Waste:

- Rep. Markey’s Smarter Approach to Nuclear Expenditures ($106B)
- Limiting Excessive Contractor Compensation ($50B)
- Relocate Troops from Europe to the U.S. ($3B)
- Reduce Troop Levels 4% by Attrition ($48B)
- Limiting the Purchase of Virginia-class Nuclear Subs to one per year ($22B)
- Replacing F-35s with F-18s ($23B)
- Eliminate one Ford-class Carrier ($14B)
- End Production of the V-22 Osprey ($9B)
- Limit Military Bands ($2B)
- Reduce General & Flag Officers to Cold War Standard ($1B)

1 Score source: CBPP, CAP (includes BCA caps + FY2011 appropriations) (without interest it’s $1.5T – with $278B more in non-defense cuts than defense cuts)
2 Score source: OMB score of American Taxpayer Relief Act (includes interest savings; without interest it’s $633B)
3 Score source: CBO
SECTION BY SECTION

Replace Sequester with Revenue

- **Repeal of Sequester** – Sec. 101

- **28 Percent Limitation on Certain Deductions and Exclusions** ($482 billion) – Sec. 201

  Lowers the cap on individual income tax breaks to 28%, providing a flat rate benefit for itemized deductions. Only 30% of taxpayers itemize their deductions. Further, the value of a deduction corresponds to an individual’s marginal tax rate – making itemization highly regressive. For example, itemized deductions totaling $10,000 reduce taxes for a person in the 15 percent bracket by $1,500 (15 percent of $10,000) but cut taxes by $3,900 for a person in the 39 percent bracket (39 percent of $10,000). While “itemizers” include individuals from all income levels, this proposal holds lower earners completely harmless, only affecting households earning above $223,000 annually.

- **Close Carried Interest Loophole** ($17 billion) – Sec. 201

  Ensures that carried interest income from service partnerships is taxed as ordinary income. Hedge fund executives and other investment managers can currently count their share of the firms’ profits as an investment in the partnership rather than as a fee for service. This allows some of the highest-income Americans to pay much lower tax rates (15% in 2012 and 23% in 2013) than they would pay if their fee was correctly taxed as ordinary income (up to 39%), even though the funds they manage are not their own and managing the money is their job.

- **Close Loopholes for Jets and Yachts** ($4 billion) – Secs. 251 & 421

  Removes tax advantages provided to owners of private jets and yacht owners. Current law enables owners of private airplanes to receive a more generous five-year depreciation instead of the seven years provided to commercial airlines. This provision allows a seven-year depreciation for all jet owners. Also, about 500,000 boat owners nationwide can decrease their income-tax bill every year by declaring their vessels a second home. This provision only permits people who use their boats as their primary residence to receive a tax benefit. *(includes bill text from Rep. Quigley)*

- **Close International Tax System Loopholes** ($161 billion) – Secs. 401-405

  Closes corporate tax loopholes and cracks down on offshore tax abuses that encourage corporations to move jobs offshore. Offshore corporations that are managed from the United States would no longer be able to claim foreign status and dodge taxes on their non-U.S. income. In addition, the bill eliminates tax incentives for moving U.S. jobs offshore and transferring intellectual property offshore. The bill gives the Treasury Department stronger authority to take tough new actions to combat tax haven banks and jurisdictions that help U.S. clients evade taxes. *(includes bill text from Sen. Levin and Rep. Neal)*

- **End Fossil Fuel Subsidies** ($94 billion) – Secs. 301-311

  Repeals tax breaks, financial assistance, exploration and development expensing, preferential tax treatment of royalties, and domestic manufacturing deductions, for oil, natural gas, and coal producers. Despite the fossil fuel industries being among the most profitable on earth, the U.S. government gives them tens of billions of dollars in subsidies through the tax code. The five largest U.S. oil companies earned about $1 trillion in profits over the past decade, yet in recent years, companies like Exxon Mobil and Chevron paid zero federal income taxes. These subsidies distort markets and are detrimental to creating a clean energy economy, reducing our reliance on oil, and cutting carbon pollution.

- **Close Exclusion of Foreign-Earned Income Loophole** ($71 billion) – Sec. 231

  Closes an exclusion enabling U.S. citizens working abroad to avoid paying any federal U.S. taxes on incomes below $95,100 for individuals and $190,200 for couples. This allows citizens to shelter income
and violates the principle that U.S. citizens with similar income should incur similar tax liabilities. This measure closes the exclusion, but retains the tax deductions and credits for taxes paid to a foreign government and housing benefits for U.S. citizens working abroad. *(bill text from Rep. Tierney)*

- **Close Corporate Deductions for Stock Options Loophole** ($25 billion) – Secs. 331-332
  Repeals the “Facebook loophole” that allows a company to deduct stock options cashed in by an employee at the inflated current market value, rather than the original cost to the corporation. In addition, this provision would impose a $1 million cap on deductions related to stock options, the current standard applied to other types of executive compensation. *(bill text from Sen. Levin)*

- **Close Estate Tax Loopholes** ($23 billion) – Secs. 501-504
  Closes estate tax loopholes to ensure that the value of the property is recorded consistently between estates and beneficiaries. It requires that all estates’ values be reported to the IRS, that grantor retained annuity trusts have a minimum ten year basis, and that generation skipping trusts have minimum and maximum terms. *(bill text from Rep. McDermott)*

- **Close S Corporation Loophole** ($13 billion) – Sec. 241
  Closes a loophole that allows wealthy professionals, like lobbyists or lawyers, to avoid paying Medicare tax on their earnings. Under current law, businesses organized as S-corporations do not pay corporate taxes, and income earned is passed through to shareholders who report that income on their personal tax returns. But if these shareholders are also employees, they can choose to treat some of their income as business profit, which lets them escape payroll taxes. Newt Gingrich used this loophole to avoid paying $69,000 in Medicare taxes in 2010, by declaring much of his income as S Corporation profits.

- **Reduce Corporate Meal and Entertainment Deduction to 25%** ($70 billion) – Sec. 341
  Lowers the corporate deduction of the cost of meals and entertainment to 25%. Current law allows businesses to write off 50% of the cost of meals and entertainment, even though eating and entertaining are personal expenses and this exception is subject to frequent abuse.

**Cut Pentagon Waste**

- **Smarter Approach to Nuclear Expenditures** ($106 billion) – Secs. 601-604
  Rep. Markey’s Smarter Approach to Nuclear Expenditures (SANE) Act would scale down our nuclear weapon arsenal to a size more appropriate to meet 21st-century security threats. It makes strategic reductions to specific nuclear weapons and related programs, such as superfluous nuclear submarines, and postpones the development of nuclear weapon delivery systems.

- **Limiting Excessive Contractor Compensation** ($50 billion) – Sec. 611
  Lowers the cap on taxpayer dollars paid to private defense contractors from the all-time high current cap of $763,029 to $199,700. This change reflects the notion that taxpayer money should not be used to pay private defense contractors more than the maximum annual salary of federal civil servants, and is roughly the equivalent of the salary of a 4-star general. This would not limit what private companies can pay their employees, only what taxpayers pay to compensate Pentagon contractor employees. American taxpayer money should not be used to enrich private defense contractors when civilian Pentagon employees can often do the same work at a fraction of the cost. *(bill text from Reps. Speier and Tonko)*

- **Relocate Troops from Europe to the U.S.** ($3 billion) – Sec. 615
  Significant defense savings can be achieved by simply relocating a fraction of our troops in Europe to the United States. The Cold War ended more than 20 years ago, and we no longer need to station troops in Europe to hold the line against the Soviet Union. Our European allies are some of the richest
countries in the world, but we continue to subsidize their defense, with the average American paying five times as much on defense than the average European. It’s time to reexamine our troop commitment to Europe and relocating 10,000 troops to the United States is a reasonable first step. (bill text from Rep. Polis)

- **Reduce Troop Levels 4% by Attrition** ($48 billion) – Sec. 621

The conclusion of the wars in Iraq and Afghanistan begins a transition away from large protracted counter-insurgency operations and reduces the need for “high-end” conventional war-fighting capabilities. The future need for ground forces will involve smaller-scale contingencies, special operations and security assistance. This proposal would reduce U.S. active-duty ground forces through attrition by 4 percent over five years, resulting in an Army of 470,000 active-duty troops and a Marine Corps of 175,500 troops.

- **Limiting the Purchase of Virginia-class Nuclear Subs to one per year** ($22 billion) – Sec. 631

Significantly and rapidly increasing our fleet of Virginia Class submarines will do little to improve U.S. security. The U.S. Navy currently possesses more firepower than the next 20 navies in the world combined, the majority of which are allies. Also, the missions of new Virginia Class submarines are shared by the existing fleet of Virginia Class submarines and refurbished SSN-688 Los Angeles Class submarines. There is no urgent strategic need to make large investments to increase the size of the submarine fleet and more gradual construction will more accurately reflect our security needs.

- **Replacing F-35s with F-18s** ($23 billion) – Sec. 633

Replaces the Navy’s buy of 237 F-35Cs with 240 F/A-18E/Fs and replaces half of the Marine Corps’ F-35B buy with F/A-18 variants. The F-35 program has failed in its purpose to save U.S. taxpayers money, and has received widespread criticism. The United States currently has 3,029 fourth-generation tactical aircraft—three times more than our nearest competitor—and is the only nation fielding a fifth-generation fighter. Many in the Navy point out that the existing fleet of F/A-18E/Fs can perform the F-35’s air-to-air and air-to-ground missions, has a greater range than the F-35C with similar speed and is a durable, proven airframe that can be improved with electronic and payload enhancements. Similarly, replacing half of the Marine Corps’ F-35B buy with F/A-18 variants will achieve savings while preserving the Corps’ short take off and vertical landing capability.

- **Eliminate one Ford-class Carrier** ($14 billion) – Sec. 632

The United States currently fields 11 aircraft carriers when no other country has even one of comparable size and power. Given this tremendous imbalance, the Pentagon could hold off building one Ford-class carrier, which is estimated to cost a whopping $14 billion over the next decade, out of the three currently under development. The increasing adoption of anti-access and area-denial weaponry by potential adversaries, along with unmanned technology, means that a very uncertain operational environment is developing for the traditional aircraft carrier and we would benefit from further analysis of this environment before rushing forward with a third new air craft carrier.

- **End Production of the V-22 Osprey** ($9 billion) – Sec. 634

Boeing’s V-22 Osprey aircraft has been referred to as “dangerous pork with wings,” and for good reason. A 2009 GAO report found that the aircraft was not suited to fly in extreme heat, excessive sand or under enemy fire – making it effectively useless for combat given the countries where America has fought wars recently. Sadly, the V-22 has taken the lives of 36 individuals, including 31 service members. In addition, the GAO found that the Osprey was 186 percent over budget, costing over $100 million per unit to produce, or five times more than the Sea Knight helicopter it was designed to replace. It’s long past time to cut our losses, especially when the more affordable MH-60 helicopter is available.
• **Limit Military Bands** ($2 billion) – Sec. 641

Former Secretary of Defense Robert Gates often noted that there are more members of Pentagon bands than all U.S. Foreign Service Officers, who are our first line of defense at American embassies around the world. Over the past four years the Department of Defense has spent more than $1.5 billion on military bands, musical performances, and concert tours around the world. This reasonable reform reduces Pentagon spending on military bands and musical performances from $388 to $200 million. *(bill text from Rep. McCollum)*

• **Reduce General & Flag Officers to Cold War Standard** ($1 billion) – Sec. 651

The proportion of generals and admirals in the military has grown 40 percent since the end of the Cold War. Citing the problem of a top-heavy military, former Secretary Gates emphasized in 2010 the “need to create a system of fewer, flatter and more agile and responsive structures.” As a step in that direction, this initiative would roll back the number of general and flag officers by 200 over five years, from the current standard of seven admirals and generals per 10,000 active-duty personnel to the Cold War ratio of six per every 10,000. This will compel a much-needed streamlining of command functions.

• **Audit the Pentagon** – Sec. 661

Addresses the ongoing failure of the Department of Defense to produce audit ready financial documents by imposing a modest financial cost to any federal agency that cannot pass an audit.

**Invest in Job Creation**

• **Making Work Pay Extension for 1 year** ($61 billion) – Sec. 701

The Making Work Pay Credit is targeted towards low- and middle-income families and provides them additional revenue to stimulate our economy. This provision would extend for one year a tax credit of $400 (or $800 for married couples) that was in effect in 2009 and 2010. Extending the Making Work Pay credit would help make up for the expiration of the payroll tax credit.

• **Support for Teachers and School Modernization** ($55 billion) – Secs. 711-741

This proposal mirrors President Obama’s call in the American Jobs Act to invest in America’s education system by preventing the layoffs of up to 280,000 teachers and investing $25 billion to modernize at least 35,000 public schools. Education has always been one of our greatest sources of strength and global economic competitiveness, as well as the engine of incredible progress in science, technology and the arts. The recent recession left many state and local governments scrambling for funding, causing nearly 300,000 educators losing their jobs since 2008 and resulting in over-crowded classrooms. Many school buildings also do not meet the needs of 21st century students, undercutting their ability to learn. Unless education is provided the funding it deserves, many school districts will be forced to further reduce the number of educators they employ, and the quality of their school buildings and classrooms.

• **Transportation Infrastructure Investments** ($160 billion) – Secs. 751-780

Infrastructure forms the foundation of the U.S. economy, yet negligence and lack of investment have left it in a state of disrepair. This proposal includes $150 billion in immediate investments in modernizing our highway, aviation, transit, and rail infrastructure. It also invests $10 billion to capitalize a National Infrastructure Bank to leverage public and private capital to invest in a broad range of infrastructure projects.

The American Society of Civil Engineers (ASCE) finds that between now and 2020, we face an infrastructure gap of $1.1 trillion between what is needed and what is planned. The ASCE recommends investing an additional $157 billion per year in infrastructure, predicting that if we made this investment each year through 2020 we would protect 3.5 million jobs and $3.1 trillion in GDP.