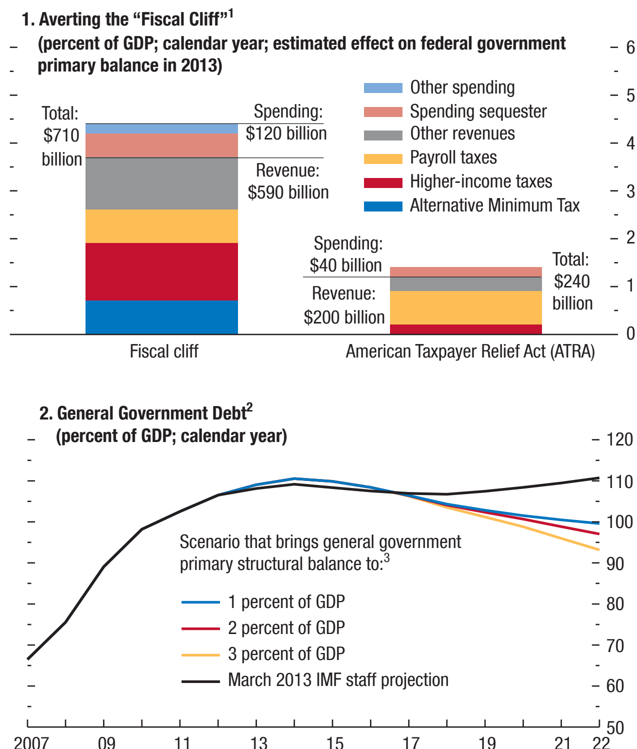
Figure 2.6. United States: Fiscal Developments



Sources: Congressional Budget Office; and IMF staff estimates.

[1]Fiscal cliff refers to the sizable fiscal withdrawal—a combination of tax increases and spending cuts—that was scheduled to go into effect January 1, 2013. In particular, certain income tax provisions (enacted in 2001, 2003, and 2009), certain estate and gift provisions, provisions designed to limit the reach of the Alternative Minimum Tax, and certain tax credits (including bonus depreciation) were scheduled to expire. The extension of emergency unemployment benefits and a reduction in payroll taxes were also set to expire, and automatic enforcement procedures established by the Budget Control Act of 2011 (the "sequester") and reductions in Medicare payments to physicians were also scheduled to take effect. ATRA, signed into law on January 2, 2013, averted the fiscal cliff by significantly reducing the fiscal withdrawal. Other spending includes emergency unemployment benefits and Medicare payments to physicians. Other revenues include health care reform taxes and expiration of bonus depreciation and various tax credits if the fiscal cliff materialized. ATRA expanded the bonus depreciation and most other tax credits for fiscal year 2013 but maintained the health care reform taxes, postponed the sequester for two months, and allowed the payroll tax to rise. Higher-income taxes include interactions with the Alternative Minimum Tax: ATRA permanently extended 2001 and 2003 tax cuts for incomes below $400,000/$450,000 (single/joint filers). ATRA delayed the sequester for two months. The sequester took effect on March 1, 2013, and will remain in effect until the end of fiscal year 2013 (September 30, 2013).

[2]On the basis of *Government Finance Statistics Manual 2001.*

[3]The depicted scenarios assume a structural primary withdrawal of about 1 percent of GDP annually until the target general government primary structural balance is reached.