

Fiscal cliff combines tax hikes, spending cuts

President Obama and Congress must resolve a looming fiscal cliff that could total \$800 billion next year – a “double whammy” of tax increases and spending cuts that could throw the United States into recession

FISCAL CLIFF FACTORS

POTENTIAL REDUCTION IN BUDGET DEFICIT

Tax increases

Expiry of Bush-era tax cuts: Individuals earning \$200,000 per year and families making more than \$250,000 will pay 36 percent and 39.6 percent respectively

\$280bn

Alternative minimum tax: 26 million households will see average tax rise of \$3,700

\$120bn

Expiry of payroll tax relief: Payroll tax will rise 2 percent back to 6.2 percent

\$120bn

Healthcare reform, other taxes

\$50bn

Spending cuts

Budget sequester: Automatic cuts – to be split evenly between defence and domestic spending

\$110bn

Initial debt plan

\$40bn

Expiring programmes

Emergency unemployment benefits, medicare payments to doctors, other programmes

\$80bn

Total \$800bn (5% of GDP)

Sources: Merrill Lynch,
J.P. Morgan, Business Insider