

Debt Ceiling Timeline

8/2/2011

The debt ceiling agreement signed into law on August 2, 2011 has NO DIRECT IMPACT ON REAL ESTATE TAX RULES OR SPENDING PROVISIONS. No tax laws of any kind were changed, nor were any housing programs cut. The debt ceiling bill has passed the House and Senate on strong bipartisan votes: 269 – 161 in the House and 74-26 in the Senate. Therefore, a default has been averted – for now.

What to Watch For -- The Super Committee

The new legislation creates a new "Super Committee," to be comprised of 12 members (6 from the House and 6 from the Senate). The two parties will have equal representation, so the group will have 6 Republicans and 6 Democrats. The respective leaders of each body will appoint the members.

The Super Committee (formally identified as the Joint Select Committee on Deficit Reduction) is directed to identify up to \$1.5 Trillion in additional deficit reductions over 10 years.

These may be either spending cuts or revenue increases. Failure to achieve agreement on the \$1.5 Trillion target means that automatic spending cuts will be triggered.

Timeline -- When to Watch

A compressed timetable for the Super Committee's action is designed to assure that the additional deficit reductions needed to move the second phase of the debt ceiling increase are achieved before the end of 2011.

October 14, 2011

The schedule is tight, with significant penalties for failing to meet the prescribed targets. – Every House and Senate Committee may provide the Super Committee with recommendations for reducing the deficit no later than October 14. (The committees are not required to make recommendations.) Deficit reduction can be achieved through either spending cuts or new revenues. If the committees do not provide adequate recommendations to achieve the prescribed deficit reduction, the Super Committee can make its own recommendations.

The legislation (S. 365, the Budget Control Act of 2011) increases the debt ceiling in two steps. The first is automatic through the end of the year. The second increase is contingent on (a) votes on balanced budget amendment in both House and Senate, (b) report of the "Super Committee" (see below) and (3) a unique procedure in which Congress disapproves the second increase. The President would then veto the disapproval motion, thus allowing the second step of the debt ceiling increase to occur.

The legislation provides very broad dollar targets for overall spending reductions over 10 years, through 2021. The broad categories of reduced spending are defense and some so-called "discretionary" domestic spending. Beyond the target dollar amounts, no specifics are provided. Thus, the various committees of jurisdiction will determine what particular programs will be cut and by what amounts. The agreement therefore has no direct effect on authorizations or appropriations related to any particular program.

Even though the package has no revenue provisions and makes no changes to MID, carried interest or any other tax/revenue rule, we're not out of the woods yet. In fact, new authority has been created that could make it easier for Congress to make tax law changes.