



# Taxpayers Win A Budget Battle.

## Sequestration beats kicking the can.

The US faces gigantic fiscal imbalances, and major political parties insist on very different tracks to address the imbalances. Generally, Democrats seek more taxes above the "permanent" tax rates just enacted January 1 while Republicans desire spending cuts. As neither party could agree on how to avoid automatic spending cuts, sequestration will take effect March 1, 2013, to taxpayers benefit.

### What is sequestration?

The Budget Control Act of 2011 created sequestration. To settle the August 2011 U.S. debt ceiling debate, Congress raised the debt limit and cut spending by \$2 trillion over 10 years. The Budget Control Act spelled out \$1 trillion of cuts and sequestration cut across the board by another \$1.2 trillion from 2013 through 2021.

Sequestration was intended to be a last resort that Congress could replace with alternate spending reductions. Congress even created a "supercommittee" charged to reach consensus on alternate cuts. The super-committee failed, and the road to sequestration was paved.

### What will sequestration cut?

Over eight years through 2021, sequestration is scheduled to cut \$1.2 trillion from government agencies, split evenly between defense and

varied domestic programs (i.e., education, energy, parks, food inspection, housing, transportation, safety and law enforcement, as well as White House tours). Payments to Social Security, Medicaid, and Medicare are exempt from sequestration.

2013 cuts \$85 billion—the Budget Control Act called for \$109 billion, but the American Taxpayer Relief Act of 2012 reduced cuts by \$24 billion. The Pentagon will cut about 8% and domestic programs will cut 5% to 6%. Defense and domestic discretionary spending fall to 2008 levels. Overall, federal spending cuts 2.2%, to 2010 levels.

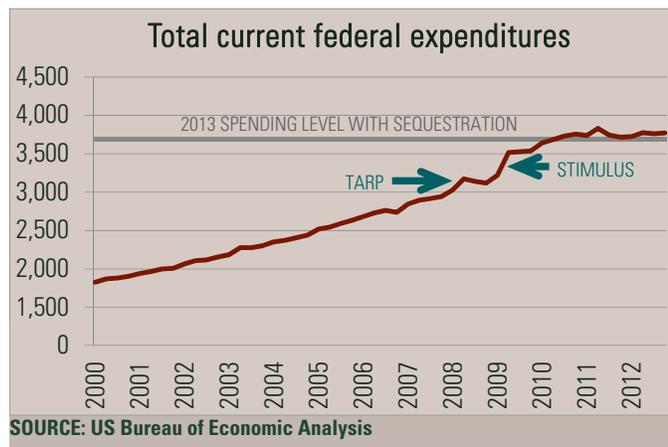
You may have heard alarming predictions about what will happen due to the sequester. It's important to know that the government will not shut down. While it's hard to know exactly how things will play out, effects of most cuts will likely go unnoticed. Furloughing federal employees and the civilian defense workforce are likely but not with immediate effect. Agencies may implement other cost-saving measures that will probably focus on politically visible areas.

### Next step, funding limits.

Sequestration and recently enacted tax hikes hardly address fiscal imbalances. The US continues to spend and borrow more than \$1 trillion per year and is rapidly approaching fiscal policy limits. This federal fiscal year ends June 30, but funding will expire on March 27. Unless Congress authorizes further funding, a partial government shutdown would result.

The US Treasury is operating in excess of its \$16.394 trillion statutory debt limit since the end of 2012 when Congress suspended the debt ceiling until May 19, 2013. Although Treasury has some ability to still operate, another debt ceiling fight is unavoidable.

By not kicking this can, Congress might slow the encroachment of fiscal policy debates.



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