



## **The Debt Deal — Details of the Agreement to Raise the Debt Ceiling**

August 1, 2011

On Sunday, Congress and President Obama reached a deal to raise the nation's debt limit and prevent the first default in our country's history. The measure is expected to be considered first by the House of Representatives as early as this afternoon, with the Senate taking up the measure as soon as the House completes its action. While a number of both Democrats and Republicans have voiced opposition to the negotiated agreement, the measure is expected to pass the House and Senate by the end of the day. While many of the specifics of the agreement have not yet been released, below is an overview of the agreement based upon public statements by elected officials and our conversations with Congressional staff.

### **Increase of the Debt Limit**

The agreement negotiated between House and Senate leadership and President Obama will increase the current \$14.3 trillion limit by at least \$2.1 trillion, which is expected to extend the debt ceiling into early 2013. Specifically, the president is authorized to immediately raise the debt ceiling by \$400 billion, with another \$500 billion debt limit increase subject to resolutions of disapproval votes in both the House and Senate. However, the President has the authority to veto the disapproval resolution and retain his power to raise the debt ceiling.

A new Joint Select Committee on Deficit Reduction is tasked with identifying an additional \$1.5 trillion in deficit reduction, including both entitlement and tax reform. The committee is required to report the legislation by November 23, 2011, and Congress is required to vote on committee recommendations no later than December 23, 2011. If the Committee fails to produce a plan for the necessary cuts, an automatic across-the-board cut, split 50/50 between domestic and defense spending, will begin in 2013.

### **Joint Select Committee on Deficit Reduction**

The joint committee will be made up of 12 members of Congress selected by House and Senate leaders and divided evenly by party. It will have jurisdiction over every federal program, including tax reform, and its recommendations will go straight to the House and Senate floors, bypassing the usual committee process and avoiding the 60-vote threshold required to avoid a filibuster in the Senate. At least seven of the 12 members must agree to legislation that would reduce federal spending by \$1.5 trillion over 10 years by the November 2011 deadline or else the Committee will dissolve in early 2012. A failure to reach agreement would also trigger an automatic \$1.2 trillion in

cuts to certain spending programs.

### **Automatic Spending Cuts**

In the event that the bipartisan committee fails to reach an agreement, the debt deal would require \$1.2 trillion in cuts, equally divided between defense and nondefense programs, with the exception of Medicaid, Social Security, unemployment insurance, and certain other low-income programs. Medicare would not be exempt from cuts, but the agreement specifies that Medicare cuts would be "capped and limited to the provider side." All other federal programs would be subject to the automatic cuts.

### **Tax Aspects of the Deal**

At the outset, the agreement does not change current law or require any specific changes, but the joint committee would have jurisdiction over tax. The 2001 and 2003 tax cuts expire at the end of 2012, and the committee could order substantial changes to the tax code in advance of the approaching deadline. Many business-friendly provisions, such as the research and experimentation credit, expire at the end of 2011. Any agreement by the committee is likely to affect the fate of these provisions over the long term.

### **Initial Spending Cuts**

The agreement requires an immediate reduction in spending equal to nearly \$1 trillion over 10 years by establishing spending caps. In the first two years, separate caps would be created for security and nonsecurity spending. (Security spending is defined as defense, state and foreign operations, homeland security, and military construction/veterans affairs.) The caps included in the agreement are about \$7 billion below the current spending level in the first year. Of the initial \$1 trillion reduction in spending, the agreement cuts approximately \$350 billion from the defense budget over 10 years. Domestic discretionary spending will be reduced to its lowest levels in nearly 50 years (when adjusted for inflation). While the level of cuts to specific programs will be resolved through the annual appropriations process each year, the agreement does protect Pell Grants from reductions.

### **Balanced Budget Amendment**

The plan does require both the House and Senate to vote on a proposed balanced budget amendment to the Constitution by the end of the year. However, unlike the legislation previously approved by the House of Representatives, additional increases in the debt ceiling are not connected to congressional approval of a balanced budget amendment.

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