

Nonprofits and the Fiscal Cliff: What's Next

By Suzanne Perry and Doug Donovan

What exactly did Congress agree to this month?

Lawmakers adopted a package of measures on New Year's Day to avoid tax increases and about \$109-billion in across-the-board spending cuts that were scheduled to take place in January. Those cuts would have sliced 8.2 percent from a wide range of social programs.

The deal included some tax increases on wealthy Americans but delayed the spending cuts until March 1.

How will that affect nonprofits that rely on government money?

They are in limbo. Nothing changes immediately, but charities now have to worry about what will happen during the next two months. With no action by Congress, they once again will face across-the-board spending cuts. Even if lawmakers head off those cuts, they will replace them with others as part of a broader deficit-cutting deal.

What happens with spending in the meantime?

Congress hasn't adopted a budget for fiscal year 2013, which runs through next September, but it enacted a stopgap measure to keep the government running until March 27.

While the Senate and the House were working to craft 2013 spending bills last spring and summer, progress was delayed by the 2012 campaign season and the squabbling over the fiscal cliff. The new Congress must now work to revive those bills.

What are the prospects for further spending cuts?

Republicans agreed to raise income taxes for the first time in two decades, a departure from their stance that all efforts to trim the federal budget deficit must be in the form of spending cuts.

That was a small silver lining for nonprofit leaders who have urged Congress to balance cuts that could hurt vulnerable people with tax increases.

However, those tax increases will raise only about half the amount of revenue from taxes over 10 years that President Obama originally proposed.

"The new revenues are simply inadequate to the task of long-term deficit reduction," says the Coalition on Human Needs, a network of social-services charities, which fears that Congress will now seek even more spending cuts in social programs.

While President Obama says he will propose further tax increases for the rich, some leading Congressional Republicans have said they don't want to consider any more tax changes as they seek to cut the budget deficit.

What happens next?

The next serious conflict could come when the U.S. government reaches its debt ceiling, which some experts expect to happen in mid- to late February.

In 2011, the country veered toward a financial crisis when Congressional Republicans agreed to allow the government to borrow more money only in exchange for spending cuts.

Although President Obama has said he will not negotiate over the debt limit this time, some Congressional Republicans have said their approval will again be contingent on cuts.

Further clashes could arise as Congress negotiates ways to avert the March 1 automatic spending cuts, which would take a big bite in both domestic and defense programs, and to keep the government afloat after March 27.

“We’re playing a very dangerous game of chicken, and neither side seems like they’re willing to blink,” says Ron Smith, director of legislative affairs at the American Public Human Services Association, a network of state and local government human-services executives.

Key Dates

February 12: President Obama will give his State of the Union address.

Mid- to late February (estimated): The U.S. government will reach its debt limit.

March 1: Across-the board spending cuts will take place unless Congress and the White House reach a deal to avert them.

March 27: Stopgap legislation that covers federal spending for the current fiscal year will expire.