

Facing the Fiscal Cliff

I have attached to this email an article appearing in the Journal of Financial Planning this month in which the author, Phillips Hinch the assistant director of Government Relations for the Financial Planning Association delineates the potential consequences of the expiration of the Bush era tax cuts on January 1, 2013. He examines not only the expiration of these more well-known and discussed tax cuts but the expiration of many other cuts and tax exemptions and rules that Congress put in place to deal with the fiscal crisis of 2008. Although the article is focused on the tax cuts and various new taxes due to start to pay for the Affordable Care Act passed in 2010, it does not address the other side of the coin where spending cuts are also due to commence in a process that Congress calls “Sequestration”.

You may remember that Congress got into a partisan fight in 2011 to raise the debt ceiling, the result of which caused the S&P rating agency to reduce the US debt rating one notch – a first in our history. Many saw this event as an embarrassing episode in the ongoing disintegration of Congress into a partisan, squabbling, do nothing entity worthy of our contempt. In fact, Congress’s approval rating stands now at 12%. In an effort to break the deadlock on this issue and raise the debt ceiling, both Democrats and Republicans agreed to let a bipartisan “Super” committee of influential senators decide how to solve the problem. As you may remember, they could not agree on anything. As a result, the other provision of the legislation establishing the super committee kicked in – this provision was adopted as a gun against the heads of these committee members which would force them to come to agreement. What was this provision? It was the adoption of a rule that simply stated that absent an agreement, beginning January 1, 2013 there would be an automatic across the board 10% cut in all spending of the Federal Government. No department would be exempt. Defense would experience the same cuts as Health and Human Services. Republican sacred cows would be gored along with Democratic sacred cows.

Although Hinch does not address this side of the equation in his article, it is worth remembering that the fiscal cliff does not mean only tax increases, it also means cutting spending which has helped support the recovery as well. It means cutting ALL federal spending by 10%. Most economists feel that this action alone would send us into another recession.

As we approach the last quarter of the year, I will be communicating with you about this ongoing situation. I will be letting you know our thoughts on how to address this problem in the management of your financial goals and assets under our management. If you have concerns about this situation or thoughts you want to share with us about your goals and assets, please call us so we can address your concerns in our solutions.

If you would like to see how your personal tax situation may be affected by the expiration of the tax cuts and other tax benefits, go to this nonpartisan site where you can play with a tax cut calculator:

<http://interactive.taxfoundation.org/taxcalc/#calculator>