

The Fiscal Cliff and Your Personal Finances - How it Impacts You

October 18, 2012 - With a presidential election less than three weeks away, and the news focused predominantly on that, you may not have heard anyone in the news media talking too much about what is being referred to as the "fiscal cliff". That's probably going to change as soon as the election is over; regardless of who wins. What the fiscal cliff refers to is the fact that Congress and the White House have failed to come together on legislation to deal with the national debt or next year's tax plan. If that continues, economic outlook for the country becomes dire over the next two months. Roughly 90% of people nationwide would see their taxes go up. And most economists think that the country could rapidly recede into a deep recession.

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Here is a brief run-down of what will happen if Congress and the White House fail to come together on a plan:

- Income tax rates for virtually everyone will jump - even those at the bottom

- 10% rate jumps to 15%
- 25% rate jumps to 28%
- 28% rate jumps to 31%
- 33% rate jumps to 36%
- 35% rate jumps to 39.6%

- Social Security payroll tax goes up by 2% for everyone
- Estate taxes which are currently at 35% jumps to 55%
- Capital gains tax goes up from 15% to 20% - this is especially important to pension plans, 401Ks and investors

- Child tax credit drops from \$1,000 to \$500 - effects all families with children
- Marriage penalty returns - married couples will pay more in taxes than those who are not married
- Alternative minimum tax will hit millions of new people - all in the middle class
- Extended unemployment benefits expire nationwide
- Those losing their home in a foreclosure or selling in a short sale will be taxed on the difference between what they owe and what the bank actually receives
- \$110 Billion in government spending cuts split evenly between domestic programs and military spending

These are some of the more ominous items. While you may not think that some of these things impact you personally, you are probably wrong. The Tax Policy Center has calculated that the average American household will see their tax bill go up by \$3,500 next year if this issue isn't dealt with.

And there is no doubt that there will be a real impact on the economy. Just the spending cuts on military programs could lead to tens of thousands of layoffs nationwide. The marriage penalty, alternative minimum tax, increases in tax rates and the Alternative Minimum Tax will hit millions of middle class families. And the increase in capital gains taxes will have a significant impact on businesses ability to raise funds for hiring and expansion.

The change in tax laws regarding foreclosures and short sales will impact those who least can afford a major new tax burden. The only option available to some people will be to declare bankruptcy. These tax laws are also likely to impact housing sales nationwide. Since a collapse in real estate markets was the way that the recession began in the first place, it is in nobody's interest to have a repeat performance.

Today, the President threatened to veto any legislation to deal with these issues if it didn't include certain tax increases. Given the current gridlock in Washington, there is no real reason to believe that anyone will come to an agreement between now and the end of the year.

byJim Malmberg

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