“Taxmageddon”

According to Federal Reserve Chairman Ben Bernanke, the U.S. is headed for a “massive fiscal cliff.” We already have on the books a scheduled tax increase of $494 billion for the 2013 calendar year. This unprecedented situation has been dubbed “Taxmageddon” by journalists, and the term may begin to appear more frequently in the Presidential campaign.

The Heritage Foundation itemized the tax increases as follows:

End of the temporary payroll tax cut	$125 billion
Alternative Minimum Tax patch ends	$118 billion
Bush middle-class tax cuts end	$99 billion
Bush “pro-growth” tax cuts end	$67 billion
Tax increases from Affordable Care Act begin	$23 billion
Tax cuts from 2009 stimulus end	$21 billion
Tax extenders lapse	$20 billion
Estate and gift taxes increase	$13 billion
100% expensing of business investment ends	$8 billion
TOTAL	**$494 billion**

Presumably, these tax increases will help to balance the federal budget. However, the nonpartisan Congressional Budget Office reported in May that there would be a price paid in reduced economic growth. In the first half of 2013, the economy would shrink by 1.3% instead of growing by a similar amount.

What’s more, two automatic spending cuts are scheduled for January 1, 2013. The first is a $1.2 trillion cut to be allocated half to domestic programs and half to the military, triggered because Congress failed to agree to a more specific package of deficit-cutting measures last year. The second is a substantial reduction in the reimbursements paid to doctors who treat Medicare patients.

Finally, to make the political pain exquisite, the Treasury Department projects that the debt ceiling will have to be raised again early next year.

The question for investors has to be, what would the effect of such tax increases have upon net portfolio income and asset values? Also, what steps can be taken today to moderate those effects, should the tax increases go forward?

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