

The End of the World, the Fiscal Mess, and 2013

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Well, 12/21/12 has passed and the world hasn't ended. The same will be true if Congress doesn't pass anything before the end of the year, which is good because they seem less and less likely to act like adults and fix the obvious stuff.

The obvious stuff includes the 40 (!) or so patches that Congress routinely passes each year, correcting, hypothetically for one year, the mistake they made when they passed Something Stupid in years gone by. The number one patch needed is the Alternative Minimum Tax patch. When they passed it, they didn't adjust it for inflation. So now, each year, they pass a 'patch' that fixes it for this year because no one wants to be responsible for the potential damage to the budget if they actually passed a permanent fix. If they do nothing, roughly 30 million more taxpayers will get hit by the AMT who won't expect it, for 2012. Note that there is nothing involving ideology or budgeting, it's about denying responsibility.

The scary part is, **we are talking about fixing 2012 taxes!** The IRS has already informed Congress that delaying this fix delays them reprogramming their computers to process tax returns, which will delay processing refunds into at least March, which will be roughly \$200 billion NOT paid into the economy on time. Now that's a cliff! The 2013 tax and budget negotiations will not have an immediate impact, but this already has! **Software used to prepare your taxes will probably need to be rewritten, so be aware that if you are expecting a refund for 2012 taxes, it will be later than you expect.** You can thank Congress for the delay. Many other tax breaks are also included such as state income tax deductions, and Medicare reimbursement rates are also patched annually.

We don't know what Congress might pass as an agreement for 2013 income taxes and spending, but there are a few areas where there seems to be agreement. Here are a few things that I expect will happen in 2013 regardless of the 'cliff'.

1. You pay 2% more in FICA taxes. The 2% FICA holiday passed for 2011 and renewed in 2012 goes away, and no one is proposing a further extension. So from your first paycheck on, pretty much everyone gets hit with a 2% tax increase.