

2. If not changed, the tax on long term capital gains goes from 15% to 20%.
3. Qualified dividends go from 15% tax to ordinary income tax.
4. A new Net Investment Income tax, a surcharge of an additional 3.8% for taxpayers with Net Investment Income and Modified AGI over \$200,000 if filing single, or \$250,000 if married filing jointly goes into effect..
5. An additional Medicare tax of 0.9% is added for wage, compensation, or self employment income exceeding \$200,000 for individuals or \$250,000 for married filing jointly.

**The Fiscal Cliff** itself is more of a slow glide; as of the end of the year, a package of spending cuts coupled with the relapse of the Bush tax cuts goes into effect. Employees will probably keep the same withholding tables for now (minus the 2% FICA adjustment, see above) following IRS guidelines, but the longer things drag on, the greater the uncertainty will be and the uglier the adjustments after Congress decides on Something. If deadlock persists and no new replacement is passed, the bad news would be a downward blip in economic growth in 2013, perhaps a short recession, and continuing high unemployment. The good news is that the budget deficit would fall faster than any 'fix' scenario (the fixes all involve less taxes and spending more money, bad in the long run for the budget). So a few years out we would be in much better shape if we just jumped off the cliff, i.e. left in place the spending cuts and tax increases currently in place, a possibility that is becoming more likely with each passing day.

Meanwhile, outside Washington, in the real world, 3<sup>rd</sup> quarter GDP was revised upward to 3.1%. The number includes a fair amount of inventory growth and so is likely to be followed by a less robust 4<sup>th</sup> quarter number, but still, it isn't a negative number. Housing prices are starting to rise, up 4.3% year over year in November. Unemployment is slowly dropping, even if the numbers are due to fewer workers than expected. I think the economy will muddle through OK regardless of what Congress does.

For non-clients who arrive at an initial consultation appointment with this letter we will waive our normal \$75 initial consultation fee; investment management clients aren't charged for consultations.

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