



**Abel Financial Strategies**  
Augustus W. Abel, CFP®  
Financial Advisor  
3775 Attucks Dr.  
Powell, OH 43065  
phone (614) 389-2075  
Cell (614) 499-1201  
aw@awabelfinancial.com  
www.awabelfinancial.com

*Abel Financial  
Strategies*



# The Post-Election Agenda



Today's post-election political landscape looks a lot like the pre-election political landscape--President Obama will be working with a Democratically controlled Senate, and a Republican-controlled House of Representatives for a minimum of two more years. The issues haven't really changed, either. What has changed, though, is the amount of time left to deal with these issues. With little time to act, the stakes are high. Here's a quick rundown of some of the big issues that need to be addressed.

## Expiring tax provisions

With the "Bush tax cuts" (extended for an additional two years by legislation passed in 2010) set to sunset at the end of 2012, federal income tax rates are scheduled to jump up in 2013. We'll go from six federal tax brackets (10%, 15%, 25%, 28%, 33%, and 35%) to five (15%, 28%, 31%, 36%, and 39.6%). The maximum rate that applies to long-term capital gains will generally increase from 15% to 20%. And while the current lower long-term capital gain tax rates now apply to qualifying dividends, starting in 2013, dividends will once again be taxed as ordinary income.

Other breaks go away in 2013 as well:

- The temporary 2% reduction in the Social Security portion of the Federal Insurance Contributions Act (FICA) payroll tax, in place for the last two years, is scheduled to expire at the end of 2012.
- Estate and gift tax provisions will change significantly (reverting to 2001 rules). For example, the amount that can generally be excluded from estate and gift tax drops from \$5.12 million in 2012 to \$1 million in 2013, and the top tax rate increases from 35% to 55%.
- Itemized deductions and dependency exemptions will once again be phased out for individuals with high adjusted gross incomes (AGIs).
- The earned income tax credit, the child tax credit, and the American Opportunity (Hope) tax credit all revert to old, lower limits and less generous rules.
- Individuals will no longer be able to deduct student loan interest after the first 60 months of repayment.

Additionally, lower alternative minimum tax (AMT) exemption amounts (the AMT-related provisions actually expired at the end of 2011) mean that there will be a dramatic increase in the number of individuals subject to AMT when they file their 2012 federal income tax returns in 2013.

There seems to be a general willingness to extend many expiring provisions. The sticking point, however, has centered on whether lower tax rates and other tax breaks get extended for all, or only for individuals earning \$200,000 or less (households earning \$250,000 or less). Recent posturing has indicated that compromise might be achieved by extending the lower tax rates for all, but increasing tax revenue by limiting the deductions available to high-income households.

## Automatic spending cuts, or "sequestration"

The failure of the deficit reduction supercommittee to reach agreement back in November 2011 automatically triggered \$1.2 trillion in broad-based spending cuts over a multiyear period beginning in 2013 (the formal term for this is "automatic sequestration"). The cuts are to be split evenly between defense spending and nondefense spending, and are projected to equal about \$109 billion in 2013 (Source: Office of Management and Budget, "OMB Report Pursuant to the Sequestration Transparency Act of 2012 (P.L. 112-155)," September 14, 2012). Although Social Security, Medicaid, and Medicare benefits are exempt, and cuts to Medicare provider payments

---

cannot be more than 2%, most discretionary programs including education, transportation, and energy programs will be subject to the automatic cuts.

As with the expiring tax breaks, new legislation is required to avoid the automatic cuts. But while it's difficult to find anyone who believes that the across-the-board cuts are a good idea, there's been no consensus on what to do. The challenge for political leaders will be to come up with a more palatable set of cost saving measures, or an alternate deficit reduction plan.

## The debt ceiling

While it hasn't received the same level of attention given to the expiring tax provisions and the automatic spending cuts, there's another problem looming--the government is running out of money again. The federal government will likely hit its borrowing limit (currently set at approximately \$16.4 trillion) sometime before the end of the year, although certain "extraordinary measures" can be implemented to allow the government to meet its obligations into early 2013. (Source: U.S. Department of the Treasury, *Treasury Assistant Secretary for Financial Markets Matthew Rutherford November 2012 Quarterly Refunding Statement*, October 31, 2012.)

It was a little over a year ago that the last debt ceiling impasse led to the creation of the deficit reduction supercommittee and, ultimately, the imposition of the automatic cuts described above. It remains to be seen whether a new debt ceiling increase is included as part of a larger agreement encompassing the expiring tax provisions and impending spending cuts, or whether it is debated on its own.

---

Securities offered through **First Heartland Capital**<sup>®</sup>, Inc. Member FINRA/SIPC. Advisory Services offered through **First Heartland**<sup>®</sup> **Consultants, Inc.** (Abel Financial Strategies is not affiliated with First Heartland Capital<sup>®</sup>, Inc.)