

Submitted for Alabama Voices: *Fiscal cliff equates to financial tsunami*

One thing is quite obvious about our politicians in Washington: there is a catastrophic failure in leadership from both the Republicans and the Democrats. The proposals and counter-proposals in Washington over the taxation of American citizens in 2013 is nothing short of a financial tsunami. What many people don't realize is the reality of who will get hurt in terms of real dollars taken from their individual paychecks.

For example, Stephen Ohlemacher of the Associated Press (Saturday, December 22, 2012) reminds us that on January 1, 2013, all of us will "feel the squeeze of a 2 percent cut" in our paychecks for Social Security payroll taxes. Two percent may not sound like much, but if your salary has not increased in recent years, a 2 percent reduction will result in real dollars lost in disposable income. In many families, 2 percent is the difference between gas for the car and food on the table.

Ohlemacher also noted that due to the lack of a solution for the fiscal calamity created by the Washington political leadership, the Internal Revenue Service has delayed distribution of the income tax withholding tables for 2013. He assures us all that we need not worry because to balance our "taxes due," we will be taxed at a higher rate to ensure that we have paid our required contributions to Washington. If that should fail, according to Ohlemacher, "taxpayers could get hit with big tax bills, and possibly penalties, when they file their 2013 returns."

So that you might understand the coming financial tsunami, particularly those who live in the domain of the middle class, let me cite Mr. Ohlemacher verbatim:

"The tax increases could be steep. If Congress fails to act, workers at every income level face significant tax increases next year as part of the year-end 'fiscal cliff.' A taxpayer making between \$50,000 and \$75,000 would get an average tax increase of \$2,400, according to the Tax Policy Center, a Washington research group. If the worker is paid every two weeks, that's about \$92 a paycheck, on average. Someone making between \$75,000 and \$100,000 would get a tax increase averaging nearly \$3,700. If the worker is paid every two weeks, that's about \$142 a paycheck.

"If Congress and the White House cannot reach a deal, income tax rates would go up, estate taxes and investment taxes would increase and the alternative minimum tax would hit millions of middle-income people. A temporary payroll tax cut that has benefited nearly every wage earner in 2011 and 2012 expires, costing the average family an additional \$1,000 a year by itself.

"If Congress doesn't act on those tax cuts, businesses would lose a popular tax credit for research and development as well as generous tax breaks for investing in new plants and equipment. Individuals would lose federal tax breaks for paying local sales taxes, buying energy efficient appliances and using mass transit. In all, taxes would go up by about \$536 billion next year."

As a taxpayer who currently has two jobs to have sufficiency and a modicum of savings, I foresee a financial tsunami coming at me and my family as if that wave is the result of an oceanic volcano like none we have seen in recent years. What this will mean for the family is a serious review of the finances as it currently functions. For instance, items that are not necessities will be eliminated almost immediately. Giving to charities will suffer because disposable income has to be disposed of in support of the family first, then giving and other functions. We give as much as we can at present to various organizations such as the Montgomery Area Food Bank, law enforcement charities, Frazer Memorial UMC, and even to helping children in the ravaged island of Haiti.

Imagine if your tax bill were to increase between \$2,400 and \$3,700 a year? What many people assume is that the 'middle-class' is the group that does pretty-well financially. Well, that assumption also forgets that there are mortgages, taking care of children and parents

simultaneously, the ever evolving increase in taxes, the giving to local churches and needy organizations, unexpected expenses, and so forth. While these events are true in all families, don't assume that the middle-class is wealthy beyond our wildest dreams! We are not.

The middle-class are those who have sacrificed their time through the years to remain current at their jobs through professional development, education, and study. Many of them have school loans or their children have school loans—that the parents are “paying back.” They are the individuals and families that contribute to community service by helping clean schools, paint houses, take food to the elderly and shut-ins, and so many other “giving-back” outcomes in the communities in which they live. These people are not the wealthy in the communities in which they live; they are the families that work and give so that not only do their families have enough for a reasonable lifestyle, they also give to others as they have financial resources and time to do so.

While those in Washington can't decide whether to tax those making \$250,000, \$400,000, or \$1,000,000, at significant increases, the fiscal cliff will harm those who can least afford more taxes. Our poor neighbors across the city will be hurt by indirect taxation; the middle-class will be crushed under the burden of these increases that we have yet to understand the full impact of, and small businesses will be taxed directly and indirectly in real costs that prevent expansion or continuation of jobs.

This ‘fiscal-cliff’ situation in Washington is a financial tsunami for the poor and middle-class because these are those who will be hurt the most. The poor will feel the reduction in paychecks in significant ways relative to the income they are able to garner; the middle-class will feel the loss of significant amounts of net pay in terms of cutbacks in disposable income that will ripple across the nation like the political and financial tsunami that it is; yet, we elect these leaders to be stewards of our monies, military, national security, and well-being.

One other point is that if we go over the cliff and Washington gets their grubby political-paws on the estimated \$536 billion—give or take a few millions—will these leaders find viable solutions to our spending problem? You see how this works: we give more, they spend more, and they want more. So, we give even more, they spend even more, and then they want even more. Real solutions have yet to be proffered. If you try to blame this on any political party, you are blessing the lack of leadership in Washington on all sides of this and other issues.

Our politicians have always known that at some point the bill comes due. In this case, the bill is coming due, they have been utter failures at leadership and responsibility, and American citizens are now having to pick up the tab for the catastrophe they created. Sounds like a shell game to me and we the citizens are being duped every time we play. Only this time we are going to be on the receiving end of a financial tsunami unlike any we have seen in recent years. God surely must be shaking his head in sorrow, disbelief and disgust with their stewardship for “One Nation Under God, With Liberty and Justice For All.” This fiscal cliff is ‘just us.’ We get left holding the scraps from their political tables as we work even harder to pay Caesar what Caesar thinks he deserves.

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THE CATALYST THAT CREATED THIS RESPONSE

US NEWS

Don't be fooled by January pay - higher taxes loom

By STEPHEN OHLEMACHER Associated Press

The Associated Press

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WASHINGTON (AP) — Workers probably won't feel the full brunt of next year's tax increases in their January paychecks, but don't be fooled by the temporary reprieve.

No matter what Congress does to address the year-end fiscal cliff, it's already too late for employers to accurately withhold income taxes from January paychecks, unless all the current tax rates remain unchanged, which is an unlikely scenario.

Social Security payroll taxes are set to increase on Jan. 1, so workers should immediately feel the squeeze of a 2 percent cut in their take-home pay. But as talks drag on over how to address other year-end tax increases, the Internal Revenue Service has delayed releasing income tax withholding tables for 2013.

As a result, employers are planning to withhold income taxes at the 2012 rates, at least for the first one or two paychecks of the year, said Michael O'Toole of the American Payroll Association.

If employers don't withhold enough taxes in January, they will have to withhold even more taxes later in the year to make up the difference. Otherwise, taxpayers could get hit with big tax bills, and possibly penalties, when they file their 2013 returns.

The tax increases could be steep. If Congress fails to act, workers at every income level face significant tax increases next year as part of the year-end "fiscal cliff."

A taxpayer making between \$50,000 and \$75,000 would get an average tax increase of \$2,400, according to the Tax Policy Center, a Washington research group. If the worker is paid every two weeks, that's about \$92 a paycheck, on average.

Someone making between \$75,000 and \$100,000 would get a tax increase averaging nearly \$3,700. If the worker is paid every two weeks, that's about \$142 a paycheck.

O'Toole said it would take most employers two weeks to four weeks to update their payroll systems, once new tax withholding tables are released. For some small businesses, it could take longer.

"Employers can't really just come up with withholding tables on their own, depending on what the rates are," O'Toole said. "The smaller companies that do not use a payroll processing service probably would have more problems than anyone else."

On Friday, the IRS said it plans to issue guidance by the end the year, though it won't be early enough to affect paychecks in early January.

"We are aware that employers have questions with respect to 2013 withholding," the agency said in a written statement. "Since Congress is still considering changes to the tax law, we continue to

closely monitor the situation. We intend to issue guidance by the end of the year on appropriate withholding for 2013."

About three-quarters of taxpayers got tax refunds this year, averaging \$2,707, according to the IRS. That gives most taxpayers some leeway to manage their income tax withholding. However, many people rely on tax refunds to pay bills or make major purchases.

"The reality is, the vast majority of Americans do live paycheck to paycheck and that tax refund is their most significant payday of the year," said Bob Meighan, vice president of TurboTax, an online tax preparation service.

Most of the expiring tax breaks were first enacted under President George W. Bush and extended under President Barack Obama. Obama campaigned for re-election on extending the tax cuts on incomes below \$200,000 for individuals and \$250,000 for married couples. Obama would let the tax cuts expire on incomes above those amounts.

In negotiations with House Speaker John Boehner, Obama offered to raise the income threshold, limiting tax increases to those making more than \$400,000. Boehner, who has argued for years that the tax cuts should be made permanent for everyone, responded by trying to push a bill through the House that would have let many of the tax cuts expire on incomes above \$1 million.

Many Republicans revolted and Boehner, R-Ohio, shelved the bill, sending lawmakers home for the Christmas holiday and leaving the outcome of talks in doubt as the new year approaches.

If Congress and the White House cannot reach a deal, income tax rates would go up, estate taxes and investment taxes would increase and the alternative minimum tax would hit millions of middle-income people. A temporary payroll tax cut that has benefited nearly every wage earner in 2011 and 2012 expires, costing the average family an additional \$1,000 a year by itself.

In addition, dozens of other tax breaks for businesses and individuals that are routinely renewed each year already expired at the end of 2011. Congress was expected to renew many of them by January, so taxpayers could still claim them on their 2012 tax returns.

If Congress doesn't act on those tax cuts, businesses would lose a popular tax credit for research and development as well as generous tax breaks for investing in new plants and equipment. Individuals would lose federal tax breaks for paying local sales taxes, buying energy efficient appliances and using mass transit.

In all, taxes would go up by about \$536 billion next year.