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2008 ELECTION IMPACT

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As 2007 draws to a close, we look ahead to 2008 with renewed hope for a fresh start. The New Year will bring with it significant change to this country. On November 4, 2008, we will elect a new president to lead the United States. The Democrat and Republican favorites will begin to emerge as primaries unfold early next year. Here are a few issues that we believe will define the 2008 election and how these issues may affect you financially.

Taxes

In 2001, President Bush signed the Economic Growth and Tax Relief Reconciliation Act of 2001 (EGTRRA) reducing Federal income tax rates. The Bill also doubled the child tax credit to $1,000 per child and will eventually eliminate estate tax. These changes are subject to a Sunset Provision, which means that EGTRRA's provisions will revert back to pre 2001 status on January 1, 2011 unless further legislation is enacted to make the changes permanent.

In 2003, the Jobs and Growth Tax Relief Reconciliation Act (JGTRRA) was signed to jump-start the economy by lowering the taxes on dividend and capital gain income for both Corporations and Investors. Similar to EGTRRA, it too has a sunset provision that will take effect in 2009 unless further legislation is passed.

Most Republican candidates would like to see these favorable tax rates become permanent as the applicable Sunset dates approach. Should the Democrats take office, they may raise rates to where they were before the tax laws were passed or let them expire in 2009 & 2011. As history tells us, Democrats believe in a progressive tax system by taxing the higher income brackets more while the Republicans believe in lower taxes overall to encourage spending.

Social Security

With the aging of 74 million baby boomers, increased life expectancy, low fertility rates, and a smaller workforce, social security costs are expected to exceed tax revenues beginning in 2017. Social security trust funds may be exhausted by 2041[1]. The three most generally accepted ways to address the problem are: raise payroll taxes, cut benefits or borrow more money. Republicans usually oppose raising payroll taxes while Democrats tend to oppose cutting any benefits. There has been discussion of privatizing social security to establish private investment accounts similar to a 401(k), which most Democrats strongly oppose. Both sides acknowledge that the system needs reform, but how to do it may depend on who is in the White House next.

Health Insurance

Nearly 47 million Americans are without health insurance according to the U.S. Census Bureau[2]. This is not just a low-income problem. Nearly 37% of the uninsured live in households with an income over $50,000. These numbers are expected to rise rapidly due to increased cost of healthcare and health insurance premiums. Democrats vow to make affordable health insurance available to every American, reform the Medicare Part D program, and invest in stem cell research to continue hope for cures and treatment of disease. Some Democrats believe the federal government should provide a Universal Health System. Several Republican candidates plan on making private health insurance more affordable by allowing additional tax breaks and providing incentives to purchase health insurance.

Adjusted income & payroll taxes, modified Social Security benefits, private Social Security accounts, Universal Healthcare, and tax incentives are all issues that will shape the 2008 election. While we can't be certain who or what party will be in the White House come January 2009, it is important that we know the facts of what each party and their candidate stands for and how their decisions may affect our everyday lives.

Alternative Minimum Tax Relief

Finally, as we mentioned in last month's newsletter, Congress has been battling over the Alternative Minimum Tax (AMT) patch. On December 19th, the House of Representatives voted in favor (352-64)[3] of a one-year AMT patch that had been approved by the Senate earlier this year. This is the third time the House has voted on this bill in the past two months, but it has now passed meaning the House Democrats have approved the bill that will carry with it a $53 billion price tag of forgone tax revenue. The President is expected to sign the bill into law soon, which will protect 21 million taxpayers from having to pay the AMT tax. Delaying the patch to the end of the year may delay the start of tax filing season and the length of time when taxpayers might expect their refunds.

The AMT was incepted nearly 40 years ago, but the amount of income a filer is allowed to exempt from AMT was never adjusted for inflation. It should be noted that this is merely a patch and will need to be revisited in 2008 as to the long-term prospects of the AMT. Should the so-called wealth tax be eliminated, the sides are at odds as to how the lost revenue would be made up. The Republicans oppose raising other taxes because the revenue was never intended to be raised in the first place since the tax wasn't intended to affect the middle class. The Democrats, often dubbed to be deficit watchdogs, believe AMT relief should be paid for in other ways besides borrowing money and increasing the United States deficit, which is what they believe will happen should the lawmakers forgo raising taxes in other areas outside of AMT.

[1]Financial Planning Association White Paper, http://www.fpanet.org/member/govt_relation/whitepapers/loader.cfm?url=/commonspot/security/getfile.cfm&PageID=36792

[2]Income, Poverty, and Health Insurance Coverage in the United States: 2006. U.S. Census Bureau, http://www.census.gov/prod/2007pubs/p60-233.pdf

[3]One-year AMT fix a done deal, Jeanne Sahadi, CNNMoney.com senior writer, http://money.cnn.com/2007/12/19/pf/taxes/amt_vote_walkup/?postversion=2007121914