Builders Exchange of alameda county

The Weekly Bulletin

Serving the Construction Industry and East Bay Community since 1932

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The Fiscal Cliff

From the SEIBERLICH ACCOUNTANCY CORPORATION

On December 31, 2012, a large swath of the Federal income tax code is scheduled to expire, an event which has come to be known as the "Fiscal Cliff." Among the expiring provisions are the 2001 and 2003 tax cuts enacted under President George W. Bush, a compromise on the estate tax, a "patch" in the Alternative Minimum Tax (AMD reducing its impact, the temporary 2 percent payroll tax holiday, increased business expensing, and the 'extenders" package of miscellaneous tax deductions.

On January 1, 2013, five taxes enacted as part of the Patient Protection and Affordable Care Act (PPACA) - popularly referred to as Obamacare - also take effect, along with sequester spending reductions of $109 billion due to the failure of the "supercommittee" to reach consensus on Budget reductions.

Congress and the President will have little time to rest after the New Year: in late February, the U.S. government will hit the debt ceiling, exhausting its ability to borrow to finance ongoing spending without an increase by Congress. Finally, the Federal government's continuing resolution appropriating spending expires on March 27, 2013. The Fiscal Cliff is the culmination of a decade of "temporary" tax and Budget bills that have postponed resolution of key policy differences.

Eventually, Congress will again need to debate and enact a Budget that re-evaluates the priorities of various programs. Either a new Budget or another continuing resolution must occur before the end of March 2013. The sheer size of the Fiscal Cliff in scope, importance, and dollars magnifies the uncertainty faced by American taxpayers. With so much of the tax and Budget system on short-term lease, and with the proposed permanent fixes varying so widely, speedy economic growth likely becomes unattainable.

While past practice suggests Washington will once again duct tape together another short-term extension and put off the hard choices, anything can happen.

For a look at the tax changes taking effect January 1, 2013, please continue to the next page:

Continued on the next page ...

Tax Changes:
continued from the front page …

Tax Changes Taking Effect January 1, 2012	
Tax Change	**Tax Increase (2013 over 2012)**
Expiration of the 2001-03 tax cuts	$156 billion
Expiration of the payroll tax holiday	$125 billion
Failure to patch the Alternative Min. Tax	$88 billion
Expiration of business expensing	$48 billion
Expiration of other "tax extenders"	$40 billion
New PPACA (Obamacare) taxes	$36 billion
Expiration of the 2009 stimulus	$11 billion
Estate tax increase	$10 billion
Total Tax Increases	**$514 billion**

Major Bush Tax Cut Income Tax Provisions, 2001-2013									
Category	**2000**	**2001**	**2002**	**2003**	**2004-05**	**2006-07**	**2008-09**	**2010-12**	**2013**
Income Tax Brackets	--	10%	10%	10%					--
	15%	15%	15%	15%					15%
	28%	27.5%	27%	25%					28%
	31%	30.5%	30%	28%					31%
	36%	35.5%	35%	33%					36%
	39.6%	39.1%	38.6%	35%					39.6%
Capital Gains Tax (max)	20%			16.7%	15%				23.8%
Dividend Tax (max)	39.6%	39.1%	38.6%	15%					43.4%

OUCH!

Please give us a call if you have any questions regarding these tax changes, or if you think these changes might affect you. The SEIBERLICH ACCOUNTANCY CORPORATION can be reached at: 60 Mayhew Way, Walnut Creek, CA 94597-2091. Tel.: 925-939-8222. Fax: 925-939-0112. Email: Info@SeiberCPA.com