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Two things you don't want to watch being made: laws and sausages. OK, that's probably not the exact quote. And I'm not certain if these words, or others like them, were first uttered by Otto von Bismarck or Oscar Mayer. Regardless, these are the words that come to mind as we witness the political theater of the last few weeks. Even as I write this, August 1, we still do not know for certain whether or not the national debt ceiling will be increased by tomorrow's deadline.

## **OUT ON A FISCAL PRECIPICE:**

Tomorrow, unless Congress acts swiftly, the United States of America runs out of money. Interest rates skyrocket, unemployment soars, the electrical grid fails and bread and water becomes the new national dinner. Or not. I'm not going to predict the future, but I'm not exactly headed for the bomb shelter if Congress fails to pass debt ceiling legislation today. Serious financial consequences will almost certainly follow; I'm just not convinced we'll immediately face economic Armageddon.

◆ **The Deal:** Yesterday, President Obama and House and Senate Leadership reached agreement on legislation that would increase the debt ceiling and reduce spending by some \$2.5 trillion over the next decade. . .most domestic and defense spending would be immediately frozen. . .a special joint bi-partisan Congressional committee would be tasked with finding the rest of the total spending cuts by Thanksgiving. . .a series of debt ceiling increases totaling more than \$2 trillion would allow the government to operate without fear of default for another couple of years.

◆ **Will it Pass?** Probably. You'll know for certain by the time you read this. . .the most likely roadblock is the group of "Tea Party" Republicans in the House. . .many of these legislators--like presidential candidate Michele Bachmann of Minnesota--have vowed to oppose any measure that increases the debt ceiling. . .passage in the Democratic-controlled Senate is much less problematic.

◆ **Tax Effect:** There's little or no immediate tax effect to the compromise deal. . .Tea Party members successfully blocked any consideration of tax hikes. . .the joint Congressional debt reduction committee might consider tax increases. . .failure by the committee to recommend more than \$1 trillion in deficit reduction would result in automatic, across-the-board cuts in almost all government programs other than Social Security, Medicaid, etc. . .Medicare cuts would be limited.

## **ON THE HORIZON:**

None of what's happening in Washington today affects two new laws scheduled to take effect in 2013, as part of the health care reform legislation last year. But when talk turns to debt reduction, one previously sacred deduction is being considered in a new light.

◆ **Medicare Taxes for High Wage Earners Go Up.** Employees currently pay 1.45 percent of their wage income as Medicare payroll tax. . .employers match those amounts, also paying in 1.45 percent of employee wages. . .in 2013 individuals making more than \$200,000 and couples earning more than \$250,000 will pay an additional 0.9 percent. . .no change for employers.

◆ **New Medicare Tax on Investment Income.** January 1, 2013 also ushers in a new 3.8% tax on investment income. . .capital gains, interest and dividends are the most common types of investment income. . .the tax will only apply when income exceeds \$200,000 for singles and \$250,000 for joint filers.

◆ **Mortgage Interest Deduction at Risk?** I don't think so, but legislators are talking about the deduction for homeowners that saves taxpayers (and costs Uncle Sam) some \$100 billion each year. . .taxpayers who itemize can currently write off interest on up to \$1.1 million of debt on a first or second home. . .rent paid for a personal residence is not deductible. . .any attempt to change the deduction highlights your basic political peril: angering powerful lobbies, like that of the real estate industry.

#### **TECHNOLOGICALLY SPEAKING:**

There's no denying that we're all communicating more frequently electronically than by paper. Printed letters, faxes, memos and other documents are rapidly being replaced by digital versions of the same information. The accounting profession was quick to recognize this transition, and now Larry A. Jaffe P.C. is embarking on the natural next step: a client portal.

◆ **So Just What the Heck's a Portal?** A portal is a means of sharing, sending and accessing electronic files using a web browser and internet connection. . .files might be simple text documents (like tax returns) or more complex software data files (like a QuickBooks file). . .LJCPA clients would simply log on to the 'net, navigate to our website, and enter a password to view their documents. . .the communication is bidirectional; clients can use the same tool to send us electronic documents.

◆ **Is This Really Necessary?** No, but there are definitely advantages. . .documents exchanged on a web portal are generally acknowledged to be more secure than documents sent as Email attachments. . .large files transmit easily, rather than overflowing an Email mailbox. . .posting of electronic documents to the portal site will be accompanied by automatic Email notification. . .no special software is required. . .our early testing indicates the solution we plan to adopt, ShareFile, is easy to use.

◆ **OK, When Does All This Start?** It already has, on a very limited basis. . .in the coming weeks we'll work with a select small group of clients to further test the service. . .if all goes well, clients will be able to choose to receive electronic or paper copies of their 2011 income tax returns. . .delivery of electronic versions will use our portal.

Summer Schedule: Our offices will be closing early on Fridays until Labor Day. Hope your summer's great!