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# SOME FISCAL CLIFF SCENARIOS

*What could play out in the near future?*

Provided by Frank DeMaio*

**Will 2013 be as severe as some economists think?** The fiscal cliff is getting closer and closer. How will Congress respond?

In the worst-case scenario, Congress argues and deadlocks. Tax hikes and roughly $109 billion in federal spending cuts take a bite out of GDP and another recession becomes a possibility.[1]

There are other possibilities, however. The fiscal cliff may yet be averted, or at least we might back away from its edge. One of several scenarios might come to pass.

**Scenario A: Congress buys time.** Many analysts think this is exactly what will happen. Congress is in a lame-duck session. The option for legislators to "pass the buck" may prove tantalizing. So we could see a short-term, stopgap deal with the idea that the next session of Congress will tackle the problem later in 2013. The debt ceiling could be raised, and a "down payment" might be made on longer-term liabilities.[1]

**Scenario B: Congress can't make a deal.** This may not be so improbable; if you remember the "super committee" assigned to craft a deficit reduction plan in 2011, you will also remember that it didn't accomplish the set task. In fact, we are facing the fiscal cliff because of that committee's failure.[2]

The "fiscal cliff" already amounts to Plan B. When Congress and the White House reached an accord to raise the debt ceiling back in August 2011, $1 trillion in federal spending cuts were greenlighted and Congress was told to find $1.2 trillion more to slash. As that didn't happen, $1.2 trillion in automatic cuts are set to begin next year. So Congress would actually be following federal law if it did nothing to respond to the issue.[2]

Doing nothing seems unsuitable, but there is the risk that history could repeat itself. Election outcomes may alter political assumptions and interfere with consensus. If it looks like we will go over the cliff in the waning days of 2012, there is a strong possibility that the incoming 113th Congress could vote quickly to reinstate select spending levels and tax breaks. That might mute some of the clamor from global financial markets.[3]

**Scenario C: Middle ground is reached.** Some degree of compromise occurs that leaves no one particularly satisfied. Certain short-term provisions are phased out, such as the payroll tax holiday, the recent increases for small business expensing, and assorted tax credits and tax breaks for education. The Bush-era tax cuts are preserved (at least temporarily) for the middle class, but rates rise for those making $1 million or more per year. The clock turns back to 2009 with regard to estate taxes. The rich face higher taxes on capital gains and dividends. Perhaps some defense cuts are postponed.

**Scenario D: The "Grand Bargain."** Congress and the White House boldly arrive at a something more than an incrementally enacted deficit reduction plan. They reach a "grand bargain," a deal designed to cut the deficit by $4 trillion by the mid-2020s, after historic, long-range compromises are made to reach stability on assorted tax and spending issues. With a lame-duck Congress, this may be a longshot.[1]

**Scenario E: The "Down Payment."** Legislators could always tear a page from another playbook in trying to solve this problem. The Bipartisan Policy Center, for example, thinks a "grand bargain," or anything approximating a real deal on the fiscal cliff, is unlikely given the short interval between the election and 2013. It recommends a "down payment" of deficit cuts that could be approved by a fast-tracked simple majority vote. If Congress didn't take further steps to cut the deficit next year, then certain tax breaks would disappear and cuts would hit social welfare programs (excepting Social Security).[2]

Whatever happens in Washington, this is a prime time to consider financial moves with the potential to lower your taxes and insulate your wealth. Explore the possibilities before 2013 arrives.

*Frank DeMaio, CPF®, CFA* is a Registered Representative offering securities through UNITED PLANNERS' FINANCIAL SERVICES OF AMERICA, a Limited Partnership, Member FINRA, SIPC. Frank may be reached at 603-641-1010. JTD Financial Services and United Planners' are not affiliated.*



**Citations.**

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