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TAX LETTER

Fiscal Cliff - 2013

Dear Clients and friends,

By now, nearly everyone in the United States has heard about something known as the "Fiscal Cliff". However, not everyone know what this so call "Fiscal Cliff" is all about. Regrettably, most of the news reporting and television discussions failed to educate their readers and audiences what this "Fiscal Cliff" really is.

First, let's return to the very beginning of this "Fiscal Cliff". Somehow, it began in August 2011. At that time, the United States Government had borrowed up to the national "Debt Ceiling" allowed by law. The maximum national Debt Ceiling allowed by law, at that time, was $14.3 Trillion. If the total allowable national Debt Ceiling was not increased significantly by an act of Congress, United States will be in default for many national obligations, such as maturing Treasury Bonds, etc. In order to survive this major financial, cash flow and budgetary crisis, the President and the Democratic party agreed to a compromised bill with the Republicans in the House. This compromised Debt Bill was signed into law by President Obama in August 2011. At the signing, Obama said: " It's an important first step to ensure … we will live within our means". When he said it, he knew that it was not true. United States will not and can not live within their means.

The 2011 new Debt Ceiling law, among other provisions, mandated the Federal Government to an overall spending cut equal to or greater than $2.1 Trillion in 10 years. Stated in other way, the spending cut mandate was $210 billion average per year for 10 years. Unless something happened in Congress to change it before December 31, 2012, the Federal Government will be facing a very large mandatory spending cut in early 2013. Many Federal programs including Military spending, Medicare, Medicaid, and SSI will be seriously affected. Exactly where and how to cut the Federal spending will be determined by a 12-member, bipartisan committee selected from the Senate and the House.

On top of a historical proportion mandatory spending cut, there will be an end to the so call "Bush Tax Cut". If the "Bush Tax Cut" is allowed to expire in its entirety, all taxpayers, high or low income, will have to pay more taxes. (See our July 2012 Letter at www.chochan.com). In the midst of a period of economic uncertainty and high unemployment, the Country and the people are facing a combination of calamities including but not limited to high deficit, high national debt, high unemployment, high tax rates, and a historical proportion spending cut. Literally speaking, we are standing at the edge of a "Cliff", a "Fiscal and Economical Cliff". Are we going to jump ?

In conclusion, Death, Taxes and Deficits are for ever.

Sincerely,

Cho F chan CPA, Inc.
An Accountancy Corporation