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The fiscal cliff: get ready for upcoming financial uncertainty

Written by Bradley Zucker, guest columnist

Proactive measures can help prepare for looming policy changes

Now that the election is over, it's time to focus our attention on the government's next order of business – how to deal with the upcoming federal policy changes known as the fiscal cliff.

This combination of tax hikes and spending cuts is scheduled to take place at the end of this year if Congress doesn't act. The fiscal cliff could have a serious impact on the national and local economies as well as your personal financial situation.

Part of the fiscal cliff is the expiration of the Bush tax cuts. The end of these cuts means taxes would revert back to pre-Bush levels, with income tax rates as high as 39.6 percent. For the average family, income taxes could go up by $1,600 according to a White House report.

The other major part of the fiscal cliff is the Budget Control Act of 2011, or the automatic spending cuts. If implemented, this legislation will slash federal spending by approximately $1.5 trillion over ten years.

In Nevada, this could mean the loss of an estimated 10,411 jobs, according to a study by George Mason University. This would be an unfortunate contribution to Nevada's already high unemployment rate.

The Congressional Budget Office (CBO) has predicted that if we go over the fiscal cliff, the country will be in a recession by the middle of 2013. With so much at stake, Nevadans shouldn't rely on politicians to solve their future fiscal problems, but rather take steps to prepare for the many possible fiscal cliff scenarios.

If we go over the fiscal cliff, higher income tax rates are just the beginning. Common tax deductions will be reduced or eliminated, like the marriage penalty reduction.

Social Security taxes will increase by 2 percent and capital gains taxes would escalate by 8 percent for top income earners. To mitigate the impact of rising income tax rates, consider using tax-deferred accounts like a 401(k) or IRA when saving for retirement to keep your taxable income down.

If you are preparing an estate plan, the tax rate on inheritance will increase by 20 percent to 55 percent on assets over $1 million, so consider vehicles like an irrevocable trust or life insurance so your heirs pay the least amount of taxes possible.

With huge spending cuts hitting Americans at the same time as tax hikes, the economy is almost certain to contract. Like we learned from the last recession, economic downturn can result in extreme market volatility. Make sure you have evaluated your risk tolerance, especially if you are in or nearing retirement, and are invested accordingly.

Consider conservative investment strategies in your portfolio as well as non-correlated investment options, like fixed annuities, that aren't directly tied to the performance of the stock market.

Finally, there is the chance that Congress could make a deal and keep the fiscal cliff from happening. While this could prevent a recession, there is still a downside when it comes to your finances.

In this scenario, the federal budget deficit in 2013 will be $1.037 trillion, and with rising national debt can come rising inflation. Protect your savings from the harmful effects of inflation by choosing investments that grow at a faster rate.

Consider Treasury Inflation Protected Securities (TIPS) to help protect your purchasing power in the future.

The outcome of the fiscal cliff is uncertain, but there are many steps you can take to prepare. By being proactive now, you may be able to lessen the effects this potentially massive change will have on your personal financial situation.

Bradley Zucker, financial educator, president, and chief financial advisor of Safe Money Advisors, Inc. a Henderson-based independent financial advisory firm, specializes in comprehensive financial and retirement planning including conservation of capital, preservation of principal, tax-advantageous distribution of a life-saving and competitive asset growth with little or no downside risk. Mr. Zucker is a Registered Financial Consultant (RFC®), an Investment Advisor Representative, licensed life and health insurance professional, and has more than 25 years of experience in the financial industry.Mr. Zucker works with pre-retired and retired individuals 55 years of age and older, helping them optimize their wealth for their retirement and structure a reliable income to last the duration of their golden years.. For more information about Mr. Zucker and Safe Money Advisors, Inc., please visit www.SafeMoneyAdvisorsNV.com.

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