

# CBS 58 EYE TO EYE

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## **Mike Strehlow**

But first, sorting through the fiscal cliff deal and looming issues that still must be addressed in Washington, our guests Mike Bark, with Edge Advisors, LLC and estate planning attorney, Eido Walny with Walny Legal Group LLC. Gentlemen welcome.

## **Mike Bark & Eido Walny**

Thanks for having us.

## **Mike Strehlow**

Not since Y2K did American's approach New Year's Eve with such an uneasiness and uncertainty – what was it like in your household Eido?

## **Eido Walny**

I was not the life of my New Year's Eve party I'll tell you that. I was on my cell phone sitting on the couch, following what congress was doing step by step until the Senate passed legislation at 1:00 in the morning.

## **Mike Strehlow**

And a deal was done Mike as we all know it would, you know they just procrastinated like Congress typically does. But a deal was done and now workers are starting to get that first paycheck of the New Year and they are seeing this American tax-payer relief act is actually having an impact on their take home pay.

## **Mike Bark**

Well they are seeing their FICA tax go up by 2% and the past few years we had a payroll tax holiday and that was not extended this year. So, for a person making \$50,000 a year – their FICA tax is now going up a \$1,000 a year and that's real money to them.

## **Mike Strehlow**

It really is and now – is there a chance that later on this year perhaps there might be some tax credits put in there that might make up for that loss, 2% of take home pay? Eido?

## **Eido Walny**

I think that there's always a chance of things happening – in Washington nothing is ever permanent and I think with some of the things that are going on that are being discussed in congress, you never know what tomorrow is going to bring.

## **Mike Strehlow**

Let's go over some of the other tax changes in this new fiscal cliff deal. First of all, affordable care investment taxes -how have those changed?

**Mike Bark**

Well if a person's making – if it's a single person making \$200,000 or more or a family making \$250,000 or more, they will pay a 3% surcharge on any investment income they have – so interest income, dividends, rental income, any type of passive income they may hold – so that's a big tax there – there's also a medical device tax that I think will indirectly hit taxpayers – places that manufacturers for medical devices have to pay a 2.3% charge on their sales and that includes things like dental labs and things like that – so if you're going to a dentist you may see the price of your crown go up.

**Mike Strehlow**

I see, and that's what happens so often, if the dental industry or so forth is affected, they are going to be passing it on to consumers too.

**Mike Bark**

Exactly.

**Mike Strehlow**

Some of the high wage earners are going to notice that when they go to fill out their income taxes, that the itemized deductions have been reduced too for again, some of the high wage earners.

**Eido Walny**

There's a phase-out that's been installed for people making over \$250,000 all the way up to \$450,000 and beyond. So it's going to be affecting their end of the year and quarterly tax filing as well.

**Mike Strehlow**

What about when it comes to capital gains and dividends? Mike?

**Mike Bark**

Well, the capital gains rates and dividend rates if you are making that \$400 or \$450,000, the rate jumps from 15 to 20% right away. Plus there's the affordable care act surcharge – so it brings the top rate on those up to 23.8%.

**Mike Strehlow**

Eido, you specialize in estate tax planning – what are some of the common questions that you're getting from your clients since the start of the New Year?

**Eido Walny**

Well, it's really been a rollercoaster ride for the last 12 years, ever since the original Bush tax cuts were federal, estate, and gift taxes have gone up year after year. We got a little bit of stability in 2011 and 2012. Now in 2013 going forward we are looking at a more level estate and gift tax exemption – its set at 5.12 but it's going to be increased year after year depending on what inflation rates are.

**Mike Strehlow**

I see, and you're talking about the – what about the gift tax specifically – someone wants to give a relative a certain amount of money – at what point will that money be taxed?

**Eido Walny**

Well, there are two gift exemption amounts – there's the annual gift exemption and the lifetime gift exemption – the gift exemption is usually the exemption that most people are talking about when they're talking about the money that they can give to family members or friends year after year. Most people think that that is \$10,000 per year – it hasn't been \$10,000 in a while – in 2012 it was \$13,000 per year – starting in 2013 that's now \$14,000 per year that people can give in gifts before they have to report that. Once they've exceeded the \$13,000 gift exemption annually – then there's an additional exemption that they can lay over that before actual taxes have to get paid.

**Mike Strehlow**

What is your best advice to folks who are into the estate planning process right now – again, there's still a lot of question marks out there as we move forward.

**Eido Walny**

A lot of question marks; I think that the estate planning is going to continue to be very very important, even putting aside the tax situation. Estate planning doesn't necessarily have to be driven by taxes, regardless of whether you are a high net worth – mid net worth – or low net worth person – a lot of important things still need to be addressed including how to get the things that you want to the people that you want to get it to. Dealing with things like asset protection, because one thing that the new law didn't address was – it didn't outlaw divorce, it didn't outlaw litigation, it didn't outlaw people being able to come after the money that you got. So even aside from the taxes there are a number of really important things that you want to address with an estate planning attorney, with an accountant – that have nothing to do with tax.

**Mike Strehlow**

Mike, as an accountant, obviously the busy tax season is coming up, were there be some delays in getting the necessary paperwork to filers because of what was going on in Washington to the eleventh hour?

**Mike Bark**

There was some thought that it would be delayed a little bit before they would issue refunds but it looks like everything is on track to go this year so there may be some small delays in terms of getting the new AMT paperwork done.

**Mike Strehlow**

What is AMT?

**Mike Bark**

Alternative minimum tax. That could delay things a week or two but nothing substantive.

**Mike Strehlow**

What changes are we seeing in the AMT based on the new deal?

**Mike Bark**

The new deal is alternative minimum tax for inflation and alternative minimum tax is sort of this parallel tax structure that runs alongside your regular tax return and it eliminates certain deductions you have like real estate taxes, exemptions, so your kids and everything like that – and in a high tax state like Wisconsin a lot of times we can get trapped by AMT because a lot of our deductions are real estate taxes, state income taxes, and that all gets added back for AMT.

**Mike Strehlow**

I see, well, we are going to take a short break but when we come back – are there more cliffs to come? You're watching Eye to Eye.

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**Mike Strehlow**

Welcome back, our focus is the impact of the fiscal cliff deal with accountant Michael Bark and estate planning attorney Eido Walny offering insight for us this morning. Gentlemen, people have heard the term fiscal cliff probably more often than they would like to and yet this issue is not going away. Just because a deal was struck the first of the year, we still have a lot of issues that have to be addressed as we move through the next couple months – don't we?

**Eido Walny**

Go ahead Mike

**Mike Bark**

The next biggest thing you are going to see is the spending limit and you know right now there's a certain amount of debt that the country can have, and in order to go beyond that congress has to authorize that – so they're going to want to see spending cuts, I think the President is going to want to see more revenue enhancements to cut this deficit so as Eido will say – this first deal was a bridge to get us to where we are probably ultimately going to get to.

**Mike Strehlow**

So really we're looking at maybe three different cliffs and as Mike mentioned the debt ceiling which really has to be addressed probably by the end of February or so Eido?

**Eido Walny**

If you listen to the people in Washington, they suggest that we already have gone past our debt ceiling limit and now we are just finagling numbers to keep us going until an actual deal can be made and so it is a present concern for those people in Washington.

**Mike Strehlow**

People sitting at home will say – well that's Washington's problem – how could it affect people at home and their individual family – and business budgets as well – if this is not dealt with.

**Eido Walny**

Well the issue is that people think that Washington can simply just print money at infinitum it's just not simply the case. You know there are bonds that we have issued, there are backings of the debt that we have and the U.S. certainly doesn't want to default on any debt because that would lead to a cascade of all sorts of financial issues, and so if those things were to start happening that would have a very very real and present effect on inflation – you know things very practically affect people on a day to day basis.

**Mike Strehlow**

The cost of items that you buy at the grocery store – so forth – would go up dramatically.

**Eido Walny**

Absolutely. We heard at the end of the year last year about the milk cliff – there was some legislation that was going to expire in Washington that would have caused the price of dairy to double and triple in price and actually that was addressed as part of the fiscal cliff resolution – but there are all sorts of things that I think are lying in the weeds that could have a very serious effect on people's day to day economies.

**Mike Strehlow**

And congress also has to deal with the spending issues, spending cuts about \$100 billion dollars in domestic and military spending – really they have to decide where those cuts are going to be made.

**Mike Bark**

Exactly. And again I think that in order for them to get the spending cuts that they want, they are probably going to have to agree to a few more revenue enhancements – it could be something like the buffet rule. It could be increasing some rates here and there, so they are going to have to come to some meeting of the minds to get the spending and the deficit under control – or else you will see things like inflation at some point in this economy and if you see inflation if you see the cost of everything going up – then it's just less money out of your pocket.

**Mike Strehlow**

Mike you talk about revenue enhancements – the buffet rule – basically taxing people more as we move forward.

**Mike Bark**

Well I think if you look at the American electorate right now there's a lot of support that it's ok for anybody else's taxes to go up as long as it's not mine – so you can fixate something like the buffet rule at a very small percentage of the people who are electing the president and I think that's going to have some traction and in fact you see it's named the buffet rule because it has support for it.

**Mike Strehlow**

Eido, congress has been passing these temporary resolutions to fund the government and yet they really need to decide on a budget sooner than later.

**Eido Walny**

Yeah, I don't think we've had an official budget go through congress in at least three years, and so we get to a point where we have to set budgets, we all live by budgets. Mike and I are both business owners, we have budgets – but congress apparently gets by without a budget and it's time for them to figure out some of these numbers – unless you figure out the fatality of the problem that you've got it's going to be very difficult for them to fix the problem.

**Mike Strehlow**

The economy guys - has been recovering, albeit a lot slower than a lot of people hoped. Is what we saw the fiscal cliff deal going to help speed things up or slow it down – slow recovery down a bit?

**Mike Bark**

In my opinion, I think we are going to see a very short term slow down – one because they are taking that FICA tax back away from people so they have less disposable income, you're also seeing some of the affordable care act provisions take place this year so if you've got your health insurance premium renewal the changes are it's gone up significantly and that's money straight out of your pocket that hasn't added any value to you. So that's less money you have to spend somewhere else.

**Mike Strehlow**

Exactly, the affordable care act you're talking about healthcare reform – or Obamacare I guess.

**Mike Bark**

Correct.

**Mike Strehlow**

Ok. I understand.

**Eido Walny**

I think it's worth noting that with the fiscal cliff deal that was passed, this was 85-90% of the original Bush tax cuts from 2001 so actually what was passed while there are some fairly significant changes – isn't a very radical change to what we had before – and so I think there will be some slowdowns simply because some rates did go up – there was more being taken out then put back in – but for the most part I'm of the opinion that at best it's going to be a push.

**Mike Strehlow**

Any surprise to Wall Street's reaction to all of this since the first of the year?

**Mike Bark**

I think Wall Street likes certainty and now they know what the rules are going to be I think going forward to some extent so it gives investors some confidence, you know that they know what they are dealing with.

**Mike Strehlow**

There was a lot of uncertainty in 2012 and yet the markets performed rather well.

**Eido Walny**

I think everybody expected a deal to come at some point, you know again, I was focused on this almost on a daily basis checking to see what was going on in Washington and I was of the opinion that we would have actually gone over the cliff – which we did – but that some sort of resolution would come and Wall Street has very good insights with those sorts of things. They have really well placed ears and they knew that at some point some sort of deal would come through and on January 1<sup>st</sup> we did get a deal.

**Mike Strehlow**

It's a very complex topic guys and I appreciate you sorting things out for us and providing some insight as to what the impact is for people at home. Families, individuals, businesses – well, Eido Walny and Mike Bark thanks a lot for joining us.

**Mike Bark & Eido Walny**

Thanks for having us.