CALIFORNIA ASSOCIATION OF REALTORS®

Issues Briefing Paper

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Taxation & Government Finance
Federal Committee

Title: Fiscal Cliff

This material is for discussion purposes only and has not been approved by the Taxation & Government Finance, Federal Committee, Executive Committee or the Board of Directors.

Issue:
Prior to the end of the year, Congress is facing the expiration of approximately 60 tax provisions, an automatic budget cut and the nation's debt running up against the current debt ceiling. This has become known as the "fiscal cliff" as inaction by Congress will force the nation into a recession in the short term, but may prove to be beneficial in the long term.

Action: None

Background:
Over the last twelve years, Washington DC has enacted a number of temporary tax cuts across numerous industries; including real estate. While Congress was enacting and extending these tax cuts the nation began its "war on terror" and fell into the "great recession." These events along with a lack of fiscal discipline have increased government expenditures, as well as decreased government revenue. This increase in spending and loss of revenue has also led to an increase in the nation's debt that has now made the budget and debt ceiling a focal point of election rhetoric.

Unlike in year's past when Congress would temporarily extend various tax cuts for different lengths of time, and would be able to deal with increasing the debt ceiling at another date; the end of 2012 appears to be a culmination of all these issues.

At the end of this year the following tax events will take place unless Congress acts:

- Current individual income tax rate will increase,
- The alternative minimum tax (AMT) fix will expire,
- Mortgage debt forgiveness will expire,
- Mortgage insurance premiums will no longer be deductible,
- Capital Gains will increase to 20 percent,
- Payroll tax holiday will sunset,
- $1,000 child tax credit will go away,
- Marriage-penalty relief will expire,

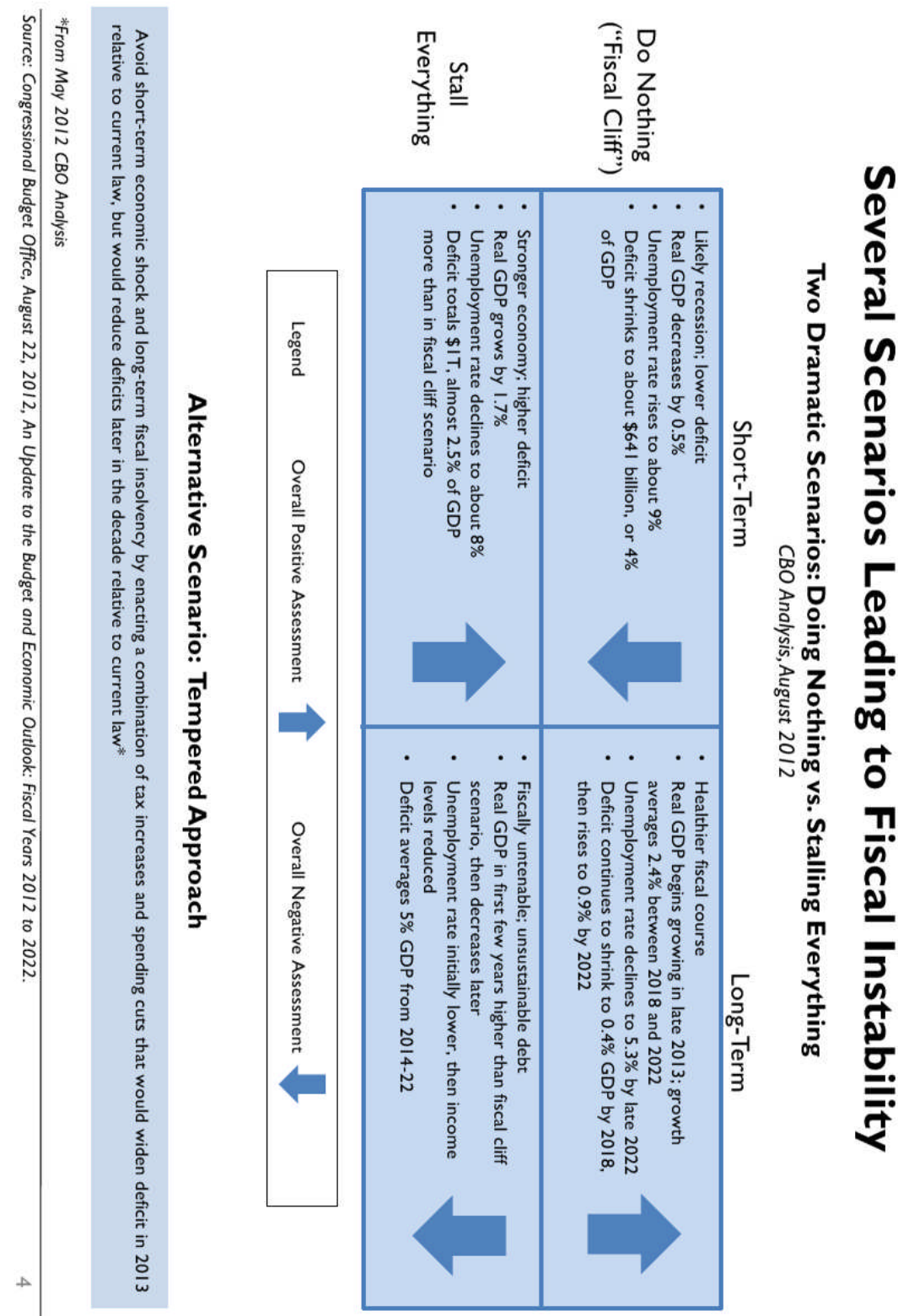
- Estate tax rates and exemption amounts will decrease,
- Research and Experimentation tax credit will expire,
- Accelerated property depreciation will expire,
- Deduction for state and local sales tax will expire,
- Section 179 business expense amounts and thresholds will decrease,
- Credits for energy efficient new homes and appliances, and
- Approximately 40 to 50 other tax benefits will be reduced or eliminated.

In addition to the expiring tax provisions, Congress will be facing:

- Emergency unemployment benefits coming to an end,
- $55 billion in defense budget cuts and $55 billion in non-defense budget cuts mandated from the 2011 debt ceiling deal,
- The need to increase the debt ceiling or risk U.S. defaulting on its financial obligations,

Congressional Budget Office Analysis

Congressional Budget Office Analysis, August



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