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PLANNING

Dear Clients,

This past Friday, President Obama signed the new tax bill into law. If you haven't heard, here are the highlights:

- Income tax rates stay where they are (including capital gains tax rates)
- Estate taxes of 35% don't kick in unless an estate is over \$5 million (which means a married couple can use a bypass trust to shelter up to \$10 million)
- FICA/Social Security taxes, on the employee side, are reduced by 2%
- Unemployment benefits are extended for another 13 months
- The whole thing has to be redone in 2012

Income Tax

While I am happy that taxes will not increase next year (in 11 days), this is not a "monumental tax overhaul" as the media has touted and neither political party did what we sent them there to do. I see this as the lame duck session basically giving up on their jobs and kicking the can down the road for someone else to deal with. We will be in the same situation very soon and will spend much of our nations intellectual capital just trying to figure this out again. It is like the government saying to us "go out and play the game of life for the next two years under these rules, then we will likely change the rules again. Two years is a very short time in business planning, however it is a very long time to continue running budget deficits.

Estate Tax

If you are married or single and have an estate of less than \$5 million, then you shouldn't need bypass trusts. If you are married and your estate is over \$5 million, then bypass trusts are in order. In my mind, I do not understand why the government should get anything when someone dies. However, this is the law as it will stand in 2011 and 2012.

FICA/SS Tax Reduction

The reduction in SS taxes does not seem to make sense. If I were to place budget items in order of importance, this one would be right there with defense spending. We are already in the hole. If we were going to do this, it would make more sense to me to cut it on the employer side to encourage more hiring.

Unemployment Benefit Extension

If you are at or under 99 weeks of collecting unemployment benefits, you get a 13 month extension. If you are at 100 weeks or more, no extension. That doesn't make sense either. However, I would argue that borrowing money from China to pay the first 99 weeks of unemployment benefits didn't make sense in the first place. We need incentives to work.

Impact of Tax Law on Investment Actions

For tax-deferred accounts, no change to strategy. For taxable accounts, I was previously planing to sell and re-buy some positions in which we have sizable unrealized gains. Since the capital gains tax rates are staying the same I will NOT be enacting that strategy this year and will look to 2011 and 2012 instead. (Kicking the can down the road.) Since the healthcare reform capital tax increase is not supposed to become effective until 2013, that will not impact any end of year 2010 decisions. The investment strategy will continue to favor international investments.

Impact on The Rest of The World

While we are continuously distracted about the rules of our economic game here in the US, there are other countries that are keeping their eye on the ball. For example, Chinese Premier (Prime Minister) Wen Jiabao has been on a trade tour throughout much of the world. Over the past couple months, he visited India (set trade target at \$100 Billion), visited Pakistan (with 250 Chinese company executives and signed an estimated \$20 Billion worth of sales orders DURING THE TRIP), hosted U.K. Prime Minister David Cameron (signed an education agreement that will add Chinese language teachers in the U.K. and signed a deal for some Rolls-Royce airplane engines). In addition, China and Turkey have agreed to bilateral trade using the Turkish lira and the Chinese yuan, leaving the US dollar out of the mix completely.

While we squabble about the rules of the game, the "other teams" are out there making plays. By the time we are done trading barbs between political parties and basking in the glow of how important we are to the world, we will look up and find we have achieved obsolescence.

Final Note

Just to be clear, I firmly believe that our taxes are too high right now. The US doesn't have a tax revenue problem, it has a spending problem. Until we cut up the proverbial credit card, it will only get worse. With the size of our national debt and the continuing deficit spending, the credit rating agencies (Moody's, Standard & Poor, Fitch, etc.) are considering whether to put the US government's AAA credit rating on a "negative watch". I guess they are finally getting close to falling off the turnip truck. However, by the time these agencies ever change a rating, it always seems to be during the autopsy.

Have a very merry Christmas!!!

Best Regards,

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