A COMPROMISE.

The President agrees to preserve the Bush-era tax cuts for all, surprising his party.

Provided by Jim & Robin Cusimano, Financial Advisors

Quote of the week: "Many strokes overthrow the tallest oaks." – John Lyly

Many expected a deal – but not necessarily this one. Political and economic analysts widely believed that President Obama and Republican leaders would reach a compromise on the Bush-era tax cuts. Many felt a deal would be struck early in December. Yet few forecast how agreeable the President would be.

The Bush-era tax cuts would be extended for the wealthy. Under the bipartisan plan, the EGTRRA and JGTRRA tax cuts would be extended through 2012 for all taxpayers. At a White House press conference Tuesday, the President simply categorized it as "a good deal for the American people."[1,2]

In the eyes of some Democrats, it is just a sellout. Sen. Mary Landrieu (D-LA) termed the deal "unconscionable." House Minority Leader Nancy Pelosi (D-CA) offered more or less the same view: "Republicans have held the middle class hostage for provisions that benefit only the wealthiest 3%, do not create jobs and add tens of billions of dollars to the deficit." Rep. Jim McDermott (D-WA) referred to the compromise as "the President's Gettysburg." (At least he didn't mention Waterloo.) Sen. Bernie Sanders (I-VT) called the deal "an absolute disaster and an insult to the vast majority of the American people" and said he would attempt a filibuster.[3,4]

Tuesday, December 7, President Obama noted that he would fight to repeal these tax breaks in 2012, emphasizing that the preservation of the cuts will be temporary.[2] (Of course, the EGTRRA cuts were considered "temporary" nine years ago.)

The deal could give us the lowest estate taxes since 1931. The fine points of this bipartisan accord haven't been hammered out yet, but here is what we know about it so far. Under the agreement,

- The 10%, 15%, 25%, 28%, 33% and 35 % marginal tax rates created by EGTRRA in 2001 would be preserved through 2012.
- A one-year, 2% cut in payroll taxes would make up for the expiration of the Making Work Pay credit. The Obama administration says this move will cost $120 billion with no impact on Social Security.
- The estate tax would be set at 35% with a $5 million exemption.

- Long-term jobless benefits would be extended through the end of 2011, at a cost of about $56 billion according to the White House.
- Businesses would be able to expense 100% of their investments in 2011 (retroactive to September 2010).
- The present R&D tax credit and other business-incentive credits would be extended through 2012.

The non-partisan Congressional Research Service figures that maintaining the Bush-era tax cuts through 2012 would cost America $314.9 billion.[1,2]

Essentially, a trade was made. President Obama allowed the EGTRRA and JGTRRA cuts to live on for the wealthy in exchange for some of what he wanted - an extension of unemployment insurance and a payroll tax reduction.

Will partisan sparring stop the deal in its tracks? The accord is less acceptable to Democrats than the recent House bill introduced by Rep. Sander Levin (D-MI) and the Middle Class Tax Cut Act of 2010 introduced by Sen. Max Baucus (D-MT), which was defeated on December 5. Some Congressional Democrats are regarding the agreement the way a child regards spinach: not very palatable, but somewhat acceptable. Others are ready to fight it tooth and nail.

Or will opposition soften? At last week's meeting of the White House deficit commission, Honeywell CEO David Cote made a striking remark on the process of compromise: "We can't let the perfect be the enemy of the good."

Here in December, Congress might want to abide by his advice – especially after President Obama's remark that "a long political fight that carried over into next year might have been good politics, but it would be a bad deal for the economy and it would be a bad deal for the American people."[2]

I would welcome the opportunity to speak with you about your retirement plan. *(If you don't have one, I can help you start one and if you have one, a second opinion never hurts)* Please feel free to contact me at by calling 406-234-3194, or send an e-mail to me. I can help you look carefully at your unique financial situation and assist you in determining a plan of action aimed at reaching your retirement goals. I look forward to speaking with you.

Riddle of the week: You are to put five different letters into five addressed envelopes. If you do this completely at random, what are the chances that only four letters will end up in their correct envelopes?

Last week's riddle: What do these words have in common: pig, pony, bob, dove, and cotton?

Last week's riddle answer: By adding "tail" to the end of each of these words, you can create other words.

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