

THE EAST END FINANCIAL GROUP

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Dear EEFG Client,

Since the election, the equity markets have sold off just under 7% as of 11/16/12. This is not simply a reaction to the election but a shift from the focus being on the election to the economic "fiscal cliff" the nation faces on January 1st.

In simplest terms, the fiscal cliff is a combination of mandated budget cuts coupled with the expiration of the Bush tax cuts for all Americans, not just those making more than \$250,000 a year. The Obama administration wants to extend these tax rates to couples making less than \$250,000 (adjusted gross income) and single taxpayers at the \$200,000 level. Unless some compromise is reached, this is what will happen:

1. A 3.8% surcharge tax will be placed on all types of passive income for high income earners, i.e., dividends, capital gains, REITS and interest income. This tax will be used to pay for Obama Care, and will be there whether a compromise is reached or not. **
2. The estate tax exemption will fall to \$1,000,000 from \$5,000,000 and the top rate will go from 35% to 55%. Coupled with New York State, the marginal estate tax rate in New York could be as high as 71%. **
3. The increased tax rate to the middle class will be devastating. Most people think the expiration of the Bush tax cuts only affects the \$250,000 and above taxpayers. Unfortunately, it's the taxpayers at the \$17,000 to \$71,000 income level that have the biggest increase. This rate, currently 15%, jumps to 28%, an 86% increase in tax rate on our middle class taxpayer. **

*** source: Principal Funds*

We have enclosed a very simple chart that summarizes the effects of the fiscal cliff. These key points are circled and starred for you. We are providing you this information so that you can truly see the effect of not acting on extending the tax cuts. If you have any influence or personal connection with our Congressmen or Senators, please contact them and ask that they work to reach some level of compromise on this issue before the New Year. Remember, they work for us, we pay their salaries and none of them in either party have worked on our behalf for the last two years. Get them to act now.

Best regards,

John J. Kosinski, CLU, ChFC, MSFS

President

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