



For better or for worse?

Impact of proposed tax uncertain



Practice fiscal fitness

KEEPING FINANCIALLY fit involves the same common sense principles as keeping physically fit. You develop a sound program that fits your needs and particular situation, stick to it, monitor it, diagnose and treat any difficulties, and measure the results on a regular basis.

For financial fitness, the measuring should be done at least once a year. Once every three months is even better, given the size and volatility of your portfolio, changes in tax laws and economic conditions.

Changes in your personal situation involving income, divorce, births or deaths also necessitate revisions in your financial plan.

IF YOU HAVEN'T had a fiscal physical in at least the past year, give yourself a quick examination and take a look at your financial history. The following questions should serve as a guide:

- Do you have a will and has it been updated to correspond to changes in tax legislation?

- Does your spouse know where your will,

insurance policies, bank and brokerage accounts and other investment information are located?

- Have you estimated your upcoming taxes?
- Do you have most of your tax information organized by the end of January?
- Can you trace all your income for the past year?
- Do you know how much money you'll have available on your retirement?
- Has your annual return on investments in the past 10 years exceeded the rate of inflation?
- What was your net worth in the past year and has it been increasing?
- Have you invested in more than insurance policies and the stock market?

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THROUGHOUT THE PAST few decades, there have been major tax changes nearly every year.

Well, it's about that time again. This year's revision promotes a very interesting twist. It successfully utilizes scare tactics on the tax-paying consumer.

The initial result being the consumer is now more willing to pay his fair share, especially if that share of taxes is reduced.

Interestingly enough, many of the major objectives have already been reached.

For example, as a result of the government's closer scrutiny of the subject "tax shelters," the term has rapidly evolved into tax advantaged investments, then investments with tax benefits, then to investments with economics, and now, strong cash-flow investments.

Since very few tax-subsidized investments currently offered through brokers generate strong cash flow in the early years, decisions to invest in light of the new tax rules have caused the once record high levels of tax subsidized investments to come to a critical standstill.

SO IS THIS new law for better or for worse? The answer, I believe, is not simply the few thousand in taxes each taxpayer will save or lose. Rather, the benefit will be based upon how the total economy is affected.

For starters, we have seen that as a result of tax law uncertainty during the past six months, new real estate construction has actually come to a halt; a major cause of our present stagnant economy.

With the decreased tax benefits and other governmental subsidies afforded to investors, there is less incentive for investors to absorb the extra risks associated with new real estate construction.

Even if investors will be in a lower tax bracket and have more discretionary funds available to invest, they will seek investments which will generate more income and less tax benefits. Unfortunately, the early years of a new development will not generate the cash flow necessary to make it economically viable.

SINCE THERE WILL be less new developments, existing developments will command additional value. As a result, rental income will naturally increase, especially with tenants having more money at their disposal. Personally, I am strongly recommending that my clients participate in existing, income-producing real estate and not new construction.

Simply lowering taxes would further erode productivity by discouraging savings and investment. Without incentives to take securities like bonds, instead of riskier equity type investments having generally lower cash flow.

Likewise, with the main consumer shelter being the interest deduction for home mortgages, it would be a disaster if the average consumer couple refinanced their number one nest egg to the hilt just for the tax incentive, just for the deduction.