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Economic Discussion (Part 1 of 4): Taxes

by: Brian Woolman

Happy New Year! Over this next year, we at Woolman Financial Group will be highlighting four issues in the economy that directly affects each of our financial lives. We will give you a brief look at the history of the particular issue as well as a few things to consider when strategizing how to deal with it.

In this first issue of the year, we will delve into the area of taxes. We are all accustomed to giving a portion of our income to federal, state and local governments. It has become a mandatory aspect of living in America. Everybody has to pay income taxes, right? It actually hasn't always been this way in the United States. In fact, in colonial times, tax revenue came mainly from excise taxes, tariffs and customs duties (U.S. Treasury). After the Revolutionary War, the federal government relied on donations from the states as well as excise taxes on certain items. The first income tax in the United States came into being to help pay for the Civil War. All incomes above \$800/year were taxed at 3%! Between the end of the Civil War and 1913, 90% of revenue came from different excise taxes. (U.S. Treasury)

In 1894, the federal government imposed a flat tax on each citizen. However, this was shot down as unconstitutional rather quickly, citing the federal government did not have the power to directly tax the American people. In 1909, President Taft proposed a new amendment to levy a graduated income tax and would enable the federal government to tax the people directly. This amendment was ratified four years later, in 1913, under the Wilson Administration. The highest tax bracket was placed at 6%, while the lowest was 1% (over \$20,000).

Since the ratification of the 16th amendment, income taxes have been

a part of life here in America. Our country has seen various drops and hikes in the tax brackets since then. Starting in 1932, the highest tax bracket was above 60% for the next 49 years, with the highest it has ever been in 1944 and 1945 at 94%! The highest bracket has also been as low as 28% in the late 1980s (Truth and Politics). As you can see, our tax rates are subject to change at the will of our representatives in Washington. When looking at your personal finances, knowing how Congress will change tax rates in the future would be very beneficial. Unfortunately, nobody knows for sure how Washington will act. What do you think Washington will do to the tax system? Will they raise the tax brackets, or lower them? For whom will they do this?

Our national debt (as of December 2, 2010 according to www.usdebtclock.org) is listed at just over \$13.8 trillion, while the US federal tax revenue is over \$2.1 trillion (Debt Clock). That means that if the federal government stopped spending in its tracks altogether, with tax revenues remaining constant and zero-interest rates, it would take 6.5 years to pay off our debt.

Knowing this, how do you think our elected officials will react? Will the federal government raise tax rates in the future? How will you be affected? Looking at that disparity, do you think we have a revenue problem? What have you done to prepare for potentially higher or lower taxes? Is revenue the only problem, or do we also have to reduce our spending? In next quarter's newsletter, we will shift our focus to spending and focus mainly on entitlement benefits.

This information is a general discussion of the relevant federal tax laws. It is not for, nor can it be used by any taxpayer for the purpose of avoiding federal tax penalties. This information is provided to support the promotion or marketing of ideas that may benefit a taxpayer. Taxpayers should seek the advice of their own tax and legal advisors regarding any tax and legal issues applicable to their specific circumstances.

Announcements:

Woolman Financial Group is excited to announce a new agent to the WFG team, Tyler Haire. Tyler's official start date is February 1, 2011.

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Happy New Year!

We can hardly believe that 2011 is already here, and if you are like most people entering into a new year you have made resolutions for yourself. Some of you may keep those resolutions all year long, but if you are like the majority of Americans they will fall by the way side quickly.

Please remember to make your annual review a top priority. It is a resolution you will be glad you kept!

Call your advisor today to set up your appointment so you can start your year off on the right foot.

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WFG FEATURE

Social Security and an Uncertain Future

By Gary Woolman

This is a time of great change and economic uncertainty in America. With the stock market taking us on a loop-de—loop rollercoaster ride, two polar opposite economic philosophies fighting it out in the Halls of Congress, and the passage of huge, high-impact healthcare legislation with consequences that will not be understood clearly for years, the road to financial security has never been riskier. The good news is that even though we cannot predict the future, we can still prepare for it. In fact, we must.

One issue that will impact almost everyone in America is Social Security. Younger workers paying into the system

to provide benefits for current retirees may be concerned about the solvency of Social Security and if it will be

there when they retire. Meanwhile, workers at or near retirement are worried about more than benefit freezes or

reductions. One report estimates Social Security will be unable to pay full retirement benefits by 2037.¹

The political and economic landscape is in a state of flux, so it becomes almost impossible to project and plan far out into the future.

¹ "Alarm Sounded on Social Security," The Washington Post, May 13, 2009.

However, it may be an unfortunate idea to sit back and do nothing. Some tips to consider:

- 1. Treat Social Security as a bonus*
 - 2. Determine how much money you will need in retirement*
 - 3. Find out how much money you already have*
 - 4. Calculate how much money you need to keep putting aside*
 - 5. Learn how to put your money to work*
- It's important to prepare for retirement sooner than later. The sooner you start to save, the better. You do not have to go it alone. If you have questions, give us a call to set up an appointment. There is no cost or obligation.*