



What Comes First: Nation or Client?

ONE KEY ELEMENT of financial planning is to identify legal means to reduce clients' payments for state and local income taxes, estate and inheritance taxes, and, to some extent, sales taxes. Commensurate with this goal, we alert individuals to deductions, credits, and shelters. In addition, many of us advocate public policy that will reduce specific taxes, such as on capital gains, dividends, and retirement plans. Unfortunately, our efforts to reduce taxes on clients, and to publicly advocate legislative actions that reduce public revenues, damage the financial condition of our nation at large.

The national debt of the United States, on December 31, 2009, was \$12.1 trillion or \$39,639 per citizen. As a result of our national deficits, the debt increases \$3.76 billion per day. While numerous national leaders decry deficit spending, none has made specific proposals to reduce expenditures and increase revenue.

Financial planners are not necessarily expert in national spending priorities, but we are, as a group, competent to understand the primary sources of revenues. We also are in a unique position to advocate—carefully, diplomatically—that our clients, people having the wherewithal to financially support our nation, consider paying more, for, as Warren Buffett is believed to have said: “taxes are the price of liberty.”

Advocates for reduced expenditures must be heard, but all must understand that a practical starting point is to reduce defense spending. This is not intended to criticize our defense posture in any way. This is a comment on the budget. Defense, when combined with “interest on the national debt” and “other manda-

tory” spending, represent almost 50% of federal expenditures. Another 44% is Social Security, Medicare, and Medicaid, programs dear to the hearts of most Americans. Politically and socially, all of the above are tough to cut. Meanwhile, we face the unfortunate perversity that a reduction of expenditures simultaneously reduces tax revenues. Therefore, within any practical discussion of reducing deficits, citizens must be willing to pay more.

Many citizens, perhaps most, argue vehemently in favor of expense reduc-

A professional service of financial planners conflicts with the needs of our nation.

tion, sometimes euphemistically when they advocate “smaller government,” as if an ever-increasing population, and the challenges of increasing concentrations of population, magically require fewer public services. These arguments resonate as hyperbole instead of as serious proposals, because nothing is concrete. No specifics are offered. The “Tea Party” teams do not propose substitute revenue sources to offset proposed tax reductions. Without balanced proposals, either revenue neutral or, more important, revenue positive, the independent observer sees only groups that do not want to pay for what they receive. Hypothetically, following study,

the financial planning community could offer specific suggestions, thereby giving citizen credibility to the discussion.

The financial planning profession can play an important, effective, and decisive role by participating in the search for solutions. A part of the solution is to avoid appeals for lower taxes, an impossibility. Can we advocate higher taxes? Probably not, at least not directly and publicly, for to do so, at least initially, would be perceived as an affront to the temperaments of many clients. However, we can publicly explain and elucidate the national financial dilemma. We can issue policy papers and brochures for public leaders and media, and we can distribute brochures to our clients, which, without so stating, will show that our national financial need can only be solved by citizens.

Many ideas should be heard. Some groups, for example, advocate a national sales tax, but only as a substitute for income taxes. What if, instead, the federal government imposed a 1% sales tax, to be collected by the existing infrastructure of state agencies, then forward to Washington? On careful examination, a suggestion such as this might fail, as might any other suggestion, but, how do we know until we try?

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