

## Special Edition

### Economic Update: Healthcare Crisis

As we all know there is a political showdown ahead in reference to Healthcare reform.

- The economy is still very sluggish.
- Unemployment is at 9.6% and it's expected to reach as high as 11%, and;
- Rising medical cost and higher unemployment have placed an additional political stress on the government.

Analyst are predicting that the 10yr cost for reforming the healthcare system will far exceed \$1 trillion dollars. Tax experts indicate that healthcare cost savings under a new plan would pick up about 40% of the tab for the overhaul;

- That leaves the government with a \$600 billion short fall to generate in revenues.

The question is how are those revenues going to be generated? The answer is, mainly tax increases that would raise hundreds of billions of dollars.

What are the options that are being considered?

- Charging a surcharge of 2% or more on upper income individuals, for example:
  - a.) Singles making more than \$200K a year.
  - b.) Married above \$250K.

Unfortunately, that will not cover the short fall, so additional taxes have to be implemented. Taxes that are currently under consideration:

1. Increasing the Medicare tax from its current 1.5%-1.8% rate or higher.
2. Possibly imposing a new payroll tax on employers of 3% or more for the amounts they spend on healthcare for employees.
3. "Slapping" a levy on employers who don't provide health benefits – of at least 8% of pay.
4. Ending the tax deduction for advertising expenses of drug manufactures and healthcare companies.
5. Imposing the value added tax or national sales tax on top of the income tax.

In essence, if the government has its way and there becomes some form of national healthcare, employees will also be taxed on their healthcare coverage benefits.

The problem is - how can individuals survive when taxes continue to increase to support the bailout of the financial institutions, stock brokers, investment bankers and car manufactures?

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# THE AHERN ADVISORY

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Healthcare Crisis



Ahern & Associates, Ltd.

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**Another government program that is going to be implemented in July is the “cash for clunkers” program. The government wants to stimulate the economy and they want to stimulate the car industry utilizing a “cash for clunkers” program:**

- If you trade in a car with an EPA rating of 18mpg or less.
- **You will receive a \$3,500 credit at the dealer to buy or lease a car that is rated at 22mpg or more.**
- The credit is in Lieu of any “trade-in”.
- **You will receive \$4,500 if the replacement gets at least 10mpg more than your old vehicle.**

**For light trucks and sport utility vehicles** the fuel efficiency rules are significantly more lenient.

- To qualify, your trade-in must be a 1984 or newer model that is in drivable condition.
- You must have owned and insured it for at least 1yr, prior to trading it in.

**These issues not only impact the trucking industry, but the economy in general.**

**Unfortunately, it’s also affecting each and everyone one us, as to our spendable income. However, that is not the end of the good news.** Brace yourself for the tax hikes at the State level, in July, when a new fiscal year begins, for most States. **There will be plenty of layoffs, furloughs, and cuts in spending and most States will not be able to balance their budgets without boosting revenue.** Some States raised taxes earlier this year, but still can’t balance their budgets, look at CA and AZ, as two prime examples:

- California increased taxes on sales revenue, but;
- They still have a huge deficit;
- Arizona has similar problems, and the unfortunate part is that taxes are going to increase in Arizona as well as many other states.

**Additionally, there are dozens of other States that are in trouble, and are planning tax hikes. Those States include:**

1. **Colorado-** this State will end the capital gains deduction on all in-State business assets, cut payments to retailers for collecting sales taxes, and boost hospital provider fees.
2. **Hawaii-**the State will add 3 new income tax brackets and raise the motel room tax.
3. **Iowa-**is adding a fee on divorce filings and real estate transfers.
4. **Maine-** is expanding its sales tax to cover is Amusement parks, sporting events, and some services such as auto repairs, car washes, dry cleaning, and plumbing.
5. **New York-**will start taxing some services such as limo rides, hair salon care, and in NY, couples who make more than \$500K a year will pay higher income taxes as will singles who earn more than \$200K annually. **A million dollar wage earner will also face limits on itemized deductions on State returns.**
6. **Nevada -** will raise its sales tax from 6.5% to 6.8% on business taxes.
7. **Virginia-**is expanding its corporate tax to include income from REITS.

**That’s just the beginning!**

**Nobody likes to read these kinds of statistics; However, it is necessary to understand the economic conditions of the economy so that you can plan your growth, cash flow, and survival appropriately.** As I’ve stated in my numerous letters:

- Shippers are extending payment terms from 45-60-90 days.
- Freight is still very soft.
- Trucking companies are collapsing, on a daily basis, due to lack of capital, and;

- The banking industry does not consider trucking to be the “darling” of Wallstreet, and credit is getting tighter and tighter.

**As credit becomes harder to obtain, trucking companies need to continuously:**

- Reduce Operating costs
- Increase productivity per employee, and;
- Change compensation packages based upon performance;

**In closing, I believe that some of the largest economic problems are behind us; the banking industry is starting to raise capital and pay back tax payers.** The auto industry has made the painful decisions, and they can now try to re-invent themselves. **Manufacturers have reduced their inventory, to the bone, and when consumer demand picks ups so will production, which directly affects the transportation industry.**

**I'm still concerned about the housing industry, and I personally don't see that segment rebounding for the next 12-18 months, however the Kiplinger's letter indicates,** that they believe that the housing industry will start rebounding in 6-9 months, and if they are correct this will increase our GDP growth in 2010.

**In closing, recovery is still lethargic, sub-growth is anticipated at approximately 2% in 2010, slightly higher in 2011,** but well below the Great Depression of the 1930s.

**QUOTE OF THE WEEK:**

**“Man shapes itself, through decisions that shape its environment”.**