



SIMONARD & SOREL

A V O C A T S

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# Tax Talk 2012 ©

## Economic Forecast

Our economic forecast for 2011 proved remarkably prescient. Slightly better than expected employment figures didn't lead to explicit tax increases, but continued austerity measures saw unprecedented intensification of tax collection by government authorities.

The root cause of the Great Recession cannot be pinned on any individual nation. America took the first bullet in the 2007/2008 financial crisis, which it ducked by socializing private bank losses. The resulting increase in capital costs hurt weaker debtors in Europe's periphery forcing their governments to follow Washington's lead in using public money to bail out bad bank loans. A few countries suffered an outright credit downgrade fuelling a vicious cycle of rising interest rates for increasingly indebted borrowers.

Emerging markets have largely avoided the crisis lime light, but 2012 might see this changed. China's exports are driven by Western consumers whose discretionary spending is in freefall. The resulting demand contraction can devastate China's externally dependent growth model.

For the foreseeable future European leaders will continue to slash government spending on the hopes that moderate GDP growth will cut deficits, shrink debt, and improve competitiveness. Even if mildly successful, such a policy would saddle China with the costs of any subsequent adjustment for the global economy.

Volatility for 2012 might be so high, that forecasts become clairvoyance. Scenarios can span the gamut of global collapse, to a Japanese style stagflation (two decades long). The 2008 financial crisis gave us FATCA. Further economic deterioration could give us Senator Levin's "Stop Tax Haven Abuse Act, 1346."

Although unlikely to make it into law, this bill is a stark reminder what turbulent markets augur. More notices from the IRS, FISC, and other national and state tax authorities questioning the extent of holdings, positions taken, and credits applied, on taxpayers' declarations.

Muscular tax collection is part and parcel of the West's approach to economic growth. Extravagant tax hikes are unlikely, but everything that an average tax officer cannot immediately grasp on a return -- such as international tax credits -- will attract closer scrutiny.