The Bankler Report

November 7, 2012

INTRODUCTION

With the re-election of President Obama, significant tax increases are on the horizon for 2013.

Increase in Individual Marginal Rates.

The current top individual marginal rate will increase from 35% to 39.6%, most likely effective 1/1/13.

Beginning 1/1/13 High Income wage earners are subject to additional 0.9% Medicare Tax.

Married filing joint couples whose total wages exceed $250,000 ($200,000 for singles; $125,000 for Married filing separately) incur an additional 0.9% Medicare Tax.

Unearned Income subject to "Medicare" Tax.

Effective January 1, 2013, for the first time unearned income will be subject to a 3.8% Medicare tax. This tax will be imposed on Married Filing Joint couples with income in excess of $250,000 (Singles $200,000 and Married Filing Separate $125,000). Unearned income includes capital gains, dividends, interest, rents, etc.

Dividend Income.

President Obama's plan calls for dividends to be taxed as ordinary income, rather than capital gains. Therefore, the maximum tax rate on this income will increase from 15% to 43.4%.

Capital Gains.

President Obama's plan also calls for capital gains tax to increase from 15% to 20%. Therefore, the maximum tax rate on long term capital gains could increase to 23.8%.

Gift/Estate Tax.

The current lifetime exclusion of $5,000,000 per person ($10,000,000 per couple) is set to expire 12/31/12. It is scheduled to revert back to $1,000,000 per person. However, Congress will probably pass some sort of increase, but short of the current $5,000,000.

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Tax planning ideas.

We have developed some tax planning ideas:

A. Consider selling investments to lock in gains at lower rates. If you have investment property that has a gain, but really don't want to dispose of it, consider "selling" to "related parties".

B. If you have a business and can control your income, consider accelerating income (or deferring expenses) to have the income taxed at a lower rate.

C. For those that own businesses with substantial excess cash flows, we have developed tax strategies to minimize the effect of these tax increases.

Please contact the office to make your appointment for your yearend tax planning conference.

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