

What follows are some highlights of what we know currently about the new (somewhat temporary) tax law as of January 2.

I would like to offer some common sense for contemplation. The media seemed to have nothing but bad things about the "fiscal cliff". The spending cuts and tax changes embodied in that program were supposed to offset the trillions of dollars of additional debt. It took us nearly about 70 years to get to 10 trillion of debt. After the first three years of president Obama's first term we had more than 15 trillion of debt. This has to stop. And it will be painful.

Discussion recently has focused on tax increases when it really needs to go hand-in-hand with substantial cost cutting. Many of us know from personal first-hand experience (myself included!) that there is a limit to how long you can spend more money than you bring in and that the piper must be paid as you struggle to pay off debt while paying current expenses as well. The annual *deficit* is more than a trillion dollars this year. Constantly raising the debt ceiling means we are more and more in debt to foreign powers. They currently own about a third of our national debt. Is that what we want?

Be that all as it may, in our planning work we have to deal with what Congress and the President have handed us, so here is some useful information.

Tax Rates

A new top tax rate of 39.6% will start at the following thresholds of taxable income:

1. Single: \$400,000
2. Married filing jointly and qualifying widow(ers): \$450,000
3. Head of household: \$425,000
4. Married filing separately: \$225,000

Medicare

Unlike Social Security, whose COLAs are based on changes in the CPI-W, Medicare premium adjustments are based on increases in the actual cost of care. Part B premiums rose to \$104 per month, from \$99.90 in 2012.

Medicare premiums for high-income taxpayers. The income brackets remained unchanged for 2012. However, the income-related adjustment for each income bracket went up about 5%.

Medicare Premiums for High-Income Taxpayers			
MAGI single	MAGI joint	Part B premium	Part D income-related adjustment
\$85,000 or less	\$170,000 or less	\$99.90	\$0.00
85,001-107,000	170,001-214,000	104.00	11.60
107,001-160,000	214,001-320,000	209.80	29.90
160,001-213,000	320,001-428,000	272.70	48.10
More than 213,000	More than 428,000	335.70	66.40

Source: Centers for Medicare & Medicaid Services

Capital gains and qualifying dividends.

The 15% rate on long-term capital gains and qualifying dividends (0% for taxpayers in the 10% and 15% brackets) has been preserved for taxpayers with income under \$400,000 (single) or \$450,000 (joint). Taxpayers with income over these thresholds will pay 20%.

2013 Rates on Capital Gains and Qualifying Dividends	
If taxable income falls below the 25% tax bracket	0%
If taxable income falls at or above the 25% tax bracket but below the new 39.6% rate	15%
If income falls in the 39.6% tax bracket	20%
Taxes on un-recaptured Sec. 1250 gains	25%
Capital gains rate on collectibles	28%

Source: "Senate Approves the American Taxpayer Relief Act of 2012"

Medicare surtax

In 2013 we have been expecting the 3.8% tax on net investment income for taxpayers with income over the threshold. Net investment income includes interest excluding tax-exempt municipal bond interest), dividends, rents, royalties, and annuities, as well as net capital gains. You may not think this will impact you if your normal income is below the 400,000 mark but if you sell a second home for a large profit or are told to make a large investment sale or sell your business, this provision is likely to whack you between the eyes! The top bracket of 39.6% then adds on the additional 3.8% for a total Federal bracket of 43.4% - with NYS, an additional 7 or 8%, you could pay taxes over 50%. Comprehensive planning can save many thousands – perhaps even hundreds of thousands – of tax dollars.

Medicare Surtax

Filing status	Threshold
Single, head of household	\$200,000
Married filing jointly, qualifying widow(er)	\$250,000
Married filing separately	\$125,000

Source: Patient Protection and Affordable Care Act

There is a lot more to this which we will be taking into account in your planning review (if you are already working with us) this year. There will be more changes when a new Congress takes over. Parts of this patch are limited to a couple of months.

This is just the tip of the iceberg on this topic!



Don't pay more taxes than you have to! Donna 423-7700 ext 25