

Post 2012 Election Tax Planning Considerations

Oregon Jewish Community Foundation

Roy Abramowitz

CPA, Shareholder

November 7, 2012

Overview



- Prospects for Tax Reform
- The 3.8% Medicare Surtax
- Other Tax Measures Included in the Affordable Care Act
- > Income and Other Tax Planning for the Rest of 2012



2013 Tax Rate Increases



Without legislative action, tax rates will go up across the board for most tax payers:

Income Tax Provisions	2011	2012	2013
Rates for ordinary income	35.0%		39.6%
	33.0%		36.0%
	28.0%		31.0%
	25.	.0%	28.0%
	15.	.0%	15.0%
	10.	.0%	15.0%
Long-term capital gains	15.	.0%	20.0%
Qualified dividends	15.	.0%	39.6%
Child tax credit	\$1,000 p	per child	\$500 per child
Maximum §179 Deduction	\$139,000		\$25,000
Bonus Depreciation	50%		None

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2013 Tax Rate Increases



Continued...

Estate Tax Provisions	2011	2012	2013
Exemption Amount	\$5.0M	\$5.12M	\$1.0M
Maximum Tax Rate	35%	55%	
Portability Election	Available		Unavailable
Gift & GST Tax Provisions	2011	2012	2013
	2011 \$5.0M (\$5.12 + DSUE if	2M in 2012)	2013 \$1.0M
Provisions	\$5.0M (\$5.12	M in 2012) f elected	

Income, Estate & Gift Taxes...



Under the Obama Plan

Income, if AGI is: >\$250,000 for joint filers >\$200,000 for individual filers >\$125,000 for married filing separately	2013	Plus 3.8% Medicare surtax (including additional 0.9% Medicare tax)
Earned Income (salaries, etc)	39.6%	40.5%
Capital Gains (long-term)	20%	23.8%
Interest, dividends, etc	39.6%	43.4%

Continued...

Income, Estate & Gift Taxes...



Under the Obama Plan

- Deductions for wealthy families and individuals :
 - Capped at 28%
 - Reinstate overall 3% cutback
- Estate and GST:
 - \$3.5 million exemption and 45% rate
- Gift Tax
 - \$1 million exemption and 45% rate

The Medicare Surtax



But wait, there's more...

Starting in 2013:

3.8%

Medicare Surtax

imposed on certain investment income on high income tax payers.



The Medicare Surtax



Who

Individual taxpayer threshold amounts

- \$200,000 for single taxpayers
- \$250,000 for married filing jointly
- \$125,000 for married filing separately

How

For Individuals the 3.8% surtax will be imposed on the lesser of:

- Net investment income for the tax year, or...
- The amount by which the modified adjusted gross income (MAGI) exceeds the threshold amount in that year

Medicare Surtax Example

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Married Filing Jointly:

Husband and wife, filing jointly

Earn \$200,000 in salaries

Plus \$150,000 of net investment income

for \$350,000 of total MAGI

The **3.8%** surtax applies to \$100,000 of income **since** it is the lesser of \$150,000 of net investment income or the excess over the MAGI threshold of \$250,000.

What IS investment income?



Net investment income includes the following:

- Interest, dividends, royalties, annuities
- Net capital gains derived from the disposition of property (other than property held in an active trade or business)

Long-term capital gains	15.0%	20.0% 23.8%
Qualified dividends	15.0%	39.6% 43.4%

Income derived from passive activities

Rental Income

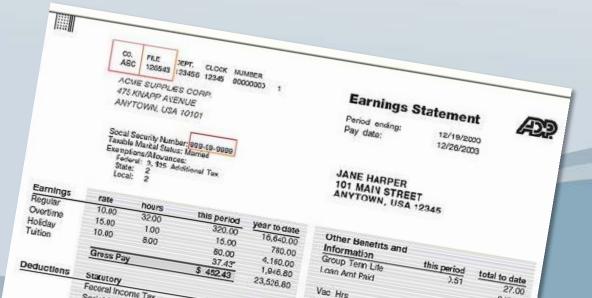


What IS investment income?



Net investment income does not include the following:

- Wages or salary
- Active trade or business income
- Distributions from IRAs or qualified retirement plans
- Income from tax-exempt municipal bonds



Other Tax Measures included in...



The Affordable Care Act

- Medical itemized deduction threshold increased to 10% from 7.5% (2013)
- Maximum pre-tax FSA reimbursable amount reduced to \$2,500 from \$5,000 (2013)
- Large employers (> 250 W-2s in 2011) must report value of employer-sponsored, employee health coverage on each W-2 (2012)
- Adoption credit and assistance programs expire in 2012

Investment Strategies to Consider



- Municipal Bonds
- Capital Gain Harvesting
- Resetting Cost Basis
- Review Investments in Qualified Plans
 - IRAs & taxable investment accounts
- Review your asset allocation (given current market conditions)
- Rebalance your accounts: buy low & sell high

Other Financial Planning Strategies

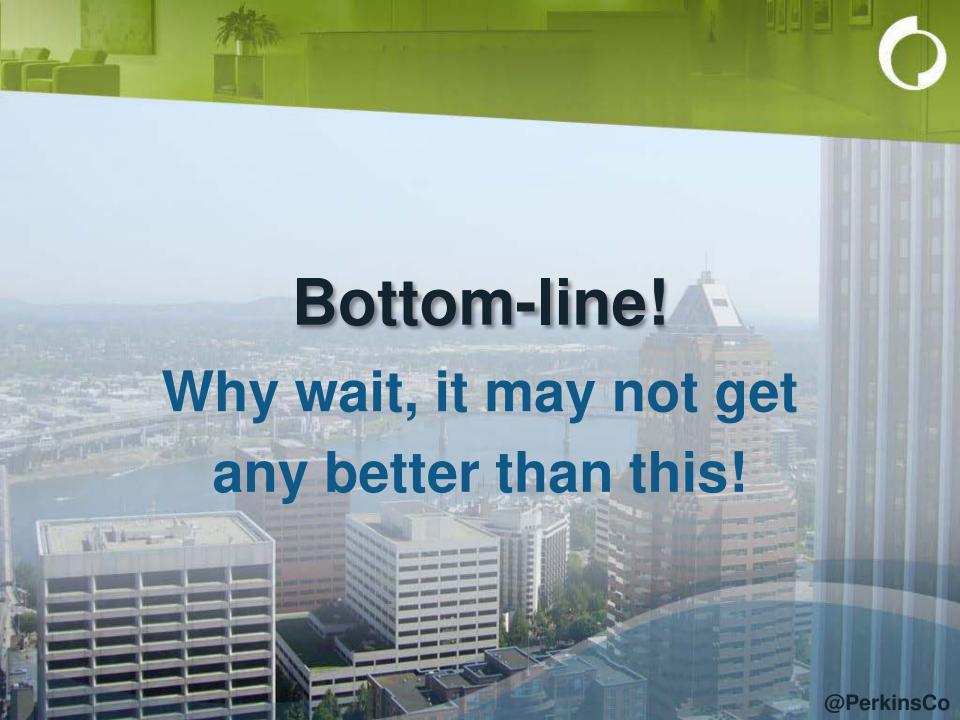
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- Accelerate income into 2012
- Exercise Stock Options
- Convert traditional IRA to Roth IRA
- Take increased annuity income in 2012
- Business Owners: maximize qualified retirement plan
- Consider conversion to S corp status
- Consider delaying charitable contributions until 2013

Estate Planning Strategies



- Gift appreciated securities
- Gift cash
- Gift closely-held business interests
- Gift fractional interests of property (real estate, family vacation property)



Questions?



Roy Abramowitz rabramowitz@perkinsaccounting.com

503-221-7500



LinkedIn/royabramowitz

Perkins & Co perkinsaccounting.com 503-221-0336



@PerkinsCo



PerkinsCo



LinkedIn/perkins & co

