



PERKINS & CO

Let's get there

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

Prospects for Tax Reform



Roy's Crystal Ball

- › Top Priority: the “fiscal cliff”
- › Limited timeframe for change
- › Likely scenarios for expiring tax law
 - Income tax
 - Estate and gift tax



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 per child		\$500 per child
Maximum §179 Deduction	\$139,000		\$25,000
Bonus Depreciation	50%		None

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
Exemption Amount	\$5.0M (\$5.12M in 2012) + DSUE if elected		\$1.0M
Maximum Tax Rate	35%		55%
Annual gift exclusion	\$13,000		\$14,000

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 screenshot shows the Medicare.gov website. At the top, there's a browser address bar with "Medicare.gov: the official U.S. Government Site for Medicare". Below the address bar, there's a navigation bar with links: "Español", "A A", "Email", "Print", "About Us", "FAQ", "Glossary", "CMS.gov", and "MyMedicare.gov". The main heading is "Medicare.gov" with the subtitle "The Official U.S. Government Site for Medicare". A search bar is on the right with the placeholder "type search term here". Below the heading, there's a row of navigation buttons: "Sign Up / Change Plans", "Your Medicare Costs", "What Medicare Covers", "Drug Coverage (Part D)", "Supplements & Other Insurance", "Claims & Appeals", "Manage Your Health", and "Help Resources". The main content area features a large banner with the text "Is my test, item, or service covered?" and a search bar with the placeholder "type your test, item, or service here" and a "Go" button. Below the banner, there are two yellow buttons: "Find health & drug plans" and "Apply for Medicare". At the bottom, there's a section with three yellow boxes: "Open enrollment is from now until December 7." with a link "Review and compare your coverage options", "Not sure what coverage you have?" with a link "Check your current enrollment", and "Already know what plan you want for 2013?" with a link "Enroll now". Below these boxes, there are three sections: "Lost / incorrect Medicare card?" with a dropdown "Select your card issue..." and a "Go" button; "Information for people like me" with a dropdown "Select your situation..." and a "Go" button; and "Find someone to talk to" with a dropdown "Select your state..." and a "Go" button.

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



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

Earnings Statement

Period ending: 12/19/2000
Pay date: 12/26/2000

JANE HARPER
101 MAIN STREET
ANYTOWN, USA 12345

CO. FILE DEPT. CLOCK NUMBER
ABC 125543 123456 12345 00000000 1

ACME SUPPLIES CORP.
475 KNAPP AVENUE
ANYTOWN, USA 10101

Social Security Number: 999-99-9999
Taxable Marital Status: Married
Exemptions/Allowances:
Federal: 3, \$15 Additional Tax
State: 2
Local: 2

Earnings	rate	hours	this period	year to date
Regular	10.00	32.00	320.00	16,640.00
Overtime	15.00	1.00	60.00	780.00
Holiday	10.00	8.00	15.00	4,160.00
Tuition			37.43*	1,946.80
Gross Pay			\$ 452.43	23,526.80

Deductions	Statutory	this period	total to date
Federal Income Tax			
State Income Tax			
Local Income Tax			
Group Term Life			
Loan Amt Paid			
Vac Hrs			

Other Benefits and Information

Group Term Life: this period .51, total to date 27.00

Loan Amt Paid: this period .51, total to date 27.00

Vac Hrs: this period .51, total to date 27.00

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

- › 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)



Bottom-line!
**Why wait, it may not get
any better than this!**

Questions?



Roy Abramowitz r Abramowitz@perkinsaccounting.com

503-221-7500



[LinkedIn/royabramowitz](#)

Perkins & Co perkinsaccounting.com

503-221-0336



[@PerkinsCo](#)



[PerkinsCo](#)



[LinkedIn/perkins & co](#)



kinsCo