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# Tax Planning in a Changing World

**Eric Hormel**  
**CPA, Shareholder**

November 7, 2012

# The Fiscal Cliff

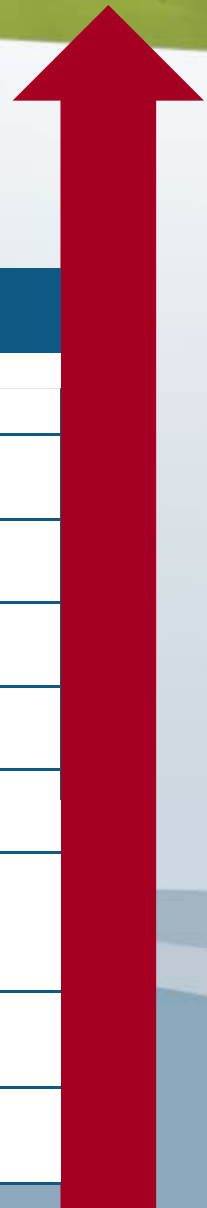


# 2013 Tax Rate Increases



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

Provision	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%
Top rates for investment income			
Long-term capital gains	15.0%		20.0%
Qualified dividends	15.0%		39.6%



# 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 navigation bar with links for Español, A, A, Email, and Print. The main header features the Medicare.gov logo and the tagline "The Official U.S. Government Site for Medicare". Below this is a search bar with the placeholder text "type search term here". A horizontal menu contains several categories: 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 has a large banner with the text "Is my test, item, or service covered?" and a search input field with a "Go" button. Below the banner are two yellow buttons: "Find health & drug plans" and "Apply for Medicare". At the bottom, there are three yellow boxes with links: "Open enrollment is from now until December 7." (with a link to "Review and compare your coverage options"), "Not sure what coverage you have?" (with a link to "Check your current enrollment"), and "Already know what plan you want for 2013?" (with a link to "Enroll"). The footer contains three sections: "Lost / incorrect Medicare card?" with a dropdown for "Select your card issue..." and a "Go" button; "Information for people like me" with a dropdown for "Select your situation..." and a "Go" button; and "Find someone to talk to" with a dropdown for "Select your state..." and a "Go" button.

# 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%	<del>20.0%</del>	23.8%
Qualified dividends	15.0%	<del>39.6%</del>	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: 12/18/2000  
Pay date: 12/28/2000

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**Earnings**

	rate	hours	this period	year to date
Regular	10.00	32.00	320.00	16,640.00
Overtime	15.00	1.00	15.00	780.00
Holiday	10.00	8.00	80.00	4,160.00
Tuition			37.43*	1,946.80
<b>Gross Pay</b>			<b>\$ 452.43</b>	<b>23,526.80</b>

**Deductions**

	this period	total to date
Security		
Federal Income Tax		
State		
Local		
Other Benefits and Information		
Group Term Life		
Loan Amt Paid		
Vac. Hrs		

# Other Tax Measures included in...



## **The Affordable Care Act**

- › 0.9% Surtax on high compensation taxpayers
- › 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)

# Estate & Gift Tax Changes

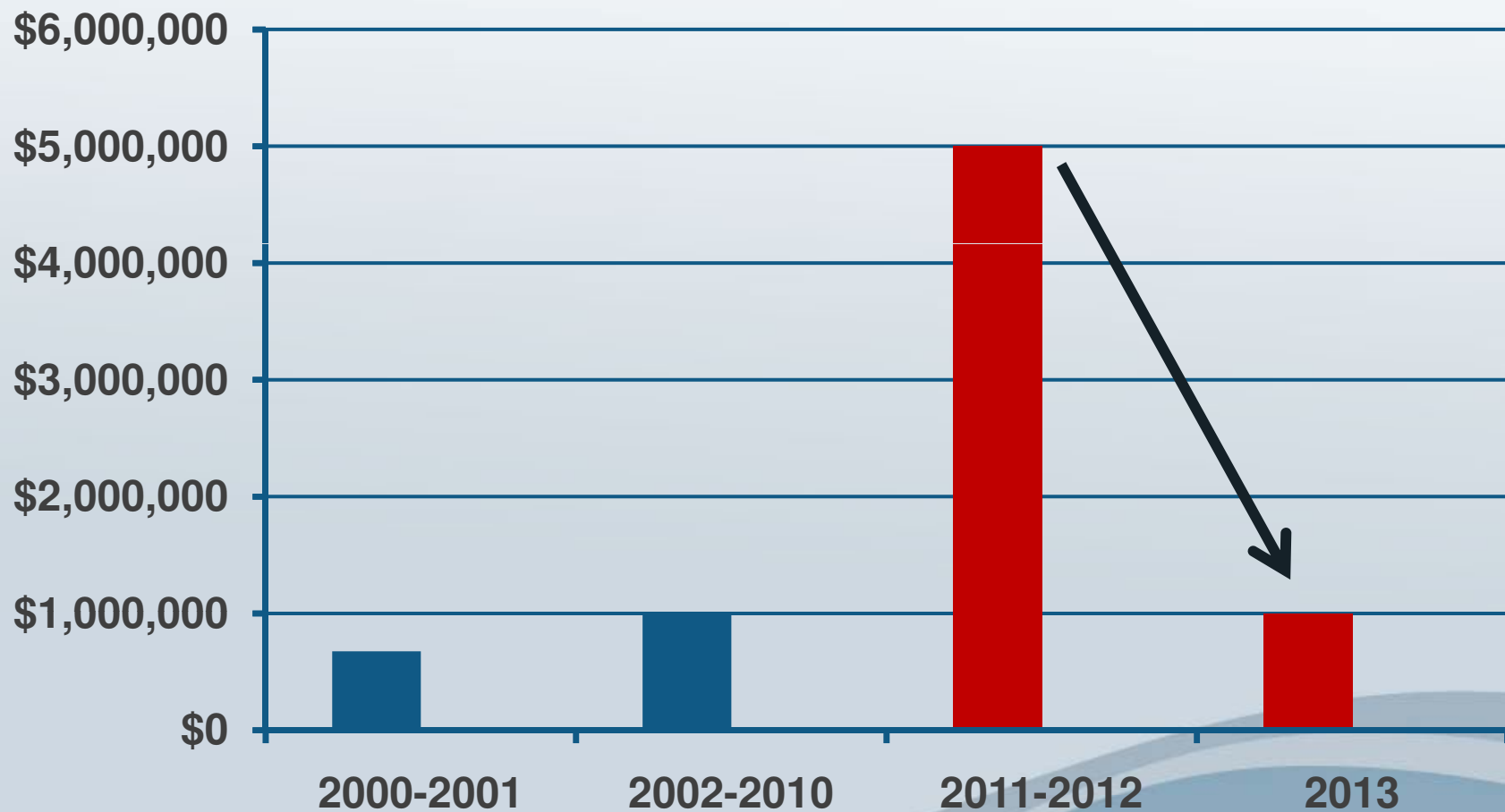


Estate Tax	2011	2012	2013
Top rate	35.0%		55.0%
Annual Gift Tax Exemption	\$13K		\$14K

Gift Tax	2011	2012	2013
	Estate and gift tax regime reunified for 2011-2012 (\$5 million exemption for gifts with highest rate of 35%)		\$1 million lifetime exemption (55% top rate)



# Gift Tax Exemption



# Contact



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**Confluence**  
Wealth Management LLC

# **Investment Tactics with Current Tax Law**

**Marilyn Bergen, CFP, Partner**

**David Morganstern, CFP, AIF, Partner**

**Empower You**  
with **Tactics & Changes**  
to **consider *before***  
**Dec. 31 2012**

# Investment Strategies to Consider

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- 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

# Estate Planning Strategies

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

# Other Financial Planning Strategies

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



## **Scenario:**

Taxable estate of \$12,500,000  
concerned with potential  
changes in gift tax exemption

## **Action:**

1. In 2012, converted \$450,000 of a traditional IRA to Roth IRA
2. Gifted appreciated stock & mutual funds to 2 charities
3. Gifted assets to children, maximizing upper limits of lifetime gifting



## Scenario:

- Concentrated position in 1 stock
- Sell stock to diversify & produce income stream
- Set up a Charitable Remainder Trust

## Action:

1. Sold stock at LTCG rate of 15% instead of 23.8% if sold in 2013
2. Cash diversified to produce income from municipal bonds & diversified stock portfolio

**Don't  
Wait...**

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# Post 2012 Election Tax Planning Considerations

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**CPA, Shareholder**

November 7, 2012

@PerkinsCo

# Overview



- › Prospects for Tax Reform
- › Portability
- › Estate Tax Planning for the Rest of 2012

# Prospects for Tax Reform



## Roy's Crystal Ball

- › Top Priority: the “fiscal cliff”
- › Expiring tax law
  - Income tax
  - Estate and gift tax
- › Three likely scenarios
- › Limited timeframe for change
- › Fate of “Obamacare”



# Income, Estate & Gift Taxes...



## Under the Obama Plan

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

continued...

# Income, Estate & Gift Taxes...



## **Under the Obama Plan (continued)**

- › 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

# Portability



- › Is it here to stay?
- › **D**eceased **S**pousal **U**nused **E**xemption **A**mount
  - What is it?
  - How does it work?
- › Does not replace traditional estate planning (e.g. credit shelter trusts)
- › Executor must file **Form 706** to elect

# Estate Planning for the REST of 2012



- › Significant Benefits of Gift Maximization Now:
  - Transfer assets before the **3.8%** surtax applies
  - Transfer assets while values are still low
  - Take advantage of fractional ownership and valuation discounts

# Estate Planning for the REST of 2012



## › Significant Benefits of Gift Maximization Now (continued):

- Caveat: carryover basis vs. step-up at death...**Run the numbers!**
- Impact of state estate taxes
  - Oregon estate tax exemption: \$1M, 16% highest tax rate
  - Washington estate tax exemption: \$2M 19% highest tax rate

**Example: Donor with \$10M estate gifted \$3M in 2012, saving \$295,000 in Oregon Tax!**

# Estate Planning for the REST of 2012



- › Estate Planning is still a good idea even for smaller non-taxable estates
- › Examples:
  - Asset protection
  - Disposition of assets at death
  - Planning for divorce
  - Planning for disability
  - Business succession planning (beyond estate planning)
  - Preserving assets for spouse or children from a prior marriage
  - Identifying a guardian for minor children

# Estate Planning for the REST of 2012



- › Bottom-line! Take Advantage of:
  - High estate and gift tax exemption
  - Low estate and gift tax rates
  - Unified GST regime
  - Low Capital gains tax rates
  - Low individual income tax rates

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