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GETTING OFF ON THE RIGHT FOOT IN 2012

A look at some financial changes & the opportunities they may present.

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Every year brings some financial change, so here are some relevant changes relating to investment, tax and estate planning for 2012.

Retirement plans. 401(k), 403(b) and 457 plan annual contribution limits rise slightly to \$17,000, and you can contribute an additional \$5,500 to these accounts if you are 50 or older this year. IRA contribution levels are unchanged from 2011: the ceiling is \$5,000, unless you will be 50 or older in 2012 and then the limit is \$6,000.¹

As you strive to contribute as much as you comfortably can to these accounts this year, you will probably notice some changes with the retirement plan at your workplace. In 2012, retirement plan sponsors (i.e., employers) will have to note all of the fees and expenses linked to the funds in the plan to plan participants. So if you have a 401(k) or 403(b), you may notice some differences in the disclosures on your statements and you will probably notice more information coming your way about fees. There is also a push in Washington, D.C. to have financial companies provide lifetime income illustrations on retirement plan account statements, projections of your expected monthly benefit at retirement age.²

Income taxes. You may be facing greater income tax burdens in 2013, so 2012 may be the last year to take advantage of certain factors. For example, the top tax bracket in 2013 is slated to be at 39.6% instead of the current 35%. This year, capital gains and dividends will be taxed at 15% or less for everyone, 0% for those in the 10% and 15% tax brackets. In 2013, the qualified capital gains tax rate is scheduled to rise to 20% and qualified dividends will be taxed as ordinary income. So taking a little more income in 2012 could be smart and I highly recommend we sit down to discuss how you might be affected.³

In 2013, the wealthiest Americans are supposed to be hit with new Medicare taxes: a new 3.8% levy on unearned income (such as capital gains, income from real estate, dividends and interest) and a new 0.9% tax on earned income.

Additionally, the IRS is planning to limit itemized deductions for upper-income taxpayers in 2013. A phase-out will also apply for the personal exemption deduction.³ I highly recommend talking with your tax advisor in the near future to find out how you might be affected.

Estate & gift taxes. At the end of 2012, some very nice estate tax breaks could sunset. Barring action by Congress, 2013 could see a 20% leap in the federal estate tax rate from 35% to 55%. The individual estate tax exclusion (\$5.12 million in 2012) is scheduled to be reduced to \$1 million in 2013.³

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As we have unified gift and estate tax rates, those numbers and percentages also apply to gift taxes. That is, from 2012 to 2013 top federal gift tax rate is set to go from 35% to 55% and the lifetime gift tax exemption amount is scheduled to fall \$4,120,000 per individual to \$1 million. The annual gift tax exemption is \$13,000 per recipient in 2012 and there is an exemption limit for qualifying educational and medical payments. If you want to gift to relatives or friends, you may want to avoid procrastinating for another very good reason: when you make such a gift early in a year, the recipient will gain both the principal and any appreciation tied to the gifted asset in that year.^{3,4}

Speaking of gifts, we said goodbye to charitable IRA gifts in 2011, which is sad to see go away since many of my clients used this benefit the last two years. The IRA charitable rollover, a boon to non-profits and a handy tax deduction option for taxpayers older than age 70½, was not extended into 2012, not even temporarily as a sweetener to the payroll tax extension bill. There is hope it will be back. Two bills have been introduced in Congress with that goal, one sponsored by Sen. Olympia Snowe (R-ME) and Sen. Charles Schumer (D-NY) and another by Rep. Wally Herger (R-CA) and Rep. Earl Blumenauer (D-OR). The proposed legislation would let IRA owners start making charitable IRA gifts at age 59½ and remove the \$100,000 limit on the rollovers.⁵

The limits on the generation-skipping transfer tax "GSTT" could change, too: assuming the Bush-era tax cuts do sunset, the GSTT rate would jump from 35% this year to 55% in 2013, with the GSTT exemption falling from \$5,120,000 per person this year to roughly \$1.3 million per person next year.³

So given all these changes, it might be wise to meet with me as well as your tax advisor early in 2012 as you strive to start the year off on the right foot.

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Citations.

1 - www.irs.gov/retirement/article/0,,id=96461,00.html [10/20/11]

2 - www.marketwatch.com/story/retirement-plan-changes-coming-in-2012-2011-12-29 [12/29/11]

3 - www.sbnonline.com/2012/01/how-to-approach-tax-and-estate-planning-opportunities-for-2012/?full=1 [1/3/12]

4 - advisorone.com/2012/01/06/10-tax-tips-for-advisors-in-2012 [1/6/12]

5 - www.northjersey.com/news/business/business_opinion/136217658_Payroll_tax_cut_benefits_charities.html [12/25/11]