



## Things to Think About in 2012

One of the most common traditions for ushering in a new year is to make new year's resolutions. For the year 2012, one popular resolution that many Americans are making is to live more secure, prosperous and responsible lives. A good way to accomplish that goal is through education on some of the important decisions related to money and investing. The year 2012 should prove to be a very important year for investors to review their financial situation with a careful eye on some of the major changes set to affect many of us. Here are some of the things that you should be aware of when reviewing your financial situation this year.

### Income tax rates are set to change after 2012.

No one can predict what tax debates will or won't happen in 2012, however we can focus on what will happen in 2013 in the absence of any further congressional action.

This year, the Bush-era tax cuts are scheduled to expire. Changes currently set for January 1, 2013 as a result of the sunset provisions will include the following:

- The top tax rate will rise more than 13% from 35% to 39.6%;
- The maximum tax rate on long-term capital gains will go from 15% to 20% - a 33% increase;
- The maximum tax rate on dividend income currently capped at 15% on qualified dividends will increase to 39.6%, a 164% rise (since all dividends will be taxed like other ordinary income).

These changes may cause many investors to pay significantly more in taxes in the year 2013. We are committed to communicating and sharing with our clients any and all appropriate strategies that may offset some of these increases.

Year	Top Income Tax Rate	Maximum Tax Rate: Long-term Capital Gains	Maximum Tax Rate: Qualified Dividend Income
2012	35%	15%	15%
2013	39.6% (13% increase)	20% (33% increase)	39.6% (164% increase)

These changes can be best minimized by reviewing your situation with a focus on being tax efficient by year end. This year provides you with the opportunity to revisit your situation with a careful eye toward understanding and potentially adjusting your financial plan accordingly. Our wealth advisors would be happy to provide you with their recommendations.

## Estate planning tax rules are set to change after 2012.

Effective January 1, 2013, the estate-tax exemption is scheduled to drop from more than \$5 million back to \$1 million and the maximum estate-tax rate is scheduled to rise to 55%. The estate-tax changes agreed to at the end of 2010 were only set in place for two years.

## The new Medicare tax is currently scheduled for 2013.

A new Medicare tax at the rate of 3.8% will be imposed on the unearned and investment income of individuals who earn in excess of \$200,000 for single filers and \$250,000 for couples filing joint returns. This new tax will be paid on an annual income tax return. A new Medicare Hospital Insurance (HI) tax is scheduled to apply to those same high-income taxpayers, beginning January 1, 2013. This HI tax is .09% of earned income and will be collected through the withholding/deposit system.

## Summary

The year 2012 is a presidential election year and that typically brings up debate and potential tax law changes. As we focus on your financial landscape, our goal is to keep you both current and updated on major rule changes.

We will also be keeping a careful eye on the political factors that can affect the investment world such as unemployment, the unstable situation in Europe and the debt and deficit situation. A presidential election year can bring much debate but also has the potential to bring about political gridlock.

## What can you consider to either help or potentially improve your situation?

While these strategies may not be appropriate for your situation, some of the planning thoughts we will be discussing over the next 12 months include:

- Potentially contributing more or setting up, if possible, another qualified retirement plan;
- Possibly considering ideas that offer tax exempt or tax deferred income;
- Reviewing all of your investments with a careful eye on dividends, interest and capital gains;
- Researching the impacts of a Roth IRA conversion;
- Seeing if a charitable trust can be helpful to your situation.

While all of these strategies can be helpful for some situations, they can easily be inappropriate for others.

**As part of our Personal CFO Services, we review and coordinate your investment strategies and how these strategies affect and interact with your tax and estate planning needs and concerns. See our Personal CFO Services for our full list of services.**

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