MONEY MATTERS — Tax and financial planning strategies

The times they are a changin'... maybe

By Mike Slotopolsky

BY THE TIME YOU READ THIS A NEW president will have been elected and this usually brings changes in tax laws. In 2001, Congress passed the Bush tax cuts set to expire at the end of 2012, which would result in significant tax law changes. Will Congress extend them again? Who knows. What we do know is that over the years more people will be caught by the new taxes because the adjusted gross income (AGI) level that triggers them doesn't rise with inflation. Here are some pointers for getting through the possible tax ramifications for individual and corporate tax filers.

Currently there's a maximum 15% tax on qualified dividend income, a tax incentive that's terrific for high tax bracket folks. New rates would apply up to the tax rates of 39.6% on all dividends. This rate can be as high as 43.4% for certain high income taxpayers subject to the new 3.8% Medicare contribution tax. That Medicare tax is scheduled to take effect in 2013 regardless of whether Congress extends the Bush tax cuts. For individuals, the 3.8% tax will be imposed on the lesser of the individual's net investment income or the amount by which the modified AGI exceeds certain thresholds.

The maximum rate on long-term capital gains is scheduled to increase from 15 to 20% in 2013. Individual taxpayers in the 10 and 15% ordinary income tax brackets currently pay no tax on long-term capital gains. Taxpayers are scheduled to be subject to a 10% long-term capital gain rate in 2013. An

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The Bush tax cuts are set to expire at the end of 2012 which would result in significant tax law changes. Consider taking steps that could improve your financial picture regardless of what Congress does.

18% maximum rate will apply to capital assets purchased after 2000. Additionally, the 3.8% Medicare contribution tax will increase the effective rate of tax on long-term capital gains for certain higher income taxpayers to as high as 23.8%.

Under the current law, itemized deductions aren't subject to any overall limitation. If the Bush tax cuts expire, an overall limitation on itemized deductions for higher income taxpayers will once again apply. Most itemized deductions – except medical and dental expenses, investment interest, and casualty and losses – will be reduced by 3% of the amount by which AGI exceeds statutory thresholds, but not more than 80% of the otherwise allowable deductions.

Current minimum required distribution (MRD) rules require participants in tax favored retirement plans to begin receiving distributions shortly after reaching 70½. If you fail to take the minimum required distribution by the deadline, the amount not withdrawn is subject to a 50% excise tax. The proposal would exempt an individual from the MRD requirements if the aggregate value of the individual's IRA and tax favored retirement plan accumulation doesn't exceed $75,000.

A higher income taxpayer's personal exemptions (currently $3,800 per exemption) will be phased out when AGI exceeds the inflation adjusted threshold, projected to be $261,650 for married taxpayers filing jointly and $174,450 for unmarried taxpayers.

The maximum child credit will decrease from $1,000 to $500 per child and can't be used to offset the alternative minimum tax (AMT) liability. Income tax rates are projected to increase. In 2012, the lowest rate was 10%; the maximum rate was 35%. In 2013, the rate will start at 15% and max out at 39.6%. Taxpayers may currently elect to expense certain depreciable business assets in the year the assets are placed in service rather than capitalize and depreciate the cost over time. In 2012, the maximum allowable expense is $139,000. This amount may be reduced $25,000 in 2013. Qualified employers may receive a 10% tax credit for increase in wage expenses driven by new hires or increased wages.

Tax planning done between now and year's end can make a significant difference. Some options you may want to explore with a qualified tax professional: move income-producing assets into tax-deferred plans; consider tax-exempt bonds instead of taxable bonds; and develop a proactive capital gain strategy to take advantage of this year's capital gain. It's more important than ever to ensure you're paying the lowest amount of taxes legally possible; after all, it isn't how much you make, it's how much you keep. ❑