



New Tax Laws on the Horizon

By Ric Nelson, First Point Comprehensive Wealth Planning

You've probably been reading about tax increases scheduled for January 1, 2013. The Federal income tax rate increases are a result of the Bush era tax rate reductions that are said to expire at the end of 2012, and a new tax was enacted as part of the Health Care and Education Reconciliation Act of 2010. These new taxes will be imposed on certain individuals and trusts and are currently scheduled to take effect on January 1, 2013. When considering both of these events, changes could increase the highest marginal federal tax rate on individuals from 35% in 2012 to 43.4% in 2013, an increase of 8.4%.

What do the changes mean to you?

Bush Era Tax Cuts Expiration: Tax Rates Imposed on Individuals' Taxable Income

Currently, the tax rate schedules for most household filers with marginal federal income tax rates of 10%, 15%, 25%, 33% and 35%. Under current law, for taxable years beginning in 2013, the 10% bracket would be eliminated and the marginal federal income tax rates for individuals would increase to 15%, 28%, 31%, 36%, 39.6%.

Health Care and Education Reconciliation Act: New Surtax on Net Investment Income of Higher Income Individuals and Trusts

Beginning 2013, a new 3.8% surtax will be imposed on **investment income** of individuals earning more than a certain threshold amount of modified adjusted gross income. The threshold amount is \$200,000 for taxpayers filing individually and \$250,000 for joint filers. The 3.8% surtax is imposed on the lesser of: (i) the taxpayer's net investment income or (ii) the excess (if any) of the taxpayer's Modified adjusted gross income for that taxable year over the taxpayer's threshold amount.

Tax Rates Imposed on Dividend Income and Long-Term Capital Gains

In addition to the two increases mentioned above, the tax for dividend income and long-term capital gains will also revert to the rates in place during the Clinton Administration. Qualified Dividend Income is currently taxed at a maximum rate of 15%. Beginning January 1, 2013, short term gains will be taxed as ordinary income, and long term gains will be taxed at a maximum rate of 20%.

If you are interested in learning more about how these changes might affect your overall financial plan, we are here to help. We would enjoy the opportunity to visit with you about long-term and short-term strategies for addressing these tax changes. It is also important to visit with your tax professional for specific tax advice.