



# *the* Plan

Winter 2013

## The New Income, Capital Gains, and Estate Tax Environment James B. Twining, CFP

After many years of living with temporary tax brackets, we now have a more settled scheme due to the recently passed but inaccurately named **American Taxpayer Relief Act of 2012**. Let's outline the new realities:

### Income Taxes:

For most taxpayers, the federal income tax rates for 2013 will be the same as in 2012: 10%, 15%, 25%, 28%, 33%, and 35%. However, married filers with taxable of more than \$450,000 (\$400,000 single) will have a new, higher maximum rate of 39.6%.

### Payroll Taxes:

The rate on Social Security tax withholding increases from the current 4.2% to 6.2%. Amounts earned over \$113,700 are not taxed for Social Security. For married filing jointly taxpayers earning more than \$250,000 (\$200,000 single) an additional 0.9% Medicare tax applies to earnings above the threshold.

### Capital Gains and Dividend Taxes:

Long term capital gains and qualified dividends will remain the same for most taxpayers. However, for "high income earners" (married filers earnings with taxable income over \$450,000; singles over \$400,000) there is a new higher rate of 20%. There is also a new 3.8% Medicare surtax on investment income for married filers with MAGI (modified adjusted gross income) over \$250,000 and singles over \$200,000.

### Personal and Depended Exemption Deduction Phase-Out:

Your personal exemptions will now be phased out by 2% for each \$2,500 of income over the \$300,000 AGI (adjusted gross income) threshold if you are married filing jointly and over \$250,000 AGI if you are single.

### Itemized Deduction Phase-Out:

If you are married and have an AGI over a threshold of \$300,000, or single with AGI over \$250,000, you can potentially lose up to 80% of your write-offs for mortgage interest, state property taxes, and charitable contributions. Specifically, the total amount of your affected itemized deductions is reduced by 3% of the amount by which your AGI exceeds the aforementioned thresholds.

### Alternative Minimum Tax (AMT):

The "patch" which congress has passed every year to prevent millions of households from becoming ensnared by the AMT has been made permanent, and it has been indexed for inflation.

### Estate and Gift Tax:

The federal estate and gift tax exemption is now at \$5.25 million, and it is indexed for inflation. However, the new maximum estate tax bracket has been increased from 35% to 40%. The Washington State estate tax exemption remains at \$2 million, and is not indexed for inflation.

Note: All of the above changes are permanent. There are many other provisions dealing with various credits, education plans, charitable gifts from IRAs, and others.



You will observe that the "marriage penalty" is back with a vengeance for high earners. For example, an unmarried couple may not pay the new top bracket on household income until their collective earnings exceed \$800,000; whereas a married couple will pay the top rate on income over \$450,000. Married couples will also begin to lose their exemptions at a much lower income level.

This tax law does give some certainty to future tax liability, which is a good thing. However, it does virtually nothing to solve our basic problem of overspending, which is sure to be a major topic for Congress when our current debt limit is reached within a few weeks.

**Our Blog:** If you haven't already, check out our new blog at [www.financialplaninc.com](http://www.financialplaninc.com). We'll be updating it with our opinions, analyses and general thoughts on all sorts of subjects (most of them investment related).



# on a Personal note

## David & Bonnie



We actually had a pretty quiet Christmas and New Year this year. We spent a couple of days North of the border with Bonnie's family, but other than that it was pretty quiet. Of course we had the mandatory, give your kid a cool toy and he plays with the box instead moment!

My best friend from Georgia gave me a call the Monday after the Hawks beat the Redskins and informed me that he booked me a ticket to fly to Atlanta for the next game. So, I acquiesced and flew out for the game. It was an amazing experience right up until the last 31 seconds! I did get one bonus...when I got to my seat, I introduced myself to the person next to me wearing a Hawks Jersey #3. I told her I

was from Bellingham and she said she was from Virginia. When I asked what made a Virginian a Seahawks fan she said "...uh...my daughter married the Quarterback."



## Jeanne, Jamie, and Spook



Spooky

We had the entire mob at our house for Christmas, and I do mean mob! Four kids, four kids-in-law, five grandkids (one of whom was born ten days before Christmas), in-laws, outlaws, you name it!

There wasn't quite enough mayhem at home for my taste, so I went out and got a black Labrador puppy. He did a good job of shredding the Christmas presents. I've taken him to Dog Obedience school, where he is in the bottom of his class.



On December 15, after a very short two hour labor, our daughter-in-law Courtney gave birth to an 8 lbs, 10 oz baby boy. Oliver Lee Twining is healthy and happy. He keeps Courtney up at night, but she gets no sympathy from me. Spook is worse!

## Devin and Stephanie

The time has finally come. Last week we sold our car and bought a used minivan. Steph swore this day would never come, but we are expecting our third child in late June and I think the pregnancy hormones / maternal instincts altered her genetic makeup to the point she has started to like the look of minivans. We settled on an 8 passenger 2004 Toyota Sienna that we hope will run for 300,000 miles or until the kids are driving themselves.

We had a great Christmas at home in Bellingham. It was a joy to watch Stella and Graedon in the Christmas spirit, and we even had a chance to go sledding at Mt. Baker.



## Nathan & Lisa



This last year I sat for and passed both the Washington State Life & Disability Insurance Producers exam and the Series 65 exam. The latter, otherwise known as the Uniform Investment Advisor Law Examination, allows me to give financial advice. My goal for 2013 is to pass the Certified Financial Planner (CFP) exam which, while not required by law, is a much more strenuous and challenging test. All of the financial advisors at Financial Plan are required to earn and maintain the CFP designation.

We also held our annual Christmas Brunch, in which my daughter Finley was kind enough to attend (she's a big client). If you missed it this year, we hope to see you at next years brunch.

Speaking of annual, we conduct our annual reviews during the first six months of the year, so if you haven't received a call already you can expect one from me in the near future to schedule your meeting. If you'd like to be proactive or plan to be out of town for a significant period of time, please feel free to call us and schedule at your earliest convenience.