The End of An Era

Presented by

Jeff Jackson, CPA
December 31, 2012
Midnight
## Tax Rate Changes

**SINGLE**

<table>
<thead>
<tr>
<th>Taxable Income Rate</th>
<th>2012 Rate</th>
<th>Bush Tax Cuts</th>
<th>Taxable Income Rate</th>
<th>Bush Tax Cuts</th>
</tr>
</thead>
<tbody>
<tr>
<td>0 – $8,750</td>
<td>10%</td>
<td>0 - $35,500</td>
<td>15%</td>
<td></td>
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<tr>
<td>8,750 – 35,000</td>
<td>15%</td>
<td>35,500 – 86,000</td>
<td>28%</td>
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<tr>
<td>35,000 – 86,000</td>
<td>25%</td>
<td>86,000 – 179,400</td>
<td>31%</td>
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<tr>
<td>86,000 – 179,400</td>
<td>28%</td>
<td>179,400 – 390,050</td>
<td>36%</td>
<td></td>
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<tr>
<td>179,400 – 390,050</td>
<td>33%</td>
<td>390,050 +</td>
<td>39.6%</td>
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</tr>
<tr>
<td>390,050 +</td>
<td>35%</td>
<td></td>
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</tbody>
</table>
## Tax Rate Changes

### MARRIED FILING JOINTLY

<table>
<thead>
<tr>
<th>2012 Expire</th>
<th>Bush Tax Cuts</th>
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</thead>
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<tr>
<td><strong>Taxable Income Rate</strong></td>
<td><strong>Rate</strong></td>
</tr>
<tr>
<td>0 – $17,500</td>
<td>10%</td>
</tr>
<tr>
<td>15%</td>
<td></td>
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<tr>
<td>17,500 – 71,000</td>
<td>15%</td>
</tr>
<tr>
<td>28%</td>
<td></td>
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<tr>
<td>71,000 - $143,500</td>
<td>25%</td>
</tr>
<tr>
<td>31%</td>
<td></td>
</tr>
<tr>
<td>143,500 – 218,450</td>
<td>28%</td>
</tr>
</tbody>
</table>
3.8% Add-on Tax Applied to Net Investment Income

Applies if adjusted gross income is $200,000 or more for single filers. $250,000 or more for married filers. Also applies to Estates and trusts.
What is Investment Income?

- Interest
- Dividends
- Royalties
- Capital Gains
- Rental Income
- Income from Passive Business
What is Not Subject to 3.8% Tax?

- Wages
- Self-Employed Earnings
- Distribution from IRAs and Qualified Plans, 401(k)
- Pension Income
- Social Security Income
- Tax Exempt Income
Examples of 3.8% Medicare Tax

Assume Taxpayer is single:

- AGI is $195,000 of which $195,000 is interest income. No 3.8% tax
- AGI is $210,000 of which $30,000 is interest income. $10,000 subject to 3.8% add-on tax
- AGI is $250,000 of which $30,000 is interest income. $30,000 is subject to 3.8% add-on tax.
Healthcare Reform Taxes

- 0.9% Medicare tax on wages and self-employment income.
- $200,000 for singles
- $250,000 for married couples filing jointly
Estate, Gift, and Generation Skipping Transfer Tax (GST)

Current exemptions:

- Estate Tax: $5,120,000
- Gift Tax: $5,120,000
- GST Tax: $5,120,000
- Maximum Tax Rate: 35%
Estate, Gift, and Generation Skipping Transfer Tax (GST)

After expiration of Bush tax cuts:

Estate Tax $1,000,000
Gift Tax $1,000,000
GST Tax $1,000,000
Maximum Tax Rate 55%
“Pease” Limitation
a.k.a. 3% of AGI Limit

Certain itemized deductions are reduced by 3% of the taxpayers AGI in excess of certain threshold. (Estimated to be about $174,000)

Itemized deductions affected:

- Real estate taxes
- Personal income taxes
- Sales tax
- Home mortgage interest
- Charitable donations
Pease Limitation
a.k.a. 3% of AGI Limit
(continued)

Itemized deductions not affected:

- Medical expenses
- Investment interest
- Casualty and theft losses
How it Works

Assume taxpayer’s AGI is $1,174,000:
Reduction of itemized deductions =

AGI 1,174,000
Threshold (174,000)
1,000,000

3%

$ 30,000

Itemized deductions could be reduced by $30,000
Planning Ideas and Issues to Think About
Accelerate Income

Defer Deduction and Expenses

Want to benefit from lower tax rates
Want to avoid .9% Medicare tax on salaries
Want to avoid 3.8% tax on investment income
Income Acceleration

Consider:

1. Paying bonuses in 2012
2. Exercising non-qualified stock options
3. Electing out of installment sale treatment
4. Paying dividends from closely held corporation
5. Offering incentives for prepayment
Income Acceleration (continued)

6. More aggressive collection policies
7. Harvest capital gains
8. Bill before year end
Defer Deductions and Expenses

1. Postpone until 2013
2. Dispose of passive activities after 2012
3. Caveat: Weigh the impact of the 3% of AGI limitation
Food for Thought

1. Revisit possibility of Roth IRA conversions
2. Review suitability of annuity and life insurance products
3. Maximize 401(k) and retirement plan contributions
4. Consider impact of future tax rates on value and desirability of dividend paying stocks
Food for Thought (continued)

5. Revisit after tax yields of tax exempt bonds

6. Analyze whether private activity bonds that put taxpayers in AMT are worse than taxable bonds or tax exempt bonds

7. Be aware of 2% tax differential for stock and other capital assets held more than 5 years

8. Gifts to take advantage of 5,120,000 exemption
9. Review suitability of tax exempt bonds for taxpayers who will jump from 15% to 28% bracket
10. Gifts of appreciated stocks to charities
11. Charitable Remainder Trusts
12. Use of Section 1031 tax free exchanges
13. Construction of investment portfolio
QUESTIONS
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