Financial Services Advisory Incorporated

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10 Top Tax Breaks Set To Disappear After 2012

The congressional "Super Committee" formed last year to iron out tax differences failed to do its job. So where does that leave us? Barring any legislative action between now and the end of the year, several favorable tax provisions for individuals and small business owners will be wiped off the books or scaled back beginning in 2013. Here's a quick rundown of 10 tax breaks that could vanish right before your eyes:

1. Low income tax rates. Federal income tax rates are scheduled to increase next year. For starters, the income levels for all tax brackets will be adjusted upward, while the "marriage penalty" for joint filers also will be increased. The news is especially bad for high-income earners. The two top tax rates of 33% and 35% will be replaced by rates of 36% and 39.6%, respectively.

2. Bargain rates for capital gains and dividends. Prior to 2003, long-term capital gains were taxed at a 20% rate, and dividends were treated as ordinary income. Under the Bush tax cuts and subsequent extensions, the maximum tax rate for long-term capital gains and qualified dividends for 2012 is 15%. The rate is 0% for certain low-income investors in the "bargain tax brackets." For 2013, the maximum long-term capital gain rate is 20% (10% for those in the lowest tax brackets), while qualified dividends once again will be taxed at ordinary income rates.

3. Section 179 deductions. Section 179 of the tax code gives business owners an immediate write-off for the cost of qualified property up to a specified annual level. Otherwise, the cost of property must be depreciated over time. The maximum allowance has varied in recent years, but you can deduct up $139,000 in 2012, subject to a phase-out for purchases exceeding $560,000. Unless Congress acts again, the maximum allowance will plummet to $25,000 in 2013, with only a $200,000 threshold.

4. "Bonus" depreciation deductions. Typically, bonus depreciation for qualified property is claimed in conjunction with a Section 179 deduction. (Unlike Section 179 deductions, bonus depreciation is available only for new property.) Although you could have claimed 100% bonus depreciation in 2011, this year there still is 50% bonus depreciation for property placed in service before 2013.

5. Payroll tax holiday. The so-called payroll tax holiday, a 2 percentage point reduction in federal payroll tax for employees, initially was intended to be in effect only for 2011. (A comparable tax break was created for self-employed individuals.) Then the payroll tax holiday was extended through 2012. As things stand now, you'll pay an additional 2% tax on wages in 2013.

6. American Opportunity Tax Credit (AOTC). Formerly called the Hope Scholarship credit, this enhanced credit may be claimed by parents who pay college tuition for their children,

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Where There's A Living Will, There's A Way

Will your family members know how to handle a life-threatening illness or injury involving a loved one? A "living will" can point them in the right direction.

Simply put, a living will is a legal document that establishes guidelines for prolonging or ending medical treatment. It's important to have a living will created for yourself, and for relatives such as your spouse and parents, to inform health-care providers in case of a medical emergency or terminal illness.

A living will indicates the types of medical treatments you want or do not want applied in the event you suffer a terminal illness or fall into a permanent vegetative state. Such a will doesn't become effective unless you're incapacitated. Typically, a physician must certify that you have a terminal illness or that you're permanently unconscious.

To cover situations in which someone is incapacitated and can't speak, yet the condition isn't so dire that the living will becomes effective, you can execute a health-care power of attorney or health care proxy.

The requirements for living wills vary from state to state. Have an attorney who is experienced in these matters prepare the living will based on applicable laws. The best approach is to coordinate your living will with your regular will, any trusts or powers of attorney you may have, and other estate-planning documents.

Jim Joseph, CFP®
Vice President

Get Ready For Year-End Tax Planning

Taxes are always a major financial consideration. But this year, with a host of changes scheduled to take place after December, taxes—and the strategies to minimize them—are even more at the forefront than usual. Barring any late-breaking federal legislation, 2013 could find you paying significantly higher tax rates on your salary and your investment earnings. (Keep in mind that Congress may yet take up tax matters and could modify some pending changes.)

With tax rates scheduled to rise, it may make sense to realize extra income this year—contrary to the conventional strategy of trying to defer taxable income for as long as possible. By making some astute year-end moves, you may be able to maximize the tax benefits under current laws and avoid or minimize future tax increases.

At the same time, you also may want to take advantage of traditional year-end tax-planning strategies. You might be able to increase your deductions for charitable donations, sidestep the "wash sale" rule, and use capital gains and losses to offset each other. (These time-tested ideas, too, could be affected by congressional action.)

Are you fully prepared to implement year-end tax planning for 2012? It requires a fundamental understanding of the rules. Here's a brief quiz to test your knowledge.

1. The maximum tax rate on ordinary income in 2012 is:

a) 33%.
b) 35%.
c) 36%.
d) 39.6%.

2. The maximum tax rate on ordinary income in 2013 is scheduled to be:

a) 36%.
b) 39.6%.
c) 45%.
d) 50%.

3. The maximum tax on long-term capital gains in 2012 is:

a) 10%.
b) 15%.
c) 20%.
d) 25%.

4. The maximum tax on long-term capital gains in 2013 is scheduled to be:

a) 20%.
b) 25%.
c) 36%.
d) 39.6%.

5. Beginning in 2013, a 3.6% Medicare surtax may apply to:

a) 401(k) contributions.
b) IRA distributions.
c) Wages.
d) Net investment income.

6. The negative impact of the "wash sale" rule for securities is:

a) You can't deduct a capital loss.
b) A capital gain doesn't qualify for favorable long-term treatment.
c) Any capital gain is taxed at ordinary rates.
d) Any capital loss is subtracted from your basis.

7. Charitable donations of $250 or more are not deductible in 2012 if:

a) Charged by credit card in 2012 but paid in 2013.
b) Not substantiated by a written acknowledgement.
c) Your income exceeds an annual threshold.
d) You itemize your tax deductions.

Answers: 1-b; 2-b; 3-b; 4-a; 5-d; 6-a; 7-b

Entrees For The "Sandwich Generation"

Bob and Marcy Tannenbaum both have hectic lifestyles. Bob, who is 45, works in the city for a public relations firm. He commutes from the suburbs each day. Marcy, who is employed closer to home, is the director of a nonprofit organization. She'll turn 43 before the end of the year. They're making ends meet, but haven't set aside nearly as much as they'd like for their future needs.

The couple's three children are 15, 12, and eight. Getting them to soccer practices, dance recitals, and religious-education sessions keeps their parents hopping—especially Marcy, who bears the brunt of the carpooling.

As if things weren't complicated enough, Bob received a panicky phone call last week from his mother. Bob's 70-year-old father had been hospitalized after taking a spill. His mother wanted Bob to come "home" immediately, but "home" is 1,000 miles away. And he can't just leave his family and job behind—not to mention the economic ramifications if he did.

This kind of scenario is all too familiar to those stuck in the middle of helping elderly parents and raising their own children. These people have come to be known collectively as the "sandwich generation." And if you're not careful in these situations, the challenges can swallow you.

Nevertheless, you may be able to minimize potential problems with advance planning. Consider these four basic steps:

1. Get all the facts. Job one is to avoid unpleasant surprises. Talk to your parents about their financial situation and their plans if they become ill or incapacitated. At the same time, examine your own finances. If you haven't already done so, figure out how much you'll need to save for retirement and college for the kids. What will you have left for emergencies?

2. Seek "the power." In case of a dire emergency, you'll have to act fast

Impact Of The New Ruling On Health Care Law

On June 28, 2012, the U.S. Supreme Court handed down its long-awaited decision on the controversial health care law implemented by President Obama, the Patient Protection and Affordable Care Act of 2010 (PPACA) — widely known as "Obamacare." With the exception of an expanded Medicaid requirement on states, the nation's top court upheld the constitutionality of the law. So where do we go from here?

Certain PPACA provisions are in effect already and several important tax provisions become effective in the months ahead. Here's a roundup of key changes on the way:

Individual Coverage Mandated. Beginning in 2014, anyone ineligible for Medicare or Medicaid and who is uninsured must obtain minimum essential health insurance coverage or pay a nondeductible penalty. The annual penalty will be $95, or 1% of income, whichever is greater. It rises by 2016 to $695, or 2.5% of income, for individuals. Families face a maximum penalty of $2,085, but will owe 2.5% of household income if that amount is greater. The law also authorizes subsidies for low-income individuals and creates a reinsurance program for employer-sponsored early retiree coverage.

Employer Coverage. Beginning in 2014, an employer failing to offer minimum essential coverage in any month for an eligible full-time employee will owe a special tax. The tax is equal to one-twelfth of $2,000 times the number of all full-time employees in the company. This penalty applies only to employers with 50 or more workers, but the first 30 workers are excluded from the calculation. For example, an employer with 50 employees will pay the required tax based on only 20 employees. An employer also may be assessed additional tax if the employer imposes waiting-period restrictions. Furthermore, if an employer provides minimal essential coverage to employees, it must file information returns with the IRS.

Medicare Surtaxes. Beginning in 2013, some high-income taxpayers will be liable for one or two new Medicare surtaxes.

- Beginning in January 2013, a 3.8% surtax will be levied on single taxpayers with modified adjusted gross income (MAGI) exceeding $200,000, and married couples filing jointly with adjusted gross income (AGI) exceeding $250,000. The surtax applies to the lesser of net investment income or MAGI exceeding $200,000 for individuals ($250,000 for married couples filing jointly). Net investment income includes interest, dividends, royalties, rents, gains from dispositions of property, and income from passive activities. Tax-free interest and payouts from qualified retirement plans and IRAs are exempt.
- Beginning in January 2013, an additional Medicare payroll tax of 0.9% will be applied to individuals with AGI exceeding $200,000 and married couples filing jointly with more than $250,000 of AGI.

Health Care FSAs. Currently, there's no limit on the amount an employee can contribute to a flexible spending account (FSA) used for health care expenses. (A $5,000 limit applies to dependent care expenses.) Contributions to FSAs are made on a pre-tax basis, so you're able to pay for qualified medical expenses with pre-tax dollars. Beginning in 2013, the new law limits annual contributions to health care FSAs to $2,500, but that figure will be adjusted for inflation.

Medical Deductions. Currently, you can deduct qualified medical expenses in excess of 7.5% of your adjusted gross income. Beginning in 2013, however, the new law generally raises the "floor" to 10% of AGI. However, an individual (and spouse) who is age 65 or older is temporarily exempt from this increase for tax years beginning after 2012 and before 2017. The medical-expense AGI floor for alternative minimum tax (AMT) purposes, which is already 10%, remains the same.

Pre-Existing Conditions. Under a provision that took effect in 2010, children under the age of 19 with pre-existing conditions can't be denied access to their parents' health plan nor can insurers exclude treatments for these children. Beginning in 2014, this expanded coverage for pre-existing medical conditions will be extended to adults.

Medicare Donut Hole. Medicare beneficiaries who fall into the Part D coverage gap, known as the donut hole, began receiving a 50% discount on the cost of covered brand-name prescriptions in 2011. Additional discounts for brand-name and generic drugs are being phased in. The donut hole will be closed completely by 2020.

These changes are just the tip of the iceberg. Although the health care law still may be repealed or modified, it includes dozens of other provisions that could have a direct or indirect impact on you, your family and your business. We'll keep you posted on the new rules. ●

on behalf of your parents. The best approach is to have a durable power of attorney in place. This allows you to make decisions regarding their financial considerations. For more protection, supplement a power of attorney with a health-care proxy and a living will relating to medical decisions.

3. Face up to long-term needs. The cost of an extended stay at an assisted-living facility or nursing home can be a financial back-breaker for families. Check to see what coverage, if any, your parents would receive from long-term care insurance. If they don't have policies, examine your options. Of course, the longer someone waits to buy such a policy, the more it will cost per year.

4. Don't forget about yourself. As much as you want to help your parents, you can't ignore your own needs. It usually doesn't make sense to erode a college savings or retirement fund to support your parents. Stick to your priorities and develop a plan that incorporates all of these factors. ●

Tips On Long-Term Care Insurance

The cost of an extended nursing home stay can be frightening. In some parts of the country, annual expenses may run to $100,000 or even more. At that rate, it doesn't take long for a lifetime's savings to be depleted. That's why most long-term care ends up on the tab of Medicaid, the joint federal-state health plan for the poor. But your family will qualify for help only after you've exhausted most of your assets.

Advance planning can help you avoid dire financial consequences. For instance, you could purchase a long-term care insurance (LTCI) policy for yourself or a relative to defray some or all of the nursing home costs. That can help preserve family funds and put off panic sales of investments. Still, premiums for LTCI are based on several factors, including the health of the person who's being insured, and can be pricey. And the older you are when you get this insurance, the more you'll pay.

What do you know about long-term care insurance? This brief quiz can test your knowledge.

1) Benefits under an LTCI policy will begin to be paid:

a) Once the insured becomes ill or disabled.
b) Once the insured applies for benefits.
c) When the policy's lifetime amount is fully paid up.
d) After a waiting period has been satisfied.

2) Which of the following does NOT affect premium cost?

a) The age of the insured
b) The value of the insured's retirement assets
c) The length of the benefit period
d) The amount of the daily benefit

3) To qualify to receive LTCI benefits:

a) The insured must sell any primary residence.
b) The insured must need assistance with basic daily activities.
c) The family must elect to begin coverage.
d) The family must obtain permission from a nursing home.

4) What is the tax treatment of LTCI policies?

a) Premiums are fully tax-deductible.
b) Premiums are tax-deductible only by retirees.
c) Premiums may be partly tax-deductible.
d) Premiums are never tax-deductible.

5) The amount that can be used to defray nursing home costs:

a) Depends on the daily benefit.
b) Depends on the insured's age.
c) Depends on the retirement assets owned by the insured.
d) Is limited by state law.

6) A policy that is "guaranteed renewable" for life means that:

a) It can't be voided if the insured's health changes.
b) It can't be voided whether or not the premiums are paid.
c) It will still pay benefits after the lifetime limit has been exceeded.
d) Premiums can never increase.

7) LTCI policies are generally offered by:

a) Banks.
b) Estate planning attorneys.
c) Medical practitioners.
d) Financial services firms.

Answers: 1-d; 2-b; 3-b; 4-c; 5-a; 6-a; 7-d

Tax Breaks Set To Disappear

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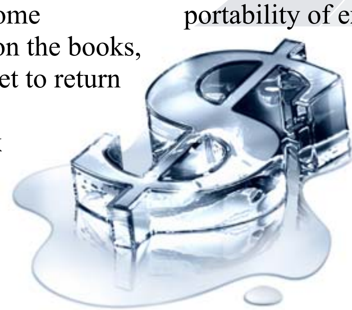
subject to a phase-out rule based on modified adjusted gross income. A maximum $2,500 AOTC is allowed for 2012. However, the maximum AOTC is scheduled to drop back to $1,800 (the limit for the Hope Scholarship credit), beginning in 2013.

7. No phase-out of itemized deductions. Previously, most itemized deductions were subject to a special rule for high-income taxpayers. This included "big-ticket" items such as mortgage interest, charitable donations, and state and local taxes. The phase-out rule gradually was reduced, and then repealed in 2010. But now it's scheduled to reappear next year.

8. No phase-out of dependency exemptions. A rule similar to the phase-out of itemized deductions applied to individuals who claimed dependency exemptions, reducing tax benefits for many high-income individuals. Currently not on the books, this phase-out rule also is set to return in 2013.

9. Enhanced child tax provisions. Several tax benefits available to parents—including the child tax credit, the dependent care credit, and the adoption credit—will be reduced in 2013. The maximum credit amounts generally will revert to the limits established prior to 2010.



10. Big breaks on estate and gift taxes. Under current law, a slew of generous estate and gift tax breaks will expire after 2012. These include a $5 million combined estate and gift tax exemption ($5.12 million for 2012), a top estate tax rate of 35%, and portability of exemptions between the estates of spouses.

Unless Congress somehow manages to reach a bipartisan compromise, the law covering these taxes will revert to its 2001 form, with an exemption of only $1 million and a top estate tax rate of 55%.

Undoubtedly, the national elections will have an impact on the fate of these 10 expiring tax breaks. But you can't be certain that any or all will be extended. Try to remain flexible and plan accordingly. ●

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