Rinehart Wealth Management
Greater Trust

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How Will the 2013 Tax Changes Affect You?

As 2012 came to a close, we welcomed an initial tax compromise from our Congressional leaders as they attempted to end their gridlock on the fiscal cliff debate last week. While not all issues have been addressed, we can begin the year on stronger footing knowing, with certainty, a number of changes that lay ahead for 2013.

With the constant media buzz surrounding this year's tax changes, you may still be wondering, **"How will these changes affect *me?*"** The details below provide an overview of what we believe to be the key takeaways from the H.R.8* legislation (also known as the Taxpayer Relief Act of 2012). While a number of tax provisions have been made permanent, others have been reinstated, temporarily extended, lapsed, or added to the tax code.

Tax Provisions Made Permanent

New law has made the following tax provisions "permanent." This means that there are no sunset provisions in place that will force these changes to lapse in the future. Keep in mind that this does *not* prevent Congress from making changes in the future.

Income Tax Rates	• Retention of the current tax brackets (10%, 15%, 25%, 28%, 33% and 35%) for all individuals making less than $400,000 (single) or $450,000 (joint) • Top income levels (defined as > $400,000 Single/$450,000 Joint) will be subject to a higher 39.6% bracket
Capital Gains Rates	• Remain at 0% or 15% for those in the lower tax brackets • Top income levels will have capital gains rates increase to 20%
Qualified Dividend Treatment	• Because qualified dividend rates are tied to the long-term capital gains rate, qualified dividends remain taxable at 0% or 15% for those in the lower tax brackets • Those with top income levels will have qualified dividend rates of 20%
Lifetime Gift and Estate Tax Exemption and Spousal Portability	• Lifetime exemption remains $5MM (indexed for inflation to $5,250,000 for 2013) • Portability of deceased spouse's unused estate tax exemption also made permanent • Top estate, gift and Generation-Skipping Transfer (GST) tax rates increase from 35% to 40% • Annual gift exclusion amount increases from $13,000 to $14,000 in 2013
AMT Patch	• Made permanent and indexed for inflation going forward. Applies retroactively for 2012.

Other 2013 Tax Changes

The remaining changes listed below include tax provisions which have been reinstated, temporarily extended, lapsed, or added to the tax code.

Reinstatement of the Itemized Deduction and Personal Exemption Phase outs	These phase outs return with a common threshold of *AGI over $250,000 (single) and $300,000 (joint)* • Itemized deductions are reduced by 3% of excess income above the AGI threshold mentioned above • Personal exemptions are reduced by 2% for each $2,500 of excess income over the threshold
Temporary Tax Extenders – Through 2013	• Primary residence home mortgage debt forgiveness continues to be excluded from income • Tax-free IRA transfers to charity for those 70.5 and older up to $100,000. Transfers for 2012 can still be completed if transfer occurs before Feb. 1, 2013 • Write-off of State/local sales taxes in lieu of state income tax • Deductions for teacher's supplies and private mortgage insurance • Extension of the above-the-line deduction for higher education expenses • **Five year extensions** of American Opportunity Tax Credit, Hope Scholarship Credit, Enhanced Child Tax Credit and Enhanced Earned Income Credit
Expiration of the 2% Payroll Tax Holiday	• Employee portion of Payroll taxes goes back up to 6.2%, ending a temporary reduction. Pay for employees will be reduced by a maximum of $2,274 for those reaching the SS wage base limit of $113,700. • High wage earners are also subject to an additional .9% Medicare tax on earned income above $200,000 (single) or $250,000 (joint)
New Intra-plan Roth Conversion Rule	Allows individuals to convert existing 401k pre-tax plan assets to the Roth 401k component of the plan (as long as the employer plan offers designated Roth accounts), *regardless of age or eligibility to take distributions* • Prior to this new rule, the plan document had to specifically allow intra-plan Roth conversions, or the participant had to experience a qualifying event (i.e. Age 59 ½, separation from service, etc.)

This summary is by no means an exhaustive list of the recent legislative changes, but does highlight many that apply to our client's situations. Please know that your Financial Advisors are available to assist you as you have questions and as always, will continue to work in coordination with your CPA to address your tax-related planning needs.

*Please note that this is not a complete list of tax provisions in the H.R.8 legislation