LOOKING FORWARD TO 2013 AND BEYOND….

WHAT WE KNOW AND WHAT WE DON’T KNOW ---- YET

WHAT WE KNOW…..

1. We know the 2013 top rate will be higher than 2012 (35%).

2. We know the 2013 dividend rate will be higher than the current rate of 15%.

3. We know that wage earners at the level of $200,000 (single) or $250,000 (joint) will be subject to an additional .9% Medicare tax on wages bringing the employee contribution from 1.45% to 2.35%. Just FYI – the income level is per family, not per person. One spouse could earn $70,000 and the other $180,000 (total $250,000) and the full $250,000 would be subject to the additional .9% Medicare tax.

4. We know that those with income of $200,000 (single) or $250,000 (joint) will be subject to a new Medicare Contribution tax of 3.8% on investment income (interest, dividends, capital gains, royalties, rental income, passive income from pass-thru entities, etc. etc.) This new tax will hit trusts as well as individuals.

5. We know that the 2% reduction in employee FICA withheld from wages (from 6.2% to 4.2%) will expire at the end of 2012 thereby decreasing take-home pay for those who earn $113,700 by about $2,275. For those who earn less – you can figure your wages multiplied by 2% to determine your decrease in take home pay.

6. We know that there will be a new $2,500 limit on Flexible Spending accounts/cafeteria plans for 2013. This new limit does NOT affect the $5,000 dependent care expenses currently allowed.

7. We know that deductible medical expenses will be limited to amounts exceeding 10% of AGI (currently 7.5%) for 2013. Seniors (age 65 and older) and their spouses will get a three year reprieve to use the 7.5% threshold.

8. We know that Obama has announced his plan to raise revenues by $1.6 TRILLION BY RAISING TAXES ON THE “RICH” – THOSE FAMILIES WHO EARN $200,000 - $250,000 PER YEAR. Just an aside – one would wonder how many two wage earner families with a mortgage and two kids in college would consider themselves “rich”.

9. We know that most everyone’s taxes are going up for 2013. From the $15,000 a year wage earner to millionaires. Everyone who works or has investment income is going to pay more in 2013. A lot of people are going to be very surprised.
WHAT WE DON’T KNOW...YET

1. We don’t know what level of income will end up being defined as “wealthy/high earners” for purposes of higher rates of tax for capital gains and ordinary income - $250,000 or $1,000,000 or somewhere in between.

2. We don't know where the estate tax exemption will settle. It’s a good bet it won’t remain at $5,120,000. Could fall back as low as $1,000,000.

3. We don’t know where the gift tax exemption will settle. Currently at $5,120,000, could fall back to $1,000,000.

4. We don’t know if Grantor Retained Annuity Trusts (GRATs) may be required to use a 10 year minimum term. This would effectively rule out use of GRATs by older taxpayers. (That’s the idea.....)

5. We don’t know if Obama will be successful in including all grantor trusts in the grantor’s estate which would effectively rule out the use of grantor trusts used for estate planning. If it happens, existing grantor trusts would probably be grandfathered in.

6. We don’t know if valuation discounts will be either restricted or disallowed altogether. This will certainly affect intra-family and second generation business planning going forward.

7. We don’t know if itemized deductions will again be limited based on adjusted gross income. Odds are – yes.

8. We don’t know if a capital loss carry forward from years prior to 2013 will be allowed to reduce capital gain/investment income subject to the new 3.8% Medicare tax.

Stay tuned as the discourse and arguments heat up. It’s a lose-lose situation for taxpayers but at least it won’t be dull.