AHC ADVISORS, INC.

Special Update – End of Year Tax Planning Tips

Tax Planning Ideas to Consider for 2012

Most of us tend to put off thinking about taxes until as close to April 15th as possible. However, tax planning should be done year round to ensure that you do not end up paying more in taxes than is necessary. This year is a particularly important year for tax planning as there are many changes looming that may take effect January 1, 2013. Barring any legislation by Congress to extend or modify the current tax law, many of us may see tax increases next year. Below is an overview of some of the changes set to take place in 2013 and steps you may want to consider taking.

An increase in the top two income tax brackets and the elimination of the lowest 10% bracket.

Tax rates will go up across the board as the lowest tax bracket of 10% is eliminated. The two highest income tax brackets will increase from 33% to 36% and from 35% to 39.6%.

High income earners may also find that they are subject to phase outs of their itemized deductions and personal exemptions in 2013.

2012 Tax Rate	2013 Tax Rate	2012 Brackets Single filers	2012 Brackets Married Filing Jointly
10%	15%	Up to $8,700	Up to $17,400
15%	15%	$8,701 - $35,350	$17,401 - $70,700
25%	28%	$35,351 - $85,650	$70,701 - $142,700
28%	31%	$85,651 - $178,650	$142,701 - $217,450
33%	36%	$178,651 - $388,350	$217,451 - $388,350
35%	39.6%	$388,351 or more	$388,351 or more

- *Tip: Consider accelerating income into 2012 to take advantage of the lower tax rates if you may be in a higher tax bracket in 2013.*

An increase in the tax rate on qualified long term capital gains.

Currently the maximum rate on qualified long term capital gains (LTCG) is 15%, and investors in the 10% and 15% income tax brackets pay 0% LTCG tax. In 2013 the maximum rate on LTCGs will increase to 20% with taxpayers in the lowest income tax bracket being subject to a 10% rate on LTCGs.

2012 Tax Rate	2013 Tax Rate	2012 Brackets Single filers	2012 Brackets Married Filing Jointly	Long Term Capital Gains Rate 2012	Long Term Capital Gains Rate 2013
10%	15%	Up to $8,700	Up to $17,400	0%	10%
15%	15%	$8,701 - $35,350	$17,401 - $70,700	0%	10%
25%	28%	$35,351 - $85,650	$70,701 - $142,700	15%	20%
28%	31%	$85,651 - $178,650	$142,701 - $217,450	15%	20%
33%	36%	$178,651 - $388,350	$217,451 - $388,350	15%	20%
35%	39.6%	$388,351 or more	$388,351 or more	15%	20%

- *Tip: Consider harvesting capital gains in 2012 to take advantage of the lower rates.*

Dividends will be subject to ordinary income tax rates.

Currently qualified dividends are taxed at a maximum rate of 15%. In 2013 dividends will be taxed at each individual taxpayer's marginal tax bracket. This means that taxpayer's in the highest tax bracket will pay 39.6% on dividend income.

- *Tip: Consider holding your dividend paying investments in tax-deferred retirement accounts when possible.*

High income earners will be subject to a Medicare surcharge under the Affordable Care Act.

High earners will be subject to an additional 0.9% Medicare tax on wages and an additional 3.8% Medicare tax on unearned investment income (interest, dividends, capital gains, royalties, ect.). This will affect single filers with income in excess of $200K and joint filers with income in excess of $250K, and could push the top tax rate to 43.4%.

The hurdle for deducting medical expenses will increase for taxpayers under age 65.

Currently you can deduct medical expenses in excess of 7.5% of your adjusted gross income if you itemize your deductions on your tax return. Beginning in 2013, the floor to claim medical deductions will increase to 10% for taxpayers under the age of 65. The floor will remain at 7.5% for taxpayers age 65 and over until 2017, at which time it will also increase to 10%.

- *Tip: Consider having upcoming medical procedures done before the end of 2012 in order to take advantage of the lower deduction limit of 7.5%. Also, consider accelerating any medical payments into 2012 if you think you may be approaching the 7.5% threshold.*

The 2% payroll tax cut will expire in 2013.

The portion of payroll taxes paid by employees was temporarily reduced by 2% to 4.2% in tax years 2011 and 2012. In 2013 the employee's portion of the payroll tax is set to revert to its original 6.2%.

The estate tax exemption is set to decrease and the estate tax rate is set to increase.

Currently there is an estate tax exemption of $5.12 million and the estate tax rate is 35%. In 2013 the exemption is poised to revert to $1 million and the estate tax rate is set to jump to 55%.

- *Tip: If the estate tax exemption does revert to $1 million you should visit with your estate lawyer to discuss how the new exemption and new rates affect your estate plan.*

Tax planning is an important part of taking charge of your finances. If you aren't yet a client of ours feel free to give us a call so we can discuss how we might be able to help you.