



## THE FISCAL CLIFF DEAL & YOUR TAXES

*What will change (and won't change) as a result of the new legislation.*

Presented by William "Bill" Otto

**Several tax hikes, some tax breaks.** Now that the fiscal cliff deal assembled in Congress has become law, it is time to look at some of the tax law changes, which will bring significant tax hikes to some households in an effort to increase federal revenues by \$600 billion over the next ten years.<sup>1</sup>

**The Bush-era tax cuts will be preserved for at least 98% of taxpayers.** Individuals with incomes of \$400,000 or less and households with incomes of \$450,000 or less will not see their federal income tax rates rise. The EGTRRA/JGTRRA cuts have been made permanent for such earners.<sup>2,3</sup>

**The wealthiest Americans are looking at a major income tax hike.** The top marginal tax rate will rise 4.6% in 2013 to 39.6%. Individuals with more than \$400,000 in taxable income and couples with more than \$450,000 in taxable income will be affected. This is the first major income tax increase on the highest-earning taxpayers in 20 years.<sup>2,3,4</sup>

Now when you take that 39.6% top rate and pair it with the oncoming 3.8% Medicare surtax, what is the impact for the wealthiest taxpayers in dollar terms? It is major. The non-partisan Tax Policy Center calculates that in 2013, households with incomes between \$500,000 and \$1 million should see their federal income taxes rise by an average of \$14,812. What about households with incomes above \$1 million? The TPC projects taxes rising an average of \$170,341 for these couples and families this year.<sup>3</sup>

**Practically speaking, all working Americans will see taxes rise in 2013.** The payroll tax holiday of the past two years has ended. In 2011 and 2012, employee payroll taxes were reduced by 2% as an economic stimulus - an idea that came from the White House. In 2013, the payroll tax rate returns to its old level and employees will pay 6.2% in Social Security taxes rather than 4.2%. This tax break saved a worker making \$50,000 annually about \$1,000 last year. Employee earnings up to \$113,700 will be taxed.<sup>3,4</sup>

**Estate taxes now top out at 40%.** Additionally, the individual estate tax exemption falls slightly to \$5 million. Both of these changes are permanent.<sup>4</sup>

**The AMT has been patched - permanently.** Congress no longer has to arrange an annual fix for the Alternative Minimum Tax that was never indexed to inflation. This patch is retroactive to 2012, of course.<sup>4</sup>

**The Pease provision & personal exemption phase-outs are back.** As a result, 80% of itemized deductions will be eliminated in 2013 for individuals with adjusted gross incomes of more than \$250,000 and couples with adjusted gross incomes of more than \$300,000. That threshold is also where personal exemption phase-outs will start in 2013.<sup>4</sup>

**Dividends will not be taxed as ordinary income.** Single filers with taxable incomes of more than \$35,350 and joint filers with taxable incomes above \$70,700 will see a top dividend tax rate of 15% this year. Dividends coming to individuals making more than \$400,000 and households making more than \$450,000 will return to the 20% level, 5% higher than they were in 2012. Investors in the 10% and 15% tax brackets will pay no taxes on dividends.<sup>2,4</sup>

**The top capital gains tax rate is now 20%.** Wealthy investors paid a 15% tax on long-term capital gains and qualified dividends in 2012. That will rise 5% this year. Single filers making more than \$400,000 and joint filers making more than \$450,000 will face this tax hike. Those in the 25%, 28%, 33% and 35% federal tax brackets will pay 15%, and those in the 10% and 15% brackets will face no capital gains taxes.<sup>4</sup>

**Long-term unemployment benefits live on.** They will be sustained through the end of 2013 for roughly 2 million people.<sup>2</sup>

**Another “doc fix” has been made.** Drastic cuts in Medicare payments to physicians will be avoided for 2013.<sup>2</sup>

**The EITC, AOTC & Child Tax Credit will be extended through 2017.** President Obama long sought to preserve the \$2,500 American Opportunity Tax Credit for college expenses, the Earned Income Tax Credit and the Child Tax Credit - a credit that is now in place. The \$250 deductions for teachers' classroom expenses will also be extended into 2013.<sup>4</sup>

**50% bonus depreciation is preserved for 2013.** The tax break that permits companies to accelerate depreciation schedules for major capital investments lives on for another year.<sup>4</sup>

**The R&E tax credit & wind production tax credit are both sustained.** Both federal tax breaks are available again for 2013.<sup>2</sup>

**The charitable IRA rollover provision returns.** You can practically hear the cheers ringing out at non-profits across the country: thanks to the fiscal cliff deal, people over age 70½ will again be permitted to make tax-free transfers from an IRA to a charity, university, or other qualified non-profit organization in 2013.<sup>4</sup>

**The “sequester” will be delayed.** The automatic federal spending cuts that were set to occur January 2 will be postponed while Congress tries to craft a plan to replace them.<sup>2</sup>

*Feel free to reach out I am happy to answer any questions you may have.*

*Bill Otto*

*Beacon Hill Financial*

**513-235-6600**

**or**

**866-289-0759**

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## **Citations.**

1 - [www.npr.org/templates/story/story.php?storyId=168366341](http://www.npr.org/templates/story/story.php?storyId=168366341) [12/31/12]

2 - [www.cnbc.com/id/100348205](http://www.cnbc.com/id/100348205) [1/2/13]

3 - [latino.foxnews.com/latino/politics/2013/01/02/what-fiscal-cliff-deal-means-for-american-taxes/](http://latino.foxnews.com/latino/politics/2013/01/02/what-fiscal-cliff-deal-means-for-american-taxes/) [1/2/12]

4 - [online.wsj.com/article/SB10001424127887323820104578216092043022764.html](http://online.wsj.com/article/SB10001424127887323820104578216092043022764.html) [1/1/13]