



Taxes and Investing - Part IV

Big changes coming for 2013?

Through the end of 2012 we have some very favorable federal income tax rates. Ordinary income tax rates are reduced, with a top rate capped at 35%. Special lower rates for both qualified dividends and long-term capital gains are 15% for most taxpayers and 0% for those in a lower bracket. These are the result of the so-called Bush tax cuts, which were extended through 2012 but no farther.

If Congress takes no action, these tax cuts will expire. All the tax brackets greater than 15% will go up in 2013, with a top marginal rate of 39.6%. All dividends will again be taxed as ordinary income (no special rate for qualified dividends), and long-term capital gains rates will increase.*

* If Congress does nothing, the long-term capital gains rate next year will be 20% for most taxpayers (18% if they acquired the asset after December 31, 2000 and held it for more than five years), 10% for a taxpayer in the 15% bracket (8% if he held the asset longer than five years)

In addition, as the law now stands, 2013 will usher in a new Medicare surtax of 3.8% on unearned income above a certain amount. This surtax will apply to investment income such as capital gains, interest (other than municipal bond interest), dividends, annuities, rents and royalties, to the extent that a taxpayer's adjusted gross income exceeds \$200,000 for a single person or \$250,000 for a married couple.

Will Congress take any action to postpone or modify these scheduled tax increases?

Given that 2012 is an election year, Congress will probably not address these issues until very late in the year or maybe even not until 2013.

As the end of this year gets closer, you might consider taking certain actions that are somewhat counterintuitive. For example, if it looks like ordinary income tax rates will indeed be going up in 2013, perhaps it makes sense to accelerate income into 2012 and postpone taking deductions over which you have discretion until next year. One planning consideration might be to convert part or all of your Individual Retirement Account(s) to a Roth IRA while tax rates are lower.

If Congress does allow the current favorable rates for long-term capital gains to expire, you might "harvest capital gains" before year-end to take advantage of the lower rate this year. But be careful. Do you have outstanding capital loss carryovers from previous years that would soak up any capital gains you would incur? Would substantial capital gains push your other income up into alternative minimum tax-land?

Each person's situation must be analyzed on an individual basis. What makes sense for one taxpayer might not be a good idea for another. Please consult with your tax advisor about your own circumstances.

Please contact your Relationship Manager if you have any questions about the subject of this email, or feel free to contact CIM's Wealth Strategist, Art Dicker, at (518) 391-4280.

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