Heads Up!

PLAN NOW FOR NEW SURTAXES

Some Will Pay More, Beginning in 2013

It's not too soon to start thinking about your 2013 taxes. What's that you say? You've barely finished filing for 2009? Trust us. If you're among the nation's upper earners, you'll want to get ready now.

QUICK TAKE

- Net investment income may be subject to surtax
- Deferring distributions, shifting to other investment strategies can help

Start by taking a look at Line 37 on your most recent 1040. That number, plus your foreign income, is your Modified Adjusted Gross Income or "MAGI." The figure on Line 37 will determine whether you'll be subject to the new 3.8% surtax that's part of the recently adopted healthcare reform package.

> The 3.8% tax will apply to individuals whose MAGI exceeds $200,000; to married couples filing jointly who together have a MAGI in excess of $250,000; and to married individuals filing separately whose MAGI is more than $125,000. The surtax is on the lesser of either your MAGI above these thresholds, or your net investment income.

For tax purposes, net investment income is your gross investment income, over your allowable investment expenses. It includes earned interest, dividends, capital gains, annuities, rents, royalties, and passive activity income. It doesn't include distributions from your IRA or other tax-qualified retirement plans, income for self-employment tax purposes, or active trade and business income. But the trap here is that your IRA or tax-qualified distributions could push you above the threshold—and your investment income would be subject to tax.

Trusts and estates will also be subject to the tax if their income exceeds $11,200—an amount that will be adjusted for inflation before 2013.

Will the 3.8% surtax affect you? If it appears the answer is YES, you'll want to talk to your financial advisor or attorney soon. Advance planning can help minimize the impact of the new tax.

- Roth IRAs don't carry minimum distribution requirements. So, if you don't need those funds after 2012, you can defer and hold your adjusted gross income below the threshold level.
- Municipal bonds and other tax-deferred instruments may be more attractive investment strategies.
- Certain life insurance policies allow you to withdraw your "cost basis" first, or borrow against the policy, without generating taxable income.
- If you are charitably inclined, consider a Charitable Remainder Trust or Charitable Lead Trust—both of which allow you to claim a tax deduction and still receive income.
- Timing of income—whether from investments in oil and gas, real estate, dividends, installment sales, or sales of securities—will be more important than ever. Your advisor can suggest some strategies to help offset post-2012 taxable income.

We're happy to review your options and discuss tax strategies. Call our office if you'd like some help.

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