STAFFORD WELLS

personal wealth management newsletter

December 10, 2012

Dear Clients & Friends,

Now there is a tool you can use to determine how future tax law changes will affect you. The tool, based on data from the Tax Policy Center, allows you to plug in your personal information, such as income, capital gains, dependents, and all your standard deductions (and more). It then shows you what your taxes will be under a variety of scenarios and compares the results to taxes as calculated under the current 2012 tax law.

So why should you go through this analysis? Because it allows you to see the impact of your choices now, such as recognizing gains and taking deductions, this year as opposed to next year. It is much easier to comprehend what you need to do to prepare to minimize your tax exposure when you have a plan that is modeled specifically to your situation. Although this tool is useful and fairly comprehensive, it does not take into account all of the details of your tax plan.

Since we do not know the changes that will take effect from the current negotiations in Washington, the Tax Policy Center has set up its model with four very possible scenarios. These include:

1. An extension of 2012 taxes with an additional alternative minimum tax (AMT) patch; that is, this year's version of taxes with a 2013 AMT patch.
2. A version if nothing happens at all in Congress, and the Bush income tax cuts are allowed to expire.
3. The Senate Democratic plan: Extend the Bush tax cuts for a year for all (except the top 2 percent of taxpayers). It includes extending the credits enacted by Obama in 2009 but allows current payroll tax cuts to expire.
4. The Senate Republican plan: Extend the Bush tax cuts for everyone, and let the 2009 credits and temporary payroll tax cut to expire.

You can either use your own information so the results reflect your personal tax situation, or you can choose a simplified version, and pick one of six basic taxpayer scenarios (e.g. single with no children, married with two children, etc.).

I chose an example of a married couple with one child in college. They had income of $250,000 with deductions of real estate taxes, charitable giving, mortgage interest, 401(k) contributions and medical costs all totaling $99,000. Other income, including dividend income, long-term gains, interest income and short-term gains totaled $47,000.

Under the first scenario, which allows the Bush tax cuts to expire but adds an AMT patch, they would experience a tax increase of $11,551, from $56,316 to $67,867.

The 2012 Senate Republican and Senate Democratic plans raises taxes in 2013 by the same amount: an increase of $2,825 or from $56,316 to $59,141. This is due in part to the income falls below the top 2 percent wage earners who are impacted the most by whether the Republican plan or the Democratic plan is enacted. Taxes go up here, because both plans(Republican and Democratic) eliminate the payroll tax cut and implement new taxes associated with the 2010 federal health care law.

I always encourage clients to meet with their accountant, tax attorney, or advisor to do some tax planning before year's end. Hopefully for those of you who do not do this, going through this exercise allows you to see how you can potentially make a significant difference in your tax liability with just a little planning.

As always, thank you for your continued support, and please contact me if I may be of any assistance.

My Best,

Read my blog; Notable American Economic Facts in Today's Chicago Woman Magazine