STAFFORD WELLS

personal wealth management newsletter

January 7, 2013

Dear Clients & Friends,

Careful, your taxes are probably going to be higher than you think.

So the new tax law does not seem too burdensome. Watch out as the increase in 2013 will surprise you. Those small changes in taxes can add up to be a big fat tax increase.

Now you can figure out the impact on you of the American Taxpayer Relief Act (ATRA) passed on New Year's Day through the interactive tax calculator sponsored by the Tax Policy Center, a nonpartisan group in Washington. You may be surprised at how this all adds up.

For example, a single person making $354,000 annually with no children will pay an additional $7,000 in federal 2013 taxes versus 2012, when you factor in typical dividend income and capital gains, then account for deductions such as real estate taxes, mortgage and charitable contributions. Part of this is the unavoidable FICA tax increase of 2%, which in most cases equates to an additional $2,000 tax.

A married couple with no children that earn $415,000 a year will pay an additional $20,800 in federal taxes. The amount was calculated using the Tax Policy Center's calculator and factoring in capital gains and dividends as well as deductions for taxes, mortgage interest and charitable contributions. The amounts are typical for individuals in this income category per the Tax Policy Center.

It is easy to calculate ATRA's impact on you using the Tax Policy Center calculator, particularly at this time of year, when you are collecting your information for filing taxes. It is important to do this now, as there are steps you can take to minimize the impact of these increases for the 2013 tax year. Come December, it will be a lot harder to do so.

Here are a few strategies that you should consider:

If you have both taxable and nontaxable (traditional IRA and retirement plans) accounts, divide your investments so that your income-producing accounts, such as fixed-income and interest-income-producing assets are held in your tax-exempt account. Also include investments where they may not be sold within12 months, as you do not want to be in a situation where you will be paying short-term capital gains.

Your taxable accounts will ideally include long-term holdings that benefit mostly from capital appreciation, such as stocks. Presently, the federal government continues to tax dividend-paying stocks at a low 15 percent rate. However, if your income is at the $400,000 (single) and $450,000 (married) thresholds, the federal government tax rate on dividend income increases to 20 percent.

Add in Illinois state tax at 5 percent, and you are looking at 25 percent tax. So if you are in the upper income brackets, and there is any room left, consider including dividend stocks in your tax-deferred and or Roth IRA .

Also, consider managing your deductions carefully. When you look at Schedule A Itemized Deductions, these deductions will be reduced for taxpayers with adjusted gross incomes of $300,000 (married) and $275,000 (individuals). Those deductions you took for granted on charitable contributions, state and local taxes, medical expenses and mortgage interest, to name a few, will be reduced.

It is hard to navigate all the changes and the ultimate impact on your situation, but for the money saved, it is mostly likely worth the effort.

At Stafford Wells Advisors, we work closely with our clients and their accountants to achieve the best possible balance between investment returns and taxes.

My best,

Susan

Susan J. Templeton