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ASSET MANAGEMENT

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INCOME AND ESTATE TAX UPDATE

Income Tax Changes: The new tax laws represented a compromise to extend the current tax cuts for two years and also included some new provisions. A summary of these laws with some thoughts is outlined below. As always, we recommend that you either speak with us or your own tax advisor to understand the applicability of the recommendations to your own particular situation.

It is important to note that these provisions only last for two years. While any timing to the supposed end of the world according to the Mayan calendar may be coincidental, individuals with large estate or income tax exposure should take head and start the planning process now to take advantage of the current environment.

	2010				2011 and 2012			
Taxable Income Ranges (Married Filing Jointly)	**Ordinary**	**Qualified Dividend**	**ST Capital Gain**	**LT Capital Gain**	**Ordinary**	**Qualified Dividend**	**ST Capital Gain**	**LT Capital Gain**
$0 - $16,750	10%	0%	10%	0%	10%	0%	10%	0%
$16,750 - $68,001	15%	0%	15%	0%	15%	0%	15%	0%
$68,001- $137,300	25%	15%	25%	15%	25%	15%	25%	15%
$137,301- $209,250	28%	15%	28%	15%	28%	15%	28%	15%
$209,251- $373,650	33%	15%	33%	15%	33%	15%	33%	15%
$373,651 and over	35%	15%	35%	15%	35%	15%	35%	15%

It should be noted that in 2013 there will be an additional 3.8% health care surtax on investment income and a .9% Hospital Insurance surtax on wages for higher income earners.

In addition to the extension of the tax cuts, tax payers will see a reduction of the FICA tax from 6.2% to 4.2% for 2011 only. Since FICA is applied to the first $106,800 this will result in a tax savings of $2,136 per individual for those who pay the maximum FICA tax. For self-employed individuals, the FICA tax will drop from 12.4% to 10.4% on wages up to $106,800.

Qualified Plan Contribution Limits

Type of Account	Under 50 Years Old	Additional Contribution for those Over 50 Years Old
401(k), 403 (b)	$16,500	$22,000
Traditional IRA Accounts	$5,000	$6,000
Roth IRA account	$5,000	$6,000
Simple IRA Account	$11,500	$14,000

IRA Required Minimum Distributions

While the moratorium on not having to take requiring minimum distributions has ended, individuals are once again permitted to make a direct charitable contribution from their IRA of up to $100,000 and have it count toward their required minimum distribution. One of the more unique provisions allows individuals to make the contribution in January of 2011 and have it count as made by December 31st of 2010.

AMT Relief Extended

The AMT patch has been extended for 2010 and 2011. This will avoid the year-to-year patches of the past and make planning more predictable at least for the next two years.

A Few Steps to Take Before Year-End

- Flexible Spending Accounts – make sure you have used up the amounts by the plan deadline (typically a few months into 2011). Also, taxpayers should purchase their over-the-counter medications by 12/31/10 as they will no longer be a qualified expense in 2011.
- IRA Cost Basis – many taxpayers lose track of their cost basis (non-deductible contributions) in their IRA. It is important to make sure Form 8606 is up to date so you may take tax-free distributions in the future. Additionally, cost basis in an IRA may make a ROTH conversion more appealing as a portion would be tax-free.
- Capital Gains – taxpayers should make sure they are aware of any carryover losses they have available from prior years. Prior losses provide an opportunity to adjust your portfolio with less tax implications. Since capital losses can be carried forward, there is no reason not to take losses now.

- Alternative Minimum Tax (AMT) – proper planning is required to determine if you will be subjected to the AMT. Understanding your AMT exposure will help you make better year-end decisions.
- Roth IRA Conversion – taxpayers may want to consider a ROTH conversion by 12/31/10. Only 2010 conversions are eligible for a two-year deferral (income added to 2011 and 2012 adjusted gross income).
- Charitable Contributions – don't forget to donate your used clothing and household items, but be sure to get a receipt from the organization. Also, use appreciated stock for larger gifts as it allows you to avoid paying tax on the capital gains and take a deduction for the full amount of the stock. Please note you must have held the stock for over 365 days to get this preferential treatment.
- Self-Employed Individuals – should consider maximizing deductions by year-end and deferring income given the lower payroll tax next year assuming all things including their tax rates will be similar next year. Also, you may want to set up a Self-Employed Retirement Plan as a way to reduce your tax liability. While you do not have to fund the plan by year-end, certain plans, such as a Solo 401k plan, must be established by 12/31. Once established, you have until the filing deadline to fund the plan.
- Estimated Tax Payments – tax projections should be run to ensure federal and state tax payments are sufficient to avoid penalties for underpayment of tax for 2010. It may be advantageous to pay your entire projected state tax by year-end to receive a deduction on your federal return. If you are subject to the AMT, you should not make additional payment by year-end as you will not receive any federal tax benefit. Also, if you expect your 2011 tax rate to be higher you would also delay your payment. In either of these cases, you would make the smallest payment required on January 15, 2011.

Estate Tax Changes

The new law carries with it many features that will allow individuals to pass on their wealth with much less tax than under the 2009 laws. Additionally, the larger exemption and the new portability features to the exemption makes the new laws potentially more attractive than in 2010 when there was technically no estate tax.

Maximum Estate Tax Rate	2010	2011	2012	2013
Maximum Estate Tax Rate	35% or election to forego the estate tax	35%	35%	55%
Maximum Gift Tax Rate	35%	35%	35%	55%
Estate Tax Exemption	$5,000,000	$5,000,000	$5,000,000	$1,000,000
Gift Tax Exemption	$1,000,000	$5,000,000	$5,000,000	$1,000,000
GST Exemption	$5,000,000	$5,000,000	$5,000,000	$1,400,000

The new law allows individuals who are acting as the executor of an estate of a descendant who died in 2010 to select either the 2010 or 2011 estate tax laws to apply. It is important to note that under the 2010 laws there is no estate tax but property only receives either a $1.3 million step up in basis for inherited property or a $3 million step up in basis for property inherited from a spouse. This is an important election that should be made in conjunction with both your attorney and financial advisor working in cooperation to find you the most appropriate choice.

It is also important to note that the 2013 GST exemption is an estimate based on projected inflation.

An Unused Estate Tax Exemption may now be carried over to the Surviving Spouse

One key provision to the new law is the ability to "carry-over" any unused estate tax exemption to their surviving spouse. Therefore, an individual who died with a $3 million dollar estate would be able to also hand over an additional $2 million exemption to their surviving souse who would then be able to pass on $7 million in assets estate tax free. The unused exemption can be used for lifetime gifts or at death. Given the value of the exemption, individuals may want to explore revising their estate plans so that the value of this exemptions is protected in their trusts.

These are just a few ideas and a very high level view of the new laws to help you start your year-end tax planning. If you have any questions or would like to discuss your current or a prospective plan in more specific granular details, please feel free to contact us.

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