The Rudolph Report

www.rudolphcpa.com Year end 2012

To our clients:

Pumpkin taco soup? Let me say this: Be careful when you allow guests to bring an item to Thanksgiving dinner. Now, I promised my mother in law that I would ease up on the teasing. So let's focus on another theme of the season, year-end tax planning.

This newsletter will focus on the tax changes from the health care law that may affect you in 2013. Additionally, there are a number of outlined tax provisions that will be reconsidered by Congress as we near the end of 2012 and the dreaded fiscal cliff. Finally, there are some helpful year-end tax tips for you to consider.

Please note that the Affordable Care Act is not part of the tax code that will be restructured at the end of the year. It's here to stay without regard to the fiscal cliff. People who will pay more tax under this law include those making over $250,000. We've outlined how much they'll pay in this newsletter. If kids are reading this, don't worry, the new law doesn't mean you now have to eat your broccoli.

If you are considering any decisions to reduce your tax burden before the year ends, feel free to call us and discuss your strategery. Please remember we're here to help you year-round. Happy Festivus.

Thank you,

Chris Rudolph CPA

2013 Health care Tax Changes

A surcharge tax on the upper middle class will be assessed to help pay for the health care cost. Unmarried people with $200,000 of earned income and married couples with $250,000 of earned income will pay an additional .9% of Medicare tax on the excess *earnings* above those thresholds.

Additionally, a 3.8% Medicare tax will be assessed on all *non-earned* income (not from employment) above the thresholds noted above. These surcharge taxes will not be assessed on retirement plan distributions. If you want to avoid these assessments, your choices include:

- Recognizing capital gains in 2012 rather than 2013.
- Investing in municipal bonds because the interest won't raise your AGI.
- Moving to Nova Scotia and selling cod shakes at the local Dairy Queen.

Flexible spending accounts for medical purposes now have a maximum contribution cap of $2,500 per wage earner per calendar year. Previously, companies could establish their own maximum contributions for medical flexible spending plans. As a reminder, these accounts are funded pretax and can be used generally for all non cosmetic medical expenditures. This law does not affect the amount that a person can contribute to a flexible plan for dependent care. If my brother in law is reading this, yes, you can use your medical flex spending account to pay the doctor to extract half a dozen peas from my nephew's nose if the vacuum attachments don't work.

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The threshold for **deducting medical expenses** is now 10% of your adjusted gross income. Previously, you could deduct all out of pocket qualified expenses that exceeded 7.5% of your income.

The Fiscal Cliff

The Bush tax cuts expire at the end of the year, and unless Congress and the President agree (pause for laughter), higher rates will be assessed across the board. It is plausible that the lower income tax rates will be extended for the middle class and that higher tax rates will be imposed on those making more than $250,000. The annual patch for the alternative minimum tax is likely to be renewed, otherwise those taxpayers who pay AMT will see a significant tax hike. Finally, it is plausible that you may see a smaller paycheck because Congress may not extend the 2% reduction on social security tax. Two years ago, social security tax was reduced to 4.2% from 6.2% to help stimulate the economy. That may likely end in 2012 along with hopes for the Cubs' 2013 season.

If our elected officials cannot agree on terms, then everybody pays more tax, spending cuts are imposed, and a likely result is another recession which would halt our slow moving economic growth. That would be like an ending to a B Hollywood film- the Yugo flies off the proverbial cliff into the Grand Canyon (which has since been acquired by China). Let's hope we find our way to solutions in the spirit of compromise.

Did you know?

1.02% of taxpayers who make under $200,000 receive an **audit**. 4% of those who make more than $200,000 but under one million dollars are audited. 12.5% of those who make more than a million dollars are on the Christmas card list at the IRS.

Those of you who elected to spread the tax liability from a **converted Roth IRA** in 2010 will recognize the final half of the income in 2012 (so go light on the shopping).

Chris Volstad and Anthony Young combined to **lose 51 straight games** in a Cubs uniform. And each of these pitchers was acquired in the *midst* of these streaks.

Year End tax tips

- For high income earners, consider exercising options and realizing capital gains before the 2013 tax surcharge.
- Consider paying your 4th quarter state estimate in 2012 to receive a federal tax deduction (unless you are subject to alternative minimum tax).
- Track all of your receipts from holiday donations to charities.
- Pay outstanding tuition and medical bills by year end if those expenses are better utilized in this current year.
- Consider converting part of your traditional IRA to a Roth IRA if you find yourself in a lower tax bracket this year (let's talk first, however).
- Assuming capital gain rates increase in 2013, realize long term capital gains in 2012 (unless doing so would forgo potential investment gains).

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