

Expiration of EGTRRA Tax Relief July, 2012

The Economic Growth and Tax Relief Reconciliation Act of 2001 and the Jobs and Growth Tax Relief Reconciliation Act of 2003 which together enacted the "Bush Tax Cuts" will expire as of January 1, 2013 at the same time as the Patient Protection and Affordable Health Care Act is implemented. The net result of these tax laws is summarized as follows:

Ordinary Income Taxes

Ordinary Income Tax Brackets		2012 Rates	2013 Rates	2013 Health Care Surtax
Single	Joint			
\$0-\$8,700	\$0-\$17,400	10%	15%	
\$8,700-\$35,350	\$17,400-\$70,700	15%	15%	
\$35,350-\$85,650	\$70,700-\$142,700	25%	28%	
\$85,650-\$178,650	\$142,700-\$217,450	28%	31%	
\$178,650-\$388,350	\$217,450-\$388,350	33%	36%	Single filers with over \$200,000 in income and joint filers with over \$250,000 of income will pay an additional 3.8% tax on investment income and a 0.9% tax on earned income in excess of such thresholds
Over \$388,350	Over \$388,350	35%	39.6%	

Capital Gains Rates

In 2013, long-term capital gains rates will increase from 15% to 20% for single taxpayers earning at least \$35,350 and married taxpayers filing jointly earning at least \$70,700.

Dividend Rates

In 2013, dividends will be taxed as ordinary income rather than at long-term capital gains rates (15% in 2012).

Transfer Taxes

Tax	2012 Exemption and Highest Marginal Rate		2013 Exemption and Highest Marginal Rate	
Estate	\$5,120,000	35%	\$1,000,000	55%
Gift	\$5,120,000	35%	\$1,000,000	55%
GST	\$5,120,000	35%	\$1,360,000*	55%

*GST exemption approximated to reflect indexing for inflation after 2001

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What does this mean to you?

1. If you have been contemplating making use of your gift tax exemption in 2012, you should contact our office for a planning recommendation as soon as possible. An individual may have as much as \$4,120,000 of gift tax exemption and married couples may have as much as \$8,240,000 of gift tax exemption available in 2012 that will disappear in 2013. By taking advantage of these exemptions, an individual's estate could be sheltered from \$2,266,000 of estate tax ($\$4,120,000 \times 2013$ tax rate of 55%) and married couple's could shelter twice that amount, or \$4,532,000, from estate tax ($\$8,240,000 \times 2013$ tax rate of 55%).
2. Contact your income tax advisor to ensure proper withholdings for 2013. In particular note that your dividend income could be subject to a rate as high as 43.4% in 2013 as opposed to the 15% rate you are paying this year.

Please contact us at your earliest convenience if you wish to discuss how these changes to the will affect your estate plan.