Client Advisory Bulletin

Kistler-Tiffany Advisors
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KISTLER TIFFANY ADVISORS

YEAR END PLANNING OPPORTUNITIES FOR 2013

We started this year with a Bulletin on the American Taxpayer Relief Act of 2012 and the some of the major changes relating to income taxes and estate, gift and generation-skipping transfer (GST) taxes. So we felt it appropriate to end the year discussing strategies to reduce the effects of these changes, especially those related to income taxes.

The main item to be considered in year-end planning is the timing of income and expenses. Should they be accelerated or deferred? Several planning issues and strategies are discussed below.

Reduce Exposure to the 3.8% Surtax:

- Reduce or avoid any net investment income for the remainder of 2013 to the extent possible.
- The thresholds to be aware of for the 3.8% "net investment income (NII) tax" are a modified adjusted gross income of (MAGI) of $250,000 for joint filers; $125,000 for married filing separately and $200,000 for others. In addition, the top income tax rate is now 39.6%, applicable for AGI over $450,000 for joint filers.
- Since this tax applies to passive investment activity, if appropriate, determine if it would be appropriate to increase participation in the activity before year end and qualify as an "active participant". (If not appropriate for 2013 or if the participation tests cannot be met, consider whether this should be considered for 2014).
- If a number of passive investments are owned, determine if these interests should be "regrouped" for the purpose of measuring gains and losses.
- If self-employed and MAGI is near the applicable threshold amount, consider if billings should be deferred until 2014.
- If selling investment property, consider payment by installment method to enable any taxable gain on the property to be spread out over specified term.
- Adjust the timing of a sale of a personal or seasonal residence to 2013 or 2014. Give consideration to the amount of gain over the amount that may be excluded.
- Consider MAGI when timing either conversions to a Roth IRA or taking first year required minimum distributions from IRAs or retirement plans. These could be accelerated to 2013 or delayed until 2014.

Charitable Planning and IRAs:

- The Charitable IRA Rollover provision that permits distributions from an IRA of $100,000 to one or various charities was extended through 2013. The same rules apply: (1) donor must be age 70½ at time of gift; (2) gift is made directly from IRA to the charity; (3) no deduction is taken for the gift.
  - The distribution to the charity can be used to satisfy the RMD requirement for the IRA owner and will also reduce the MAGI for 2013.
- Consider gifts of appreciated securities to charity for a full fair market value deduction with no capital gains. However, if securities are being held at a loss, consider selling first and then donating the cash to the charity; thereby being able to claim the capital loss on your personal return and receive the charitable deduction.

Gifts:

- Annual exclusion gifts (up to $14,000 per individual) can be made with no payment of gift tax. If gift is split with a spouse, $28,000 can be gifted. When determining assets to gift, consider shifting appreciated securities to children who may be at a lower tax bracket or "tax-advantaged".

If you have any questions regarding the above, please give us a call. As always, it is important to consult with a financial and legal advisor before taking any specific action.

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