<u>Benefiting from being an Informed Taxpayer</u>

There are two types of tax payers the informed and the uninformed; some taxes are voluntary and with proper planning can be avoided. Let me take you through with some ideas that would enable you to be familiar with the current tax rates so you can be a more informed and proactive tax payer.

Individual Tax Rate in 2014-39.6% Tax Bracket: This is the highest marginal tax bracket on ordinary income over $400,000 for single filers and $450,000 for married filing jointly.

Qualified Dividends and Capital Gains: Qualified dividends and long-term capital gains for taxpayers that fall in the 39.6% tax bracket will be taxed at 20%. The 0%/15% tax rates on dividends and capital gains in lower tax brackets.

3.8% surtax: The complicated 3.8% Medicare tax on unearned income of high-income individuals, estates and trusts. The Medicare surtax is imposed on net investment income(NII) including interest, dividends, capital gains, royalties, rents and passive income (income that is not from an active trade or business). This tax applies to taxpayers with modified AGI above these thresholds: $250,000 for married taxpayers filing jointly; $125,000 for married taxpayers filing separately; and $200,000 for single and head of household taxpayers. The tax applies to the lesser of the taxpayer's NII or amount of modified AGI over the threshold amount. For an estate or trust, the surtax applies at the highest marginal tax bracket in excess $12,150 NII in 2014. This tax does not apply to distributions from qualified retirement plans. However, distributions from a charitable remainder trust could be NII to the recipient/ beneficiary.

0.9% Additional Medicare Tax: High-income individuals also face an additional 0.9% Medicare tax on wages. Wages in excess of $200,000 for an individual ($250,000 for married taxpayers filing jointly) will be subject to a 2.35 %(1.45%+ .09) total Medicare tax.) Employers must withhold the additional Medicare tax from wages in excess of $200,000 regardless of filing status or other income. Self-employed individuals with the above mentioned wages are also subject to this additional Medicare tax 3.8% (2.9%+.09)

Caution the 3.8% surtax: It is in addition to payroll taxes, capital gains and alternative minimum taxes (AMT) over the given income thresholds, which means if your investment advisor is including muni bonds in your portfolio; make certain that they are AMT neutral.

Proactive planning a priority: This is the number-one new challenge for physicians as well as the most important benefit a wealth advisor can bring to clients. It is safe to say with American Taxpayer Relief Act 2012 (ATRA); many high-income taxpayers will have sticker shock when they file their 2013 tax returns. The ATRA brings many changes, and each change is implemented above a defined threshold, but the thresholds are not uniform. Also, whereas tax brackets and phase-out thresholds are inflation adjusted, the thresholds for the Medicare contribution tax are not inflation adjusted.

Taking advantage of deductions/losses sooner and recognizing income later: This concept is back in vogue: It is imperative that your portfolio managers pay close attention to asset location rather than asset allocation for efficiency in keeping more of what you earn in portfolios, mitigating the impact of capital gains. Beware of happy brokers trading in your portfolios without regard to tax efficient management. Traditionally loss harvesting in your portfolio is done at the end of the year, it will now serve you better to have it done throughout the year for the most efficient results.

Comprehensive Advisors: Can actively manage clients' assets to protect against market downturns while also managing taxes. While finding advisors that offer both are rare, it is well worth the added due diligence.

Retirement Plans: Take full advantage of deferring as much income in company sponsored retirement plans. If you are self-employed Physician with fewer than 10 employees, consider a Defined Benefit (DB) Plan; even with the employee contributions costs, it can be of much tax benefit. Moreover, you put away hundreds of thousands of dollars, reduce taxes, and fund retirement all in one vehicle. It can also serve as asset-protection. (*Annual contributions in DB Plans are not flexible and are mandatory unlike 401K/PSP that are flexible and are subjected to limited contributions*.)

Roth IRA Conversions: With these higher tax rates, do not attempt conversions until either you retire or your income along with the amount of the conversion is below the threshold.

As you plan your charitable giving: Consideration should be given to using low basis assets instead of cash which would allow you to avoid the capital gains on the growth and get a tax credit for the current value of the asset as a gift.

The bottom line : It is critical to have an understanding of not only what tax-saving measures are available to help cash flow, but also to understand the future tax implications of investments and planning structures on the decisions you make today.

This article only covers what I think are the most important elements of the 2012 ATRA. If you want more details contact your tax adviser.

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