PINNACLE WEALTH PLANNING SERVICES, INC.

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We hope everyone had a wonderful summer. The recent cooler nights have been a welcome relief from the summer heat. Although the weather is coolingoff, the political rhetoric is just beginning to heat up. The "Fiscal Cliff" and "Obamacare" are two oft quoted issues in front of us. We have included two articles that provide additional clarity on what these two issues entail. Included in the tax code items that are set to expire are the estate/gift tax rates. For those in a position to gift assets, this could be your last chance to do so on a more favorable basis. An article on making large gifts addresses the changes that are set to take place.

- The Fiscal Cliff
- The Supreme Court Ruling on Health Care Reform Law
- Should You Make Large Gifts in 2012?
- Pinnacle News

We appreciate your trust in Pinnacle and look forward to serving your financial needs for years to come.

Sincerely,
Your Executive Team

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Christine Larson, CFP®, MBA • Jennifer Heichel-Henderson, CFP®, MBA • Michael Frank, CPA /PFS, CFP®

THE FIDUCIARY DIFFERENCE

As a fee-only Wealth Manager, Pinnacle's advice is conflict free. Pinnacle sells no products and receives no income from any third party. Pinnacle is an SEC Registered Investment Advisor, which legally makes Pinnacle a FIDUCIARY to its clients under both state and federal law.

Pinnacle's Ohio Office Locations

Mansfield	Cleveland	Columbus	Medina
			
Headquarters 6 West Third Street, Ste 100 Mansfield, OH 44902	Park Center 1 6100 Oak Tree Blvd., Ste 200 Cleveland, OH 44131	545 Metro Place South One Metro Place, Ste 100 Dublin, OH 43017	Pinnacle Professional Office Complex 1684 Medina Road Medina, OH 44256

Pinnacle's Growth is Dependent on Client Referrals

The "Fiscal Cliff"

Source: Forefield.com

What is the "fiscal cliff"? It's the term being used by many to describe the unique combination of tax increases and spending cuts scheduled to go into effect on January 1, 2013. The ominous term reflects the belief by some that, taken together, higher taxes and decreased spending at the levels prescribed have the potential to derail the economy. Whether we do indeed step off the cliff at the end of the year, and what exactly that will mean for the economy, depends on several factors.

Will expiring tax breaks be extended?

With the "Bush tax cuts" (extended for an additional two years by legislation passed in 2010) set to sunset at the end of 2012, federal income tax rates will jump up in 2013. We'll go from six federal tax brackets (10%, 15%, 25%, 28%, 33%, and 35%) to five (15%, 28%, 31%, 36%, and 39.6%). The maximum rate that applies to long-term capital gains will generally increase from 15% to 20%. And while the current lower long-term capital gain tax rates now apply to qualifying dividends, starting in 2013, dividends will once again be taxed as ordinary income.

Additionally, the temporary 2% reduction in the Social Security portion of the Federal Insurance Contributions Act (FICA) payroll tax, in place for the last two years, also expires at the end of 2012. And, lower alternative minimum tax (AMT) exemption amounts (the AMT-related provisions actually expired at the end of 2011) mean that there will be a dramatic increase in the number of individuals subject to AMT when they file their 2012 federal income tax returns in 2013.

Other breaks go away in 2013 as well.

Estate and gift tax provisions will change significantly (reverting to 2001 rules). For example, the amount that can generally be excluded from estate and gift tax drops from $5.12 million in 2012 to $1 million in 2013, and the top tax rate increases from 35% to 55%.

Itemized deductions and dependency exemptions will once again be phased out for individuals with high adjusted gross incomes (AGIs).

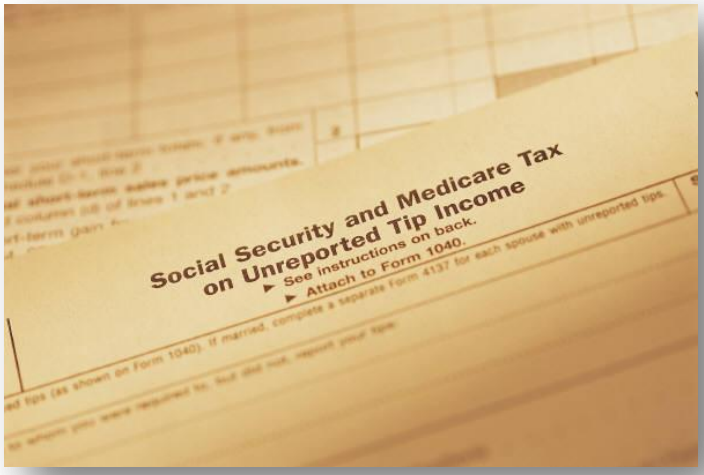
The earned income tax credit, the child tax credit, and the American Opportunity (Hope) tax credit all revert to old, lower limits and less generous rules.

Individuals will no longer be able to deduct student loan interest after the first 60 months of repayment. There continues to be discussion about extending expiring provisions. The impasse, however, centers on whether tax breaks get extended for all, or only for individuals earning $200,000 or less (households earning $250,000 or less). Many expect there to be little chance of resolution until after the November election.

Will new taxes take effect in 2013?

Beginning in 2013, the hospital insurance (HI) portion of the payroll tax – commonly referred to as the Medicare portion – increases by 0.9% for individuals with wages exceeding $200,000 ($250,000 for married couples filing a joint federal income tax return, and $125,000 for married individuals filing separately).

Also beginning in 2013, a new 3.8% Medicare contribution tax is imposed on the unearned income of high-income individuals. This tax applies to some or all of the net investment income of individuals with modified adjusted gross income that exceeds $200,000 ($250,000 for married couples filing a joint federal income tax return, and $125,000 for married individuals filing separately).



Both of these new taxes were created by the health-care reform legislation passed in 2010 – recently upheld as constitutional by the U.S. Supreme Court – and it would seem unlikely that anything will prevent them from taking effect.

Will mandatory spending cuts be implemented?

The failure of the deficit reduction supercommittee to reach agreement back in November 2011 automatically triggered $1.2 trillion in broad-based spending cuts over a multiyear period beginning in 2013 (the formal term for this is "automatic sequestration"). The cuts are to be split evenly between defense spending and nondefense spending. Although Social Security, Medicaid, and Medicare benefits are exempt, and cuts to Medicare provider payments cannot be more than 2%, most discretionary programs including education, transportation, and energy programs will be subject to the automatic cuts.

New legislation is required to avoid the automatic cuts. But while it's difficult to find anyone who believes the across-the-board cuts are a good idea, there's no consensus on how to prevent them. Like the expiring tax breaks, the direction the dialogue takes will likely depend on the results of the November election.

What's the worst-case scenario?

Many fear that the combination of tax increases and spending cuts will have severe negative economic consequences. According to a report issued by the nonpartisan Congressional Budget Office *(Economic Effects of Reducing the Fiscal Restraint That Is Scheduled to Occur in 2013, May 2012),* taken as a whole, the tax increases and spending reductions will reduce the federal budget deficit by 5.1% of gross domestic product (GDP) between calendar years 2012 and 2013. The Congressional Budget Office projects that under these fiscal conditions, the economy would contract during the first half of 2013 (i.e., we would likely experience a recession).

It's impossible to predict exactly how all of this will play out. One thing is for sure, though: the "fiscal cliff" figures to feature prominently in the national dialogue between now and November.

The Supreme Court Ruling on Health Care Reform Law:
What Does it Mean for YOU?

Source: Forefield.com

On June 28, 2012, the U.S. Supreme Court ruled, in a landmark decision, that the Patient Protection and Affordable Care Act (ACA), including the provision that most Americans carry health insurance or pay a penalty, is constitutional.

The ACA, signed into law in 2010, made sweeping reforms to health-care coverage in the United States. Many provisions of the law have already taken effect. A number of other provisions are scheduled to take effect in subsequent years, including the requirement that most Americans and legal residents have qualifying health insurance (exceptions apply) or pay a penalty in the form of a tax. Here's a summary of some of the important provisions that are already in place, and those that are on their way by 2014.

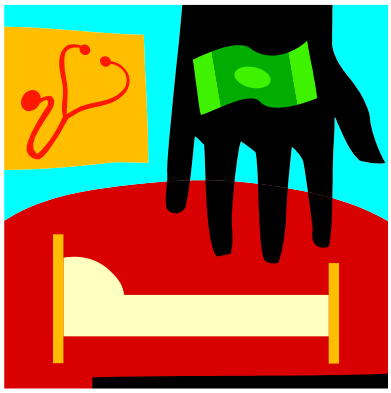
In effect now

Children can no longer be denied insurance coverage because of pre-existing conditions. Payment of $250 rebate to Medicare Part D beneficiaries subject to the coverage gap (beginning January 1, 2010) and gradually reducing the beneficiary coinsurance rate in the coverage gap from 100% to 25% by 2020.

Insurers will not be able to impose lifetime caps on insurance coverage. All plans offering dependent coverage will be required to allow children to remain under their parents' plan until age 26. Insurers cannot cancel or deny coverage if you are sick except in cases of fraud Adults with pre-existing conditions will be able to buy coverage from temporary high-risk pools until 2014, when coverage cannot otherwise be denied for pre-existing conditions.

Key provisions effective on or before January 1, 2014

Increasing the medical expense income tax deduction threshold to 10% of adjusted gross income, up from the current 7.5% (January 1, 2013).



Increasing the Medicare Part A tax rate by 0.9% on wages over $200,000 for individuals ($250,000 for married couples), and assessing a new 3.8% tax on some or all of the net investment income for these higher-income individuals (January 1, 2013).

All Americans must carry health insurance or face a penalty (in the form of a tax) of up to 2.5% of household income on individuals, with exceptions for economic hardship, religious beliefs, and other situations (January 1, 2014)
Adults with pre-existing conditions cannot be denied coverage or have their insurance cancelled due to pre-existing conditions (January 1, 2014).

A requirement that states establish an American Health Benefit Exchange that facilitates the purchase of qualified health plans and includes an Exchange for small businesses (January 1, 2014).

Tax credits will be available to qualifying families to offset the cost of health insurance premiums (January 1, 2014).

Employers with more than 50 employees must offer health insurance for their employees or be fined per employee (January 1, 2014).

Imposing taxes or fees on health insurance providers and drug companies, while doctors and hospitals will receive less compensation from government sources (January 1, 2014).

So is this it?

While the Supreme Court has ruled the ACA constitutional, it may still face challenges as Congress may seek to repeal the law. The ultimate fate of the health-care reform law may be determined by the outcome of the November elections.

Should You Make Large Gifts in 2012?

Source: Forefield.com

Currently, the exemptions for federal gift tax, estate tax, and generation-skipping transfer (GST) tax are at historic highs, and the gift, estate, and GST tax rates are at historic lows. But, in 2013, the exemptions are scheduled to substantially decrease, and the tax rates are scheduled to substantially increase. This raises the question of whether 2012 might be a good time to make large gifts that take advantage of the current exemptions while they are still available.

Looking into the future

When you transfer your property during your lifetime or at your death, your transfers may be subject to federal gift, estate, and GST tax. (Your transfers may also be subject to state taxes.) Currently, there is a basic exclusion amount (sometimes referred to as an exemption) that protects up to $5,120,000 from gift tax and estate tax, a $5,120,000 GST tax exemption, and a top tax rate of 35%. Unless new legislation is enacted, in 2013 the gift tax and estate tax exemption will decrease to $1,000,000, the GST tax exemption will decrease to $1,000,000 (as indexed), and the top tax rate will increase to 55%.

No one knows what the future holds for these taxes, but there is a lot of speculation about what Congress might do. Among the possible scenarios, tax rates could increase and exemptions decrease, tax rates could decrease and exemptions increase, or current tax rates and exemptions could be extended. The question then arises: "Should large gifts be made in 2012 to take advantage of the large $5,120,000 exemption while it is still available?"

To answer that question, you should generally consider the following: the size of your estate and the rate at which it can be expected to grow (or decrease), whether you can afford to make large gifts, what the future of the transfer taxes might be, and whether "claw back" would apply in future years.

Claw back

Claw back refers to a situation where the benefit of certain tax provisions is essentially recaptured at a later time due to changes in tax law. There is some split in opinion as to whether claw back applies to the estate tax. A couple of examples will illustrate the difference.

Example(s): *Assume the gift and estate tax change as currently scheduled in 2013 and claw back applies. Assume you make a taxable gift of $5 million in 2012 that is fully protected by your gift tax exemption and you have a taxable estate of $5 million when you die in 2013. Estate tax, after reduction by the unified credit but not the state death tax credit, is $4,795,000. The result is essentially the same as if you had not made the taxable gift in 2012 and your taxable estate is $10 million in 2013.*

Example(s): *Assume the same facts as above, but with no claw back. Estate tax, after reduction by the unified credit but not the state death tax credit, would be $2,750,000. So, the federal estate tax is $2,045,000 lower if there is no claw back.*

Other gift considerations

- *While it might seem obvious, gifts should only be made if you can afford to part with the property.*
- *In general, it is usually preferable to make as many gifts as possible using the annual exclusion and the qualified transfers exclusion for medical and educational expenses before making taxable gifts that use up the gift and estate tax exemption. Annual exclusion and qualified transfer exclusion gifts do not use up the gift and estate tax exemption.*
- *When you make a gift of property, your income tax basis in the property (generally, what you paid for the property, with some up and down adjustments) is generally carried over to the person who receives the gift. When you transfer property at your death, the basis of the property is usually "stepped up" (or "stepped down") to fair market value at the time of your death.*

Guidelines for Large Gifts in 2012

If you expect that you can keep your estate down to around $1 million ($2 million total for both spouses if you are married) using annual exclusion gifts (generally, up to $13,000 per recipient per year; effectively, $26,000 for gifts by married couples) and qualified transfers exclusion gifts for medical and educational expenses, there may be no advantage to making taxable gifts in 2012. If you have a larger estate, you may wish to consider making taxable gifts sheltered by exemptions in 2012, depending on your evaluation of how the guidelines here apply to your particular circumstances.

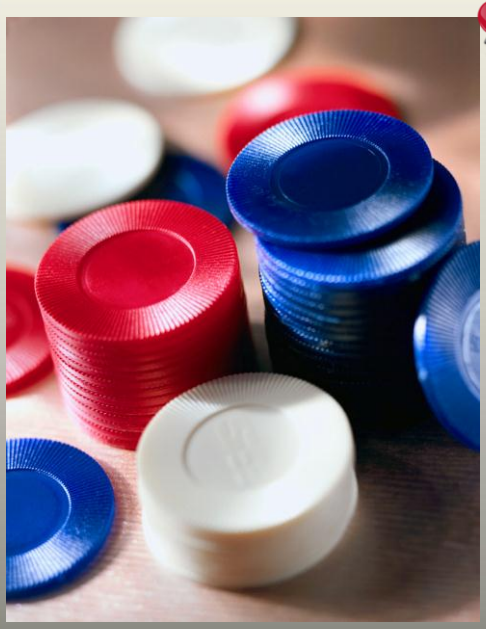
If you make taxable gifts sheltered by the gift and estate tax exemption in 2012, and the gift and estate tax rates later increase, the exemptions decrease, and there is no claw back, you may save gift and estate taxes by making the gifts in 2012. Even if there is claw back, your gift and estate taxes will probably be no worse than if you hadn't made the gifts. And, if the gift and estate tax rates later decrease or stay the same and the exemptions increase or stay the same, your gift and estate taxes will probably be no worse than if you hadn't made the gifts.

If you make generation-skipping transfers sheltered by the GST tax exemption in 2012, and the GST tax rate later increases and the exemption decreases, you may save GST tax by making the GST in 2012. Even if the GST tax rate later decreases or stays the same and the exemption increases or stays the same, your GST tax will probably be no worse than if you hadn't made the GST in 2012.

In each of these scenarios, it has been assumed that values do not appreciate. If the property transferred by gift increases in value after the gift, there may also be transfer tax savings from removing the appreciation from the transfer tax system.

You'll want to consider how these guidelines for large gifts in 2012 might apply to your specific circumstances. An estate planning professional can help you evaluate them.

Pinnacle News



RSVP Now!

Pinnacle's

6th Annual

CASINO NIGHT

is Saturday, September 29
from 7 to 11 pm
at Ashland University's
John C. Myers
Convocation Center.

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