Be sure to indicate the year of the IRA contribution on the check. This seems pretty basic, yet is too often overlooked. Write "2012 IRA contribution" or "2013 IRA contribution" or something equally simple and clear on your check. If you're making your contribution electronically, be sure this gets communicated. If you don't tell us what year the contribution is for, it will be accepted as an IRA contribution for the current year per IRS guidelines.[2]

Avoid racing against the clock. If you wait until the last minute, you may feel safe mailing your 2012 IRA contribution check with an April 15, 2013 postmark. That feeling might be unwarranted. Postmark deadlines for prior-year contributions vary, and sometimes checks that arrive after the deadline count as current-year contributions regardless of postmark. Why not save yourself the risk and mail your 2012 contribution in with plenty of time to spare?[2]

The recharacterization deadline for 2012 Roth IRA conversions is October 15. If you converted a traditional IRA to a Roth IRA last year and need to undo it for tax purposes, October 15 is the absolute deadline to "recharacterize" the Roth account. If you need to do this, please request a recharacterization well before October 15.[3]

The RMD deadline is April 1. If you turned 70½ in 2012, you have until April 1 of this year to take your first Required Minimum Distribution from your traditional IRA; that is, your first mandatory income withdrawal. If you have a Roth IRA, you are never required to take an RMD (during your lifetime) and you can still keep contributing to it after age 70½. Keep the deadlines in mind; April will be here before you know it.

- Barbie

The Fiscal Cliff Deal and Your Taxes

What will change (and won't change) as a result of the new legislation.

Citations.
1 - www.npr.org/templates/story/story.php?storyId=168366341 [12/31/12]
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Several tax hikes, some tax breaks. Now that the fiscal cliff deal assembled in Congress is becoming law, it is time to look at some of the tax law changes that will result. Here are the major details in the bill, which will bring significant tax hikes to some households in an effort to increase federal revenues by $600 billion over the next ten years.[1]

The Bush-era tax cuts will be preserved for at least 98% of taxpayers. Individuals with incomes of $400,000 or less and households with incomes of $450,000 or less will not see their federal income tax rates rise. The EGTRRA/JGTRRA cuts have been made permanent for such earners.[2,3]

The wealthiest Americans are looking at a major income tax hike. The top marginal tax rate will rise 4.6% in 2013 to 39.6%. Individuals with more than $400,000 in taxable income and couples with more than $450,000 in taxable income will be affected. This is the first major income tax increase on the highest-earning taxpayers in 20 years.[2,3,4]

Now when you take that 39.6% top rate and pair it with the oncoming 3.8% Medicare surtax, what is the impact for the wealthiest taxpayers in dollar terms? It is major. The non-partisan Tax Policy Center calculates that in 2013, households with incomes between $500,000 and $1 million should see their taxes rise by an average of $14,812. What about households with incomes above $1 million? The TPC projects taxes rising an average of $170,341 for these couples and families this year.[3]

The Bush-era tax cuts will be preserved for at least 98% of taxpayers.

Practically speaking, all working Americans will see taxes rise in 2013. The payroll tax holiday of the past two years officially ends with the new bill's passage. In 2011 and 2012, employee payroll taxes were reduced by 2% as an economic stimulus – an idea that came from the White House. In 2013, the payroll tax rate returns to its old level and employees will pay 6.2% in Social Security taxes rather than 4.2%. This tax break saved a worker making $50,000 annually about $1,000 last year. Employee earnings up to $113,700 will be taxed.[3,4]

Estate taxes now top out at 40%. Additionally, the individual estate tax exemption falls slightly to $5 million. Both of these changes are permanent.[4]

The AMT has been patched - permanently. Congress no longer has to arrange an annual fix for the Alternative Minimum Tax that was never indexed to inflation. This patch is retroactive to 2012, of course.[4]

The Pease provision & personal exemption phase-outs are back. As a result of the deal, 80% of itemized deductions will be eliminated in 2013 for individuals with adjusted gross incomes of more than $250,000 and couples with adjusted gross incomes of more than $300,000. That threshold is also where personal exemption phase-outs will start in 2013.[4]

Dividends will not be taxed as ordinary income. Single filers with taxable incomes of more than $35,350 and joint filers with table incomes above $70,700 will see a top dividend tax rate of 15% this year. Dividends coming to individuals making more than $400,000 and households making more than $450,000 will return to the 20% level, 5% higher than they were in 2012. Investors in the 10% and 15% tax brackets will pay no taxes on dividends.[2,4]

The top capital gains tax rate is now 20%. Wealthy investors paid a 15% tax on long-term capital gains and qualified dividends in 2012. That will rise 5% this year. Single filers making more than $400,000 and joint filers making more than $450,000 will face this tax hike. Those in the 25%, 28%, 33% and 35% federal tax brackets will pay 15%, and those in the 10% and 15% brackets will face no capital gains taxes.[4]

Long-term unemployment benefits live on. They will be sustained through the end of 2013 for roughly 2 million people.[2]

The EITC, AOTC & Child Tax Credit will be extended through 2017. President Obama has long sought to preserve the $2,500 American Opportunity Tax Credit for college expenses, the Earned Income Tax Credit and the Child Tax Credit – and that will occur thanks to the fiscal cliff deal. The $250 deductions for teachers' classroom expenses will also be extended into 2013.[4]

The charitable IRA rollover provision returns. You can practically hear the cheers ringing out at non-profits across the country: thanks to the fiscal cliff deal, people over age 70½ will again be permitted to make tax-free transfers from an IRA to a charity, university, or other qualified non-profit organization in 2013.[4]

The "sequester" will be delayed 2 months. The automatic federal spending cuts that were set to occur January 2 will be postponed until March while Congress tries to craft a plan to replace them.[2]

- Shawn

Fun Financial Fact

Local currencies were popular during the Great Depression but in the past few decades, several U.S. cities have started their own local currencies as a way to help small businesses and keep currency circulating in the local economy. Madison, Wisconsin, Corvallis, Oregon and Traverse City, Michigan have all implemented local currencies.

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Our November workshop on transforming social security into a winning retirement strategy

Our October workshop on 2013 Medicare benefits

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6:30 - 7:30 pm

Taxes in America: Preparing for the New Reality

Presented by Wes Vaughan

Wednesday, March 13th at our Fountain Valley Office

6:30 - 7:30 pm

Retirement Workshop at Orange Coast College

Tuesday, March 12th and Tuesday, March 19th OR Thursday, March 14th and Thursday, March 21st

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IRA Deadlines are Approaching

Important dates for your IRA are coming in April.

Many of us associate April with taxes. We should also associate it with IRAs, for April is the month with the deadlines for IRA contributions and mandatory IRA withdrawals.

The deadline for your 2012 IRA contribution is April 15, 2013. For tax year 2012, you can contribute up to $5,000 to your Roth or traditional IRA. One exception: If you turned 50 in 2012, your Roth or traditional IRA contribution limit for 2012 is $6,000. You get 15½ months to make your IRA contribution for a given tax year. You can make your 2013 IRA contribution at any time until Monday, April 15, 2014.[1]

Have you already made your IRA contributions? Hopefully, you contribute the maximum annually and make your contribution soon; the earlier that money is invested, the longer it can work for you.

this issue

Bad Money Habits to Break in 2013

Do bad money habits constrain your financial progress? Many people fall into the same financial behavior patterns year after year. If you sometimes succumb to these financial tendencies, the New Year is as good an occasion as any to alter your behavior.

#1: Lending money to family & friends. Generosity is a virtue, but personal loans can easily transform into personal financial losses for the lender. If you *must* loan money to a friend or family member, mention that you will charge interest and set a repayment plan with deadlines. Better yet, don't do it at all.

#2: Spending more than you make. Living beyond your means, living on margin, whatever you wish to call it, it is a path toward significant debt. A 2012 Federal Reserve Survey of Consumer Finances calculated that just 52% of American households earn more money than they spend.[1]

#3: Saving little or nothing. Good savers build emergency funds, have money to invest and compound, and leave the stress of living paycheck-to-paycheck behind. If you can't put extra money away, there is another way to get some: a second job. Even working 15-20 hours more per week could make a big difference. The problem is far too common: a CreditDonkey.com survey of 1,105 households last fall found that 41% of respondents had less than $500 in savings. In another disturbing detail, 54% of the respondents had no savings strategy.[2]

#4: Not contributing to IRAs or workplace retirement plans. Even with all the complaints about 401(k)s and the low annual limits on traditional and Roth IRA contributions, these retirement savings vehicles offer you remarkable wealth-building opportunities. The earlier you contribute to them, the better; the more you contribute to them, the more compounding of those invested assets you may potentially realize.

#5: Living without a budget. You may make enough money that you don't feel you need to budget. In truth, few of us are really that wealthy. In calculating a budget, you may find opportunities for savings and detect wasteful spending.

- Michael

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