

ACCOUNTING

'Cliff' tax deal: What it means to youTax Changes
Explained

BY STEVEN F. ST. PIERRE



Instead of champagne toasts and party hats, Washington, D.C., welcomed the new year with the same old dance of waiting until the last minute before demonstrating its near inability to work together.

Regardless, the so-called "fiscal cliff" — a series of economically devastating tax increases and spending cuts that were due to come on line at the start of 2013 — was temporarily averted, given a last-second deal between the Republican-led House and the Democratic-led Senate.

The compromise, known as the American Taxpayer Relief Act of 2012, is not the grand solution to address our nation's surging debt issues that many had hoped for. Rather, it is more of a temporary Band-Aid that resolved the revenue elements of the "cliff," but delayed addressing the tougher decisions surrounding spending cuts and raising the debt ceiling until February 2013.

Specifically, the act contains the following major provisions:

- Individual income taxes: The Bush tax cuts are permanently extended for individuals with taxable income of less than \$400,000 (\$450,000 for married couples), and the alternative minimum tax patch is made permanent and indexed for inflation.

- Capital gains and dividends: There is no difference on tax rates for capital gains and dividends, although top rates will rise to 20 percent for individuals with taxable income greater than \$400,000 (\$450,000 for married couples).

- Personal exemption reductions: Reinstated were limitations on itemized deductions and personal exemptions for taxpayers with taxable incomes greater than \$250,000 (\$300,000 for married couples).

- Estate tax: The estate tax rate will move up to 40 percent, but the exemption will remain at \$5 million, annually indexed for inflation (which is \$5.12 million beginning Jan. 1, 2013).

- Unemployment benefits: Extended unemployment benefits will be funded for another year.

The bottom line is that the federal income tax rate will remain the same for everyone except those individuals with taxable income

greater than \$400,000 (\$450,000 for married couples) — a change that will affect less than 1 percent of Americans. However, despite the headline that tax rates remain the same for most, the actual dollar amount of taxes paid will be moving higher for virtually every wage earner, due to the elimination of the payroll tax cuts of 2011 and 2012.

Payroll taxes help to fund Social Security by taxing 12.4 percent on wages up to \$113,700

The good news is that there may finally be clarity around future tax policy

(in 2013), which was paid equally by employers and workers at 6.2 percent each prior to 2011. In 2011, and again in 2012, the president and Congress reduced the share paid by workers from 6.2 percent to 4.2 percent, which essentially put extra money via a tax cut in wage earners' wallets.

However, starting in 2013, the split will once again revert to 50-50 and result in higher taxes for essentially everyone.

To put this in dollar terms, the Tax Policy Center estimates that households making between \$100,000 and \$200,000 will see an average tax increase of \$1,784 in 2013. For higher-income earners, the tax burden is much steeper, given the combination of higher federal income tax rates, the elimination of payroll tax cuts, the limitation of personal deductions and the higher tax rate on investment income.

While contentious battles over sequestration and raising the debt ceiling remain unresolved, the good news is that there may finally be clarity around future tax policy, which could trigger some consumer and business spending that has been on hold during this time of uncertainty.

Additionally, markets do not handle uncertainty well, so it's hoped having some of these items addressed will allow them to move in an upward direction in the near term. However, there remains much work to be done in the coming months to overcome the contentious policy decisions that Washington has long delayed addressing, instead of fixing. **NHR**

Steven F. St. Pierre, a CPA and Certified Financial Planner, is a financial adviser with LPL Financial in Manchester. He can be reached at 603-669-1999 or info@FinancialAdvisorNH.com.



RBC Wealth Management®

Commitment

At RBC Wealth Management, we take our commitments seriously. Since 1909, we have dedicated ourselves to providing quality investment services to a wide range of investors.

For sound recommendations and service you can count on, call today.

9 Trafalgar Square, Suite 200 • Nashua, NH 03063
(866) 477-3879

Create your path forward.

® Registered trademark of Royal Bank of Canada. Used under license.

© 2010 RBC Wealth Management, a division of RBC Capital Markets, LLC, Member NYSE/FINRA/SIPC.

**Innovative Sustainable
Design Solutions****COMMERCIAL
& INDUSTRIAL**

F.W. Webb Company, Concord, NH

- Projects: Office, Healthcare, Retail, Manufacturing, Warehouse

- Cost effective and responsible development

- The Turner Group team is a full complement of Architects, Engineers, and Building Scientists to address all aspects of your project

The H.L. Turner Group Inc.

Architects ■ Engineers ■ Building Scientists



27 Locke Road, Concord, NH 03301
603-228-1122 ■ www.hlturner.com