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"Morningstar's Best Client Newsletter" in 2012

Fiscal Cliff Decision Reached

Congress passed the American Taxpayer Relief Act of 2012 on January 1st, 2013, providing taxpayers with clearer expectations about what lies ahead.

Social Security Payroll Tax Reverts to 6.2% from 4.2%: Back in 2010, President Obama and Congress cut the Social Security payroll tax rate for individuals to 4.2% instead of 6.2%. The rate remained at 4.2% for 2011 and 2012, but this cut was set to expire in 2013. Congress' recent vote decided to let it expire, which means that all taxpayers will now pay 2% more in Social Security taxes this year.

Most Bush-era Tax Cuts Extended, Except for the very Rich: In 2001 and 2003, legislation passed under President Bush lowered marginal tax rates for most U.S. taxpayers, reduced dividend and capital gains taxes, and enhanced a number of tax credits. The tax package passed on January 1st, 2013 extends most of

these tax cuts for taxpayers with incomes lower than \$400,000 (individuals) and \$450,000 (married couples). Taxpayers with incomes above the thresholds listed will face a 39.6% tax rate instead of 35%, but only on income that exceeds the thresholds. Their capital gains rate would also increase, from 15% to 20%. Also, a new 3.8% surtax on investment income (to fund Obamacare) will be imposed on individuals making more than \$200,000 and married couples making more than \$250,000.

Estate Tax Higher, AMT Indexed to Inflation: The inheritance threshold above which the estate tax applies was supposed to revert to \$3.5 million instead of \$5 million, but according to Congress' decision, it will not. However, above the \$5 million threshold, the estate tax rate will now be 40% instead of 35%. Other provisions include that the Alternative Minimum Tax (AMT) would be indexed to inflation, and federal unemployment benefits would be extended for a year.

Advisor Corner



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