SOLUTIONS

October ◆ 2012

Professionally Speaking

Michael E. Mostochuk, CPA taught prospective new business owners how to prepare a Business Plan and a Banking & Financial Plan in a September 25th seminar presented by the Penn Suburban Chamber of Commerce.

Frances Sperling Feldbaum, CPA discussed Succession Planning as a panelist for the October 2nd Pyramid Club Business Connect event.

CONGRATULATIONS

Colleen E. Levin, CPA, was named a 2012-13 "Professional Woman of the Year" by the National Association of Professional Women (NAPW) VIP Division. This award recognizes Colleen's leadership and commitment to her profession.

Stephanie S. Sommers, CPA has joined the Board of Directors of the American Society of Women Accountants (ASWA), Philadelphia Chapter.

WELCOME

CPA Financial Group, LLC, welcomes Financial Services Representatives **Matthew W. Fishbone** and **Michael A. Marino.**

Please join St. Clair CPAs, PC, in welcoming the newest members of our team:

Glen Dymond, CPA, Senior Accountant

Christopher Green, CPA, Accounting Supervisor

Scott Pancari, Staff Accountant

Presented by

St. Clair CPA Solutions

and its subsidiaries

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Dear Clients and Friends

Expiring "Bush Tax Cuts" + New Health Care Legislation = Revisiting Your Planning Strategies

In our August issue, we introduced some of the Individual and Business Tax Provisions of the Patient Protection and Affordable Care Act (PPACA) and the Health Care and Education Reconciliation Act (HCERA), upheld by the Supreme Court on June 28, 2012. For example, beginning in 2013 there will be an expansion of the FICA payroll tax from 1.45% to 2.35%, as well as a new investment tax of 3.8% on net investment income, which generally includes unearned income, for certain high-income earners. This ruling confirmed that investors and their advisors should be preparing for upcoming tax changes that will become effective in 2013, 2014, and beyond.

Compounding the need for planning is the expiration of the "Bush Tax Cuts" on December 31, 2012, leading to these significant changes, among others:

- Top income tax rates will increase from 33% to 36% and from 35% to 39.6%.
- Top long-term capital gains tax rate will increase from 15% to 20%.
- Qualified dividends will no longer be taxed at 15%. Dividends will now be taxed at ordinary income tax rates.
- Itemized deductions will again be phased out by the lesser of (a) 3 percent of the excess of adjusted gross income over the applicable amount or (b) 80 percent of the amount of the itemized deductions otherwise allowable for such taxable year.
- Estate, gift, and generation-skipping transfer (GST) tax exemptions will be reduced from $5.12 million to $1 million and maximum transfer tax rates will increase from 35% to 55%.

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Philadelphia Business Journal Accounting Firms Top 25 2012

St. Clair CPA Solutions is proud to be recognized as #20 in the *Philadelphia Business Journal's* 2012 list of the region's **Top 25 Accounting Firms,** published in the September 14-20th issue. In an industry marked by consolidation, our firm has been locally owned and operated since 1986, and remains committed to delivering the exceptional service we have provided to our clients from our two offices in New Jersey and Pennsylvania for more than 25 years.

Quick Look: Fall Calendar of Events

FRIDAY, NOVEMBER 2
- Effective Nonprofit Collaborations

TUESDAY, NOVEMBER 13
- Technical Tax Instructions and Practical Business Solutions

THURSDAY, DECEMBER 4
- How to Prepare a Business Plan and a Banking and Financial Plan

THURSDAY, DECEMBER 13
- QuickBooks: How to Manage Your Business and Maximize Your Bottom Line

See Registration Information and Full Description of Events on Page 3!

28 South Centre Street • Merchantville, NJ 08109 • (P) 856.482.5600 • (F) 856.665.3618 ◆ 101 West Elm Street, Suite 500 • Conshohocken, PA 19428 • (P) 610.862.1998 • (F) 610.862.3200

Expiring "Bush Tax Cuts" + New Health Care Legislation = Revisiting Your Planning Strategies, cont.

What is the potential combined effect of the Bush tax cuts plus new Medicare taxes that apply to individuals above the thresholds?

This table illustrates the impact of coming changes:

Source of income	2012	2013		
	Maximum rates	Maximum rates	Total maximum tax rate if subject to additional 3.8% MC Tax	Total maximum tax rate if subject to additional 0.9% FICA-HI tax
Long-term capital gains	15%	20%	23.8%	NA
Qualified dividends	15%	39.6%	43.4%	NA
Ordinary income (excluding wages)	35%	39.6%	43.4%	NA
Wages (includes wage earner's 1.45% Medicare payroll tax)	36.45%	41.05%	NA	41.95%

Consider Planning Strategies

Facing a looming rise in taxes, high-income earners should discuss with their advisors various options to reduce their tax exposure. Consider those strategies that will lessen the impact of increased taxes by reducing an individual's net investment income while managing adjusted gross income at or below threshold levels. Furthermore, in anticipation of expiring tax cuts, consider accelerating income and capital gains (or, depending on the situation, deferring them), reducing taxable income, transferring net investment income, or deferring losses and deductions. Such strategies may include the following:

Accelerate Income and Capital Gains

- **Consider converting a Traditional IRA to a Roth IRA prior to year end.** Because the conversion is a taxable event, if you believe you may be affected by increased rates in 2013, consider converting before year-end. The benefits of Roth IRAs over traditional IRAs include no minimum distributions requirement, tax-free growth, and tax-free qualified distributions. Roth IRA distributions will not increase MAGI and are not considered net investment income, and for purposes of breaching the MAGI threshold and calculating the MC Tax, Roth IRA distributions will have no effect. Consider using taxable assets outside of the IRA that produce net investment income to pay taxes due upon conversion, as this may further reduce exposure to the MC Tax.
- **Individuals with nonqualified stock options** may consider exercising options and accelerating ordinary income in anticipation of higher rates next year.
- **If you have held an appreciated capital asset with substantial gain for more than a year,** consider selling the asset prior to December 31st to trigger the long-term capital gains tax at the present 15% rate, as opposed to next year's rate of 20%. If considering the sale of a business, or a home with built-in gain above the exemption amount (IRC Section 121 allows the exclusion of up to $250,000 for individuals or $500,000 for married couples filing jointly), consider closing on the sale in 2012 to lock in the current long-term capital gains rate. If subject to the MC Tax in 2013, delaying the sale of the asset would trigger an additional 3.8% surtax for a total tax of 23.8%, nearly 9% greater than today's rate.
- **Investors holding concentrated equity positions** may wish to diversify before Dec. 31, 2012, as delaying the sale of these positions, along with the subsequent rebalancing of your portfolio, may subject you to additional taxes in the future.
- **If you would like to take advantage of the current long-term capital gains rate** but do not wish to prematurely part with a particular security, consider selling the asset and immediately buying it back. Although the wash sale rules would apply if you were recognizing a loss, intentionally triggering a gain to take advantage of the current 15% rate will be respected (but note that this will establish a new cost basis).

Defer Income and Capital Gains

- **Distributions from IRAs and other qualified retirement plans are exempt from the MC Tax.** Shifting wages to retirement plans and making deductible IRA contributions (currently, annual contributions cannot exceed $5,000 ($6,000 for ages 50+) will assist in reducing MAGI below applicable threshold levels while providing tax-deferred growth, with the added benefit that future distributions will not be considered net investment income for purposes of calculating the MC Tax. However, such distributions could increase MAGI above threshold levels, possibly subjecting the taxpayer to the MC Tax.
- **Annuities allow for the tax-deferred accumulation of assets** while providing an option to receive either a lump sum or periodic payments beginning immediately or at some future date. All of the earnings grow free of federal, state, and local income taxes until payments are received. If you believe that you may be affected by the MC Tax, a tax-deferred annuity could allow you to defer a portion of your income until retirement or such time that your MAGI is less. With added control over future income streams, you can better manage net investment income and maintain MAGI below threshold levels.

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Fall Calendar of Events – Clients and Friends Welcome!

FRIDAY, NOV 2nd

◆ Effective Nonprofit Collaborations

a GPCC Nonprofit Series program sponsored by St. Clair CPA Solutions

8:00 AM to 8:30 AM – Registration
8:30 AM to 10:30 AM – Program
Greater Philadelphia Chamber of Commerce, DiBona Room,
200 South Broad Street, Suite 700,
Philadelphia, PA 19102.

This program is free to GPCC members; $35/pp for non-members. As seating is limited, advance registration and payment is required by November 1st.

Please register online here:
http://www.greaterphilachamber.com/event/3161/nonprofit-series-effective-nonprofit-collaborations

Nonprofits throughout Greater Philadelphia are increasingly recognizing the need for collaboration with other organizations that share similar interests. These unique partnerships not only provide support and knowledge, but are also helpful in reaching a larger audience. Join us as a panel of regional nonprofit leaders and experts discuss their unique collaborations with other nonprofits, funders, and the community. They will explore the opportunities and challenges behind these partnerships and mergers, and discuss their experiences in sharing outcomes, roles, responsibilities, resource allocations and much more.

TUESDAY, NOV 13th

◆ Technical Tax Instructions and Practical Business Solutions

presented by James F. Knight, CPA, Principal, St. Clair CPA Solutions.

12:00 to 1:30 pm – Program; includes Lunch.
Ground Floor Conference Room,
101 West Elm Street, Conshohocken, PA 19428

There is no charge for this Lunch 'n Learn program, but seating is limited.

Please RSVP to Kimberlee Via at 856-482-5600 or email kvia@stclaircpa.com.

Are you planning for prospective tax changes in 2013? Even in these uncertain times, there are steps you can take now to prepare for certain change. We invite you attend a complimentary Lunch 'n Learn so that you may better understand new laws and tax cuts, and prepare for the coming year. Bring your questions!

THURSDAY, DEC 4th

◆ How to Prepare a Business Plan and a Banking and Financial Plan

presented by Michael E. Mostochuk, CPA, Principal, St. Clair CPA Solutions

11:30 am – Registration and Networking;
12:00 to 1:30 pm – Program; includes Lunch.
Ground Floor Conference Room,
101 West Elm Street, Conshohocken, PA 19428

Join us for this valuable Business Connections program presented in cooperation with the Montgomery County Chamber of Commerce. $22 for MCCC members; $30 for non-members.

Please register online on the Calendar of Events page at www.montgomerycountychamber.org.

Why write a business and financial plan? What are the components of effective plans, and what are the common mistakes? A good business plan can help you determine if an idea is feasible and serve as an operational launch guide for management. A good financial plan tests your business model, identifies risks, and helps sell your proposal to prospective investors. This program will teach you what to include and which "12 Deadly Sins" to avoid in business and financial plans.

THURSDAY, DEC 13th

◆ QuickBooks: How to Manage Your Business and Maximize Your Bottom Line

presented by St. Clair CPA Solutions' own Intuit Certified QuickBooks ProAdvisors® Madeline G. Weinrebe, CPA and Linda A. Nitterauer, CPA.

12:00 to 1:30 pm – Program; includes Light Lunch.
Keller Williams Realty,
5th Floor, 1619 Walnut Street, Philadelphia, PA 19103

As space is limited, reservations and pre-payment are required. Clients, friends, and guests of St. Clair CPA Solutions may register for this Lunch 'n Learn program at the Member rate of just $10 per person.

Please register online on the EVENTS page at www.centercityproprietors.org.

Are you using QuickBooks® to your maximum advantage? Is your QuickBooks software customized to meet the needs of your business? Many businesses, and particularly new businesses, will buy QuickBooks, install it, and then waste time figuring out how to use it. Once businesses do get the software up and running, they don't always use it to its full potential. This workshop will give you practical information you can easily implement to realize immediate, bottom-line benefits from better time and financial management.

Expiring "Bush Tax Cuts" + New Health Care Legislation = Revisiting Your Planning Strategies, cont.

- **The cash surrender value within a permanent life insurance policy offers tax-deferred growth, free from current income tax and the MC Tax.** In the current market environment, finding investments that generate desired returns without significant risk is difficult. Life insurance, while often viewed as an alternative asset class, providing non-correlated returns, also may offer guarantees, liquidity and tax benefits, as well as the ability to invest in a guaranteed death benefit while growing cash value on a tax-deferred basis. Proceeds of the life insurance policy are free of income tax when paid to the beneficiary, and can also be structured to be free of estate tax.
- **Consider a 1031 exchange.** Under Internal Revenue Code Section 1031, the exchange of certain types of property may defer the recognition of capital gains or losses otherwise due upon a sale. To qualify for IRC Section 1031 treatment, the properties exchanged must be held for productive use in a trade or business or for investment purposes, and the properties must be of the same nature or character (the transaction is sometimes referred to as a "like-kind exchange"). If a transaction qualifies, then the gain on the initial property disposed of in the exchange (gain between initial purchase and exchange), plus any additional gain on the second property (received in the exchange) between receipt and eventual disposition, will be subject to tax upon the ultimate disposition of the second property. By deferring the capital gain and associated tax to a year when MAGI is otherwise low, exposure to the MC Tax may be minimized.
- **Consider installment sales.** If you are looking to sell capital gain assets in the future (as opposed to accelerating gains to 2012), but would benefit by distributing the gain out over multiple years in order to limit exposure to increased income tax rates and the MC Tax, an installment sale may be the solution. In an installment sale, payments are received over time limiting the amount of income received in any one particular year. This may prove advantageous if by doing so MAGI remains under threshold limits for purposes of calculating the MC Tax.

Reduce taxable income

- **Consider reallocating assets to municipal bonds**. The use of tax-free municipal bonds can minimize taxable income while reducing exposure to the MC Tax because the resulting income is not considered net investment income. But rebalancing your portfolio and reallocating assets to municipal bonds may trigger capital gains, so consider doing so before year-end at the current long-term capital gain rate. Before you make any investment decision, determine your MC Tax exposure and compare after-tax yields accordingly.
- **Consider growth investments.** When the Bush-era tax cuts expire on December 31, 2012, qualified dividends will no longer be taxed at the long-term capital gains rate. Instead, qualified dividends will be taxed at ordinary income tax levels upwards of 39.6%. Planning for the upcoming higher rates, some investors may consider shifting their portfolios from income-producing investments to growth investments. By investing in stocks that generate capital appreciation and provide little or no dividends, you may reduce your taxable income while deferring capital gains tax until you choose to sell your shares. At that time, in an effort to reduce the tax, capital losses may be used to offset capital gains.
- **Consider investing in tax-advantaged Master Limited Partnerships (MLPs).** MLPs are limited partnerships that are publicly traded on a securities exchange. Similar to purchasing stock in a corporation, MLPs allow you to purchase shares in a business structured as a partnership. In return, the MLP will typically pay you quarterly income distributions. However, as opposed to dividends paid on shares of corporate stock, the income distributed from a MLP is sometimes treated as a tax-free return of capital, without the double taxation associated with investment in a corporation. The income tax reporting associated with ownership in a MLP may be more complicated than that of corporate stock; however the added tax advantages and potential returns make them attractive. MLPs may become more attractive to investors in response to rising taxes in 2013.

Transfer net investment income

- **Consider Gifts to Individuals.** There are many factors to consider when gifting assets to another individual, including how much to give, what the potential gift taxes may be, and which asset to choose for gifting. If you have decided to make a gift, consider giving an asset that produces net investment income. By gifting this type of asset, you can reduce the risk that you will be subject to the MC Tax because you are giving any potential net investment income to the recipient of the gift. Before making the gift, consider discussing the potential impact of the gift on the donee's tax situation, as by making a gift of net investment income, the donee may be subject to a tax they would have otherwise avoided. This strategy also makes use of the lifetime gift tax exemption (at a historical high of $5.12 million) which may decrease dramatically in 2013.
- **Charitable gifts made with assets that produce net investment income** may reduce exposure to the MC Tax.

Defer losses and deductions

- **Consider deferring losses and deductions until next year when rates are higher.** Consult with your tax advisor to understand the ramifications of deferring losses and deductions. With the expiration of the Bush tax cuts, itemized deductions will again be phased out for higher-income taxpayers by the lesser of 3% of the excess of adjusted gross income over an "applicable amount" or 80% of the total itemized deductions allowable. Thus, although deferring certain deductions from a year with a lower tax rate to a year with a potentially higher tax rate may seem like an obvious strategy, it may not be the best strategy due to the phase-out of itemized deductions for high-income earners.

The timing of these collective tax changes presents an urgent need for investors to revisit their financial plans and work with their advisors to implement planning strategies before January 1, 2013. Any change in your investment strategy should be carefully considered with your tax advisor to ensure proper alignment with your long-term investment objectives and overall financial plan. Please call us today to discuss an adaptive investment plan that is consistent with your tax situation and financial goals.

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