



The Fiscal Cliff and Your Taxes

In a few weeks, if Congress doesn't take action, the favorable tax laws U.S. taxpayers have enjoyed for more than a decade are scheduled to expire.

Estate Tax

The current estate tax exemption of \$5.12 million may change at the end of 2012 and be reduced to \$1 million. To take advantage of the opportunities that the current tax law provides, which could potentially add up to significant estate tax savings, contact your Idaho Trust Private Banker for a complimentary estate plan review.

Gift Tax

The rules for gifting may also change in 2013. In 2012, the annual gift tax exclusion is \$13,000 per person during the calendar year. This exclusion may go to \$14,000 in 2013. The lifetime gift tax exclusion in 2012 is \$5.12 million, which means this year \$5.12 million can be gifted without gift taxes. This is a great opportunity for gifting that may not be available next year as the lifetime gift tax exclusion may drop back to \$1 million in 2013. Establishing an Irrevocable Gift Trust is an excellent way to use the current gift tax exclusion while providing asset protection for loved ones. Idaho Trust acts as Trustee of such trusts and can assist in establishing an Irrevocable Gift Trust as part of your estate plan.

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Capital Gains Tax

Currently, long-term capital gains and certain dividend payments are taxed at lower rates than income, which now is as high as 35%. Most taxpayers pay capital gains taxes at the 15% rate, taxpayers in the 10% and 15% brackets are not taxed on their gains. However, if the current lower rates expire, the capital gains rates will go to 20% for most investors and 10% for those in the 15% tax bracket. Dividends may lose their favorable tax treatment entirely. These payments could return to being taxed as ordinary income, meaning that taxpayers with earnings in the highest income tax bracket in 2013 could pay taxes on dividends at the proposed top 39.6% income tax rate. Given the capital gains tax rate is likely to increase next year, many tax advisers are recommending their clients realize capital gains this year. Idaho Trust can harvest long-term capital gains this year to lock in the favorable 15% tax rate.

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New Investment Tax

A provision in the health care reform law will take effect next year introducing a new investment tax. This new 3.8% surtax will apply to capital gains, dividends and interest income for those married couples earning more than \$250,000 or for individuals earning more than \$200,000. The new investment tax is expected to push more investors into tax-exempt securities and tax advantaged investment vehicles like IRAs, Roth IRAs, 401(K)s and defined benefit plans which are all exempt from the tax. Idaho Trust Bank offers a full array of tax sheltered accounts including retirement accounts.

If you have questions about the tax law changes and how they may impact you, please contact your Idaho Trust Bank Private Banker. We are here for you!

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