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Plan Now for 2013 Tax Increases, Says CPA Rob Trammell

San Jose, Calif. – February 27, 2012 – "Many tax rates are set to increase in 2013," says Rob Trammell, a principal at the Silicon Valley accounting firm of Abbott, Stringham & Lynch. "This means taxpayers will want to plan now, and monitor that plan to ensure they take appropriate action throughout 2012 before tax rates increase next year." Trammell says if you wait until next tax season when you file your 2012 return to assess, plan and take action, it may be too late to fully enhance your tax position. Trammell says the scheduled 2013 rate increases include the tax rate on ordinary income, additional tax on investment income for high-income individuals, and long-term capital gains tax rates, "As you consider the impact of these increases, one of the questions you'll want to ask yourself is does it make sense for me to accelerate income into 2012."

Increased rate on ordinary income. "The highest ordinary income tax rates will increase to 39.6% from the current 35%," says Trammell. "As you ask yourself does it make sense for me to accelerate income, you may want to consider, for example, exercising stock options, which generate ordinary income. As another example, if your employer is due to pay you a bonus in 2013, you may want to see if they'd be willing to pay you that bonus in 2012 instead."

Additional tax on investment income. Trammell says that, for high-income individuals, there will be an additional tax, the Medicare Tax, of 3.8% imposed on either net investment income or modified adjusted gross income (AGI), depending upon which is less. Net investment income is defined as unearned income, which includes interest, dividends, royalties, annuities, and rents. Modified AGI is only subject to the tax by the amount it exceeds the following floors: $250,000 for joint filers and surviving spouses, $125,000 for a married taxpayer filing separately, and $200,000 in most other cases with a few exceptions.

"There are strategies that can be developed to minimize your tax liability, such as using deferred annuities, municipal bonds, or pension contributions to keep modified AGI below the threshold or by maximizing Roth IRA distributions or minimizing limited partnership income to reduce net investment income," says Trammell.

Increased long-term capital gains rates. "Long-term capital gains rates are scheduled to increase from 15% to 20% in 2013," says Trammell. In preparation for these changes, Trammell suggests reviewing your stock portfolios, real estate holdings, and other investments to determine if a sale in 2012 is appropriate, yet, he cautions against hidden costs of installment sales, "For example, if I have property that I'm planning to sell in 2012 to a buyer that wants to pay with an installment note, the installment I receive in 2012 will be taxed at a capital gains rate that is 5% lower than the rate I'll be taxed at in 2013 and beyond. With planning, I can account for this in my agreement with the buyer and charge a higher price to compensate for the higher tax rate in subsequent years. Otherwise, I could net less than expected."

According to Trammell, everyone has a unique set of circumstances, so you should seek advice from your CPA. “While your tax plan is unique to you, the need to conduct tax planning is not. When you meet with your CPA about your 2011 taxes, start planning for the higher tax rates you may see in 2013.”

About Abbott, Stringham & Lynch (ASL)

Abbott, Stringham & Lynch (ASL), founded in 1977, is one of the leading CPA firms in the Silicon Valley. ASL provides emerging and mid-market private companies and their executives with accounting and audit, tax, estate and wealth planning, and consulting services. ASL’s clients include construction, technology, and real estate businesses among others. ASL is a member of PKF North America, a network of independent CPA firms.