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## 2012: A LOOK AHEAD AT MAJOR TAX CHANGES

This year sees the continuation of uncertainty around several major tax provisions. Although it is too early to know what will happen with these regulations, there are certain steps taxpayers can take now to prepare for the future.

### Changes in Deductions

If you have been keeping up with HBK's e-alerts, you know there have been a few significant changes to deductions for 2012, including:

- Reduced bonus depreciation allowance: For qualified property acquired and placed in service after 2011 and before 2013 a 50% (down from 100%) bonus first-year depreciation allowance applies under Code Sec. 168(k).
- Reduced 179 expensing. For a tax year beginning in 2012, the Code Sec. 179 expensing election is reduced to \$139,000, with a \$560,000 investment-based ceiling (down from \$500,000/\$2 million).

While some other credits and deductions have expired or been indexed for annual inflation, not much has changed relative to the individual tax brackets going into 2012. However, the end of 2012 could bring major changes.

### Expiration of Bush Era Tax Cuts (Again)

Congress must again decide at the end of 2012 whether to extend the Bush tax cuts, which lowered individual tax rates and set qualified dividend and capital gains rates at 15%. If they are allowed to expire, dividends will again be taxed at your marginal tax rate, and capital gains will go to 20%. At the same time, the 10% tax bracket will disappear, making 15% the lowest bracket. All other tax brackets will also increase making the highest individual rate jump from 35% to 39.6%.

### High Income Earners get Higher Taxes in 2013

Beginning in 2013, higher income earners are going to get hit with significant changes to their taxes. First, there will be a 3.8% tax in 2013 on investment income such as interest, dividends, and capital gains, and a 0.9% increase in the Medicare payroll tax on wages for

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those couples earning more than \$250,000 and for individuals making at least \$200,000. Additionally, if the Bush tax cuts expire at the end of 2012 those same higher earners could have their income tax rates increase to 39.6 % from the current rate of 35 %. This may be one of those unusual years in which you want to include income rather than defer into 2013.

### Stock Basis Reporting

This year you will notice the 1099-B from your investment broker contains cost basis information reported to the IRS on covered equities sold in 2011. New requirements now mandate that custodians, brokers, transfer agents and other reporting entities report the adjusted cost basis of sold securities, including whether the gain or loss is short- or long-term, to the IRS. You have probably noticed that some brokers have reported cost basis to you on sales before, but these amounts were not required to be reported to the IRS until 2011.

Starting January 1, 2012, this same requirement will apply for mutual funds, dividend reinvestment plans (DRIPs) and some exchange-traded funds (ETFs) acquired after that date. For the first time, investors need to consider the tax consequences of a trade at the time of the trade because cost basis methods cannot be changed after the trade settles.

### Estate Tax Uncertainty

The fate of the estate tax continues to be a big uncertainty. Right now, we know that the estate tax, gift tax and generation skipping transfer tax exemptions have been indexed for inflation to \$5.12 million. However, after 2012, the rules will revert back to a \$1 million exemption, unless Congress acts to change the regulations. If you have considered estate tax planning, this is the year to take action.

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