Great outcomes. Done well.

What Does the Supreme Court's Health Care Ruling Mean for Your Taxes?

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Most investors were made aware of the potential tax implications of President Obama's Patient Protection and Affordable Care Act when it first passed in 2010, but many have been waiting to see if the law would withstand judicial challenges to its constitutionality before taking steps to plan for the changes. If you were among those waiting, you don't have much time left to plan for the tax impact now that the law has been upheld by the U.S. Supreme Court.

As closely watched as the Supreme Court's health care decision has been, there are potentially even larger tax increases on tap for 2013.

What You Should Know:

1. Investment and income taxes are going up next year.

Many of the provisions of the Health Care Act are funded through a variety of income tax increases, most of which will take effect in 2013. For married couples with an Adjusted Gross Income of more than $250,000 ($200,000 for singles), these changes will include:

- An additional 3.8% Medicare tax, which applies to interest, dividends and capital gains as well as income from annuities, rental properties, royalties or a passive trade or business.
- A 0.9% increase in the Medicare tax on earned income.

2. Deductible health expenses are changing as well.

Other changes limit the amount of medical expenses taxpayers can deduct for federal income tax purposes or the amount they can save to pay for future expenses:

- Medical expenses must exceed 10% of AGI to be deductible in 2013 (the current threshold is 7.5%).
- Pre-tax contributions to qualified Health Flexible Spending Accounts will be capped at $2,500 per person next year (employers typically limit them to $5,000).

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3. Non-related tax changes could lead to larger increases.

As closely watched as the Supreme Court's health care decision has been, there are potentially even larger tax increases on tap for 2013:

- The Bush-era tax cuts are set to expire at the end of 2012, which could increase rates for all taxpayers.
- The phaseout of itemized deductions for higher-income taxpayers, which was suspended for two years in 2010, is set to resume next year. This could raise taxpayers' marginal rates by as much as 3%.
- The federal estate tax exemption, currently at now $5 million, is set to drop to $1 million in 2013. This coincides with an increase in the top estate tax rate from 35% to 55%.

What you should do now:

While tax policy should never be the primary driver for your investment decisions, there are certainly opportunities to plan and take action within your portfolio to help mitigate the potential impact of these new taxes. For example, if you've been considering recognizing substantial capital gains from your investments, doing so before the end of this year could help you avoid an additional 3.8% tax. Or, if you have stock options as part of your employment compensation package, you might find them less expensive to exercise this year than next.

However, any decision regarding accelerated income or changes to your portfolio is going to require careful consideration in light of your long-term plans. We recommend you discuss and evaluate your options for 2012 tax planning with your trusted Financial Advisor and tax professional while you still have time.