Great outcomes. Done well.

Is your portfolio tax smart?

Wealth Management Insights October 2013

When Congress passed the fiscal cliff deal last January, it provided U.S. taxpayers the clarity needed to make lasting, forward-thinking investment plans. As 2013 draws to a close, you may find it worthwhile to review those policy changes and ensure your investment portfolio is as tax-efficient as possible heading into the new year.

Some high-earners were hit with a new marginal income tax rate and higher short- and long-term capital gains rates.

What You Should Know:

1. What's new

- The alternative minimum tax has been permanently patched and adjusted for inflation, sparing an estimated 28 million Americans from a "second" income tax.
- Individuals with a Modified Adjusted Gross Income over $200,000 pay a new 3.8% Medicare surcharge on their net investment income.
- Individuals with a MAGI over $250,000 have seen their personal exemptions and itemized deductions reduced.
- The estate tax exemption was increased to $5.25 million, and the estate tax rate has been increased to 40%.

2. What stayed the same

- Many tax relief provisions remain in effect, such as "marriage penalty" relief, the Child Tax Credit, the American Opportunity Tax Credit and the Earned Income Tax Credit.
- Interest from qualifying municipal bonds remains free of federal income taxes.
- The 0% and 15% long-term capital gain rates remain in place, although a new 20% rate applies to high-income taxpayers.
- Qualified dividends continue to be taxed at those capital gains rates instead of as ordinary income. ▶

3. Other considerations

- If your employer gives you the option, consider converting your 401(k) into a Roth 401(k). Although the amount converted would be taxed at 2013 rates, any subsequent appreciation can be withdrawn tax-free during retirement.
- Use capital losses to offset capital gains. Remember, wash-sale rules stipulate that if you sell a stock to take a tax loss, you need to wait 30 days before buying the same or a "substantially identical" stock.
- IRA owners continue to be able to make charitable gifts directly from an IRA and have it count toward their required minimum distributions through 2013.

2012 vs. 2013 Federal Tax Rates

Taxable Income (filing jointly | filing singly)	2012 rate	2013 rate
Ordinary income and short-term capital gains*		
$0–$17,850 | $0–$8,925	10%	10%
$17,851–$72,500 | $8,926–$36,250	15%	15%
$72,501–$146,400 | $36,251–$87,850	25%	25%
$146,401–$223,050 | $87,851–$183,250	28%	28%
$223,051–$398,350 | $183,251–$398,350	33%	33%
$398,351–$450,000 | $398,351–$400,000	35%	35%
$450,001+ | $400,001+	35%	39.6%
Long-term capital gains		
$0–$72,500 | $0–$36,250	0%	0%
$72,501–$450,000 | $36,251–$400,000	15%	15%
$450,001+ | $400,001+	15%	20%

Income ranges are inflation-adjusted for 2013.

Although federal tax rates stayed the same for much of the country, those earning more than $400,000 ($450,000 for couples) were hit with a new marginal income tax rate and higher long-term capital gains rates.

What you should do now:

Although taxes should not be the primary driver behind your investment decisions, maximizing your portfolio's tax efficiency could make a big difference in what you owe Uncle Sam next April. Your financial advisor can work with you and your tax professional to help make sure your portfolio is both tax-smart and in line with your goals. ■