Great outcomes. Done well.

Are you ready for tax season?

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The complex and often shifting nature of tax laws can make planning difficult. However, with a presidential election approaching and the threat of a "fiscal cliff" looming over year-end, taking a thoughtful approach to your taxes could be even more important this year.

Capital losses of more than $3,000 in 2011 can be used to offset 2012 gains.

What You Should Know:

1. Big changes are already on the horizon.

There are already major tax changes in motion. Unless Congress can agree on new rules or extensions for existing provisions before year-end:

- More than 30 million taxpayers could be subject to the Alternative Minimum Tax, increasing the amount they owe in 2012 unless the expired "AMT patch" is extended retroactively to the beginning of this year.
- The Bush-era tax cuts, extended in 2010, are set to expire at the end of 2012 – something that could result in higher rates for taxpayers in all income brackets starting next year.
- The $5 million exemptions for estate, lifetime gift and generation-skipping taxes will drop to $1 million in 2013. Meanwhile the top tax rate on gifts and estates would increase from 35% to 55%

2. A strong market finish could complicate things further.

At the end of September, the S&P 500 was up more than 14% from 2011. If the market stays at or near its current level, sales of appreciated positions will result in larger realized gains. But keep in mind:

- The capital gains tax rate is set to jump from 15% to as high as 23.8% next year, which might make it more attractive to realize those gains now.

- If you had net capital losses in 2011 of more than $3,000, those excess losses can be used to offset 2012 gains.
- You can donate highly appreciated stocks to charity and avoid paying tax on those gains.

3. There are other ways to defray current or future tax liabilities.

In any tax year, there are strategies that could have near- or long-term tax benefits and can help you achieve other financial goals:

- Contributions to a child's 529 education savings plan can provide future tax-free growth. Gifting rules allow contributions of up to $13,000, although you can make five years' worth of gifts at one time.
- You have until April 17, 2013, to contribute up to $5,000 to an IRA ($6,000 if you are over age 50) and realize the potential tax savings on your 2012 tax return.
- You may want to consider converting your traditional IRA to a Roth in 2012 if you anticipate that you will be in a higher tax bracket in the future.

What you should do now:

No one can predict with certainty what the future tax landscape might look like. And ultimately taxes should not be the sole or primary motivating factor behind any investment decision you make. We recommend you contact your Financial Advisor and tax professional to make contingency plans now so you aren't forced to react quickly later. ■