

## Tax Planning for Year End

Despite numerous attempts initiated by Republicans, Democrats and even the newly formed Super Committee, 2011 will likely close void of the long-term strategies required to relieve the federal deficit. As a result, tax planning is arguably more confusing now than it was in January of this year. Similar to where we stood in December 2010, important tax and spending decisions remain unresolved and have short- and long-term income tax and estate planning implications.

With this, Glenmede advises investors **to take advantage of applicable tax strategies while possible, avoiding potentially regrettable actions should income or estate tax rates rise (or fall).**

### Personal Income Tax Strategies for Year End

The following elements of the 2010 Tax Act are scheduled to sunset on December 31, 2011:

- The ability by persons age 70 ½ and older to make non-taxable distributions of up to \$100,000 directly from an IRA to a charity.
- An itemized deduction from federal income tax for state sales tax paid (available in lieu of the deduction for state income taxes paid).
- Relief from the imposition of Alternative Minimum Tax (AMT) for middle-class taxpayers. Currently, income exempt from AMT is \$48,450 and \$74,450 for single and married taxpayers, respectively. These exemption amounts will drop to \$33,750 and \$45,000, respectively, subjecting an additional 15 million Americans to AMT in 2012.
- Availability of an income tax credit for the purchase of energy-saving renovations and appliances.
- The decrease of personal Social Security contributions from 6.2 percent to 4.2 percent of earned income.

Of these, only one, the decrease in the personal contribution to Social Security wage tax, is currently being recommended by the Obama administration to Congress for reinstatement.

## December 2011 – Special Action Items

If you are over age 70 ½ and charitably inclined, make non-taxable charitable gifts of up to \$100,000 from your IRA.

If you live in a state without income tax, complete large asset purchases (e.g., a car or boat) before year end in order to deduct the sales tax. This may also be tax efficient for taxpayers living in states with an income tax who have a modest amount of taxable income.

Consider accelerating earned income into 2011, if possible, to save the payment of 2 percent Social Security tax, but be careful of possible negative tax consequences (e.g., being pushed into the next tax bracket).

Accelerating an expense or deferring an item of income for regular income tax purposes may trigger Alternative Minimum Tax (AMT) and diminish any regular income tax advantage. The amount of income exempt from AMT will fall in 2012 (absent extender legislation) and more of your income previously sheltered by deductions may become subject to AMT. If you are in AMT, explore with your income tax preparer whether you should take any special action this year to make next year less painful.

Take advantage of the \$500 Nonbusiness Energy Property Credit by purchasing and installing qualifying energy-saving doors, windows, roofs, heating, air-conditioning and water heaters by January 1, 2012.

## Annual Year-End Personal Income Tax – Action Items

Fully utilize the \$13,000 annual exclusion (per donee) to make personal gifts.

Harvest capital losses to offset current year capital gains (although, if capital gains rates rise, those tax losses may be more valuable later).

Make charitable gifts from low-basis securities owned for more than one year.

Convert Traditional IRAs to Roth IRAs, particularly if retirement is far off, you do not plan to use the assets for support in your later years or if your 2011 income will be taxed at a low rate.

## Year-End Estate and Gift Tax Planning

Thankfully, we are not currently facing any major changes in estate and gift tax in 2012 — a gift in and of itself as investors and their advisors are still reconciling the chaos created by the December 2010 changes! As with all areas of tax law, estate and gift tax causes a great deal of disagreement among political parties. Active tax proposals run the full gamut — from complete elimination of the estate tax to tight stricture around the perceived loopholes in the current system. Independently, absent legislative change, on January 1, 2013, gift and estate tax will return to the onerous level of 55 percent on assets in excess of \$1,000,000.

This suggests that investors would be wise to promptly take advantage of the current amounts excludable from gift and estate tax (\$5,120,000 per person in 2012). Current gifts using the exclusion amount can transfer assets (and the growth on those assets) to beneficiaries now, without the imposition of tax. Direct outright gifts to beneficiaries — and gifts in trust addressing long-term needs — are particularly well-suited for current action.

Financial planning is the key to gift planning. For most of us, we cannot comfortably make gifts and fully use the \$5,000,000 exclusion amount until we know we have sufficient assets to support the remainder of our own lives. Glenmede is available to work with you to conduct a thorough analysis of your personal long-term cash needs, helping you to determine when and how you may make gifts to your beneficiaries.

We encourage you to work with your Relationship Manager to build the underpinnings from which you can form sound decisions in order to make the most of the current favorable gift and estate tax planning environment.

## Income Tax under the 2010 Tax Act

	2011 & 2012 with Tax Relief Act	2013
Highest marginal tax rate	35%	39.6%*
Qualified Dividends	15%	39.6%*
Long-Term Capital Gains	15%	20%*
Decreased personal contribution to Social Security from 6.2% to 4.2% of earned income	Only 2011	No
AMT Relief	Only 2011	No
Non-taxable IRA distributions to charity (max \$100,000)	Only 2011	No
Deductions for state sales tax	Only 2011	No
Enhanced deductions for business capital investments and extension of research & development credits	Yes, 2011 Limited, 2012	No

\*In 2013 an additional 3.8% Medicare surcharge will be imposed on the "net investment income" (dividends, interest, capital gains, etc.) of "high income" persons (married persons with more than \$250,000 joint adjusted gross income and trusts with more than \$11,200 adjusted gross income).

## Estate and Gift Tax under the 2010 Tax Act

	2011 & 2012	2013
Estate Tax Exemption	\$5,000,000/ \$5,120,000	\$1,000,000
Estate Tax Rate	35%	55%
Gift Tax Exemption	\$5,000,000/ \$5,120,000	\$1,000,000
Gift Tax Rate	35%	55%
Generation Skipping Exemption	\$5,000,000/ \$5,120,000	\$1,000,000
Generation Skipping Tax Rate	35%	55%

Glenmede **Year-End Tax Planning** is intended to be an unconstrained review of tax and estate planning issues and topics of possible interest to Glenmede's clients and is not intended to be applicable to any one particular client. To ensure compliance with requirements imposed by the IRS, we inform you that the federal tax advice (if any) contained in this communication (including any attachments) is not intended or written to be used, and cannot be used, for the purpose of (i) avoiding penalties under the Internal Revenue Code or (ii) promoting, marketing or recommending to another party any transaction or matter addressed herein.

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