FISCAL CLIFF AVOIDED – *NOW WHAT?*

On New Year's Day 2013, Congress passed the latest version of the American Taxpayer Relief Act, or ATRA. The president signed it into law a short time later. Some say these actions helped America avoid going over the Fiscal Cliff, but what actually happened?

While the so-called Fiscal Cliff was avoided, the new legislation leaves some Americans still facing higher taxes. More changes may lie ahead as lawmakers continue to debate impending spending cuts and the possibility of raising the debt ceiling. Let's take a look at what the current changes mean for you. The passage of ATRA:

- **Makes middle-class tax cuts permanent.** 2001 and 2003 legislation had provided a temporary reprieve.
- **Raises the highest marginal income tax rates for high income taxpayers** (single with taxable income of $400,000 and $450,000 for married filing jointly) in 2013 from 35 percent to 39.6 percent.
- **Requires high-income taxpayers to pay 20 percent on qualified dividends and capital gains.** Single taxpayers with taxable income less than $400,000 and married filing jointly taxpayers with taxable income of less than $450,000 will continue to pay 15 percent on qualified dividends and capital gains.
- **Increases the estate tax rate to 40 percent, from 35 percent** (for estates of people who pass away after 2012), with an exemption of $5 million for individuals and $10 million for couples. It will be indexed to inflation.
- **Ends the payroll tax holiday**, returning Social Security withholding tax for employees to 6.2 percent. The level for the past two years had been 4.2 percent.
- **Extends federal unemployment benefits through 2013** – good news for people unemployed for more than 26 weeks.
- **Makes the $1,000, child tax credit permanent,** however, certain refundable provisions of the child tax credit are only extended until 2018.
- **Permits employers sponsoring a 401(k), 403(b), or governmental 457 plan with a Roth feature to offer an in-plan Roth conversion option**, regardless of whether an employee is eligible to take a distribution from the plan.
- **Makes permanent the Alternative Minimum Tax (AMT) patch that increased the AMT exemption limit.** The AMT exemption limit will be indexed to inflation.

These are just some of the changes brought about by the Fiscal Cliff legislation. You can get more details on the legislation at: http://www.finance.senate.gov/legislation/details/?id=acd8d505-5056-a032-5213-d4c3ac0bb7b0. There you can find a summary prepared by the Senate's Joint Committee on Taxation.

A word of caution about "Permanent"

Many of the provisions of ATRA are considered "permanent" enactments. A "permanent" provision does NOT guarantee it will never change. It only means that the provision will not expire unless Congress acts to change it.

Stay focused on your financial goals

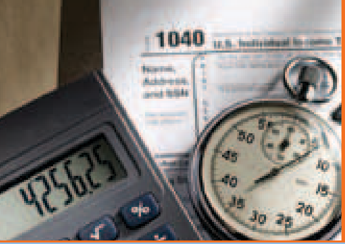
When world and national events consume our attention the way the Fiscal Cliff has, we sometimes lose focus on what is really important in our own lives. That, of course, is taking care of ourselves and our families, and preparing for our own futures.

So no matter what Congress does next, keep your eye on your own planning goals, including getting your financial house in shape and saving for retirement. That means working the basics. If you haven't taken these steps yet, consider starting here:

- **Max out your contributions to your employer-sponsored retirement plan,** whether that's a 401(k), 403(b) and/or 457(b).
- **Take advantage of the catch-up contributions** that allow people 50 or older to invest more than the IRS-permitted, annual contribution if your plan offers it.
- **Eliminate high-interest debt** and do not carry a balance on your credit cards.
- **Create an emergency fund** to cover six months of expenses.
- **Invest in a traditional IRA or Roth IRA.**

Beyond that, use your financial common sense. Understand dollar cost averaging; take steps to help maximize your retirement savings; and revisit, review and rebalance* your investments periodically.

* Rebalancing may be a taxable event. Before you take any specific action, be sure to consult with your tax professional.



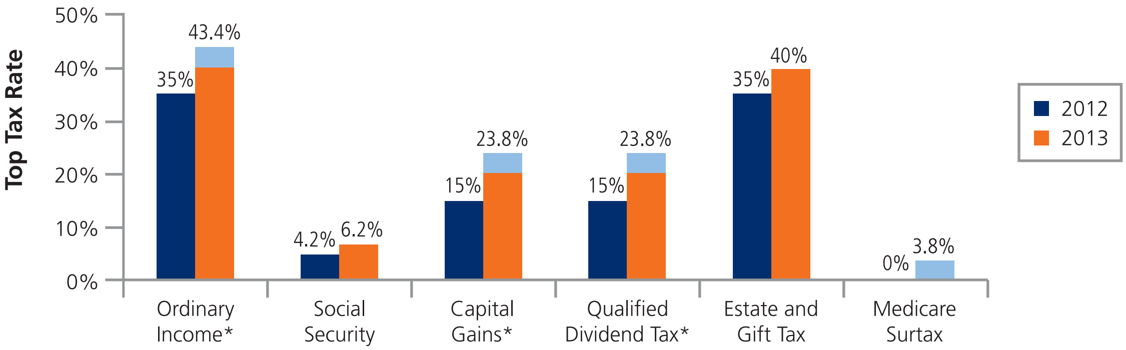
2012-2013 Tax Comparison

You probably heard a lot recently about the nation's "fiscal cliff." It was averted when Congress passed a law on January 1, 2013. Most individuals will notice little change in income tax rates from 2012. However, high income individuals will see taxes increase.

The nuts and bolts

Current U.S. income tax rates were passed under the Bush administration and extended by the Obama administration under the Tax Relief, Unemployment Insurance Reauthorization and Job Creation Act of 2010 (Tax Relief Act). The tax rates were made permanent by the American Tax Relief Act of 2012 (ATRA). ATRA also created a 39.6 percent income tax bracket for high income tax earners, and increased the maximum estate tax rate to 40 percent. The reduction in the Social Security tax was not extended into 2013. Here is how the 2012 and 2013 tax rates compare:

Tax Rate Changes



***Includes 3.8% Medicare Surtax**

Federal Tax on Capital Gains and Dividends							
2012				2013			
Tax Bracket	Short term Capital gain	Long term Capital gains	Qualified dividends	Tax Bracket	Short term Capital gain	Long term Capital gains	Qualified dividends
10%	10%	0%	0%	10%	10%	0%	0%
15%	15%	0%	0%	15%	15%	0%	0%
25%	25%	15%	15%	25%	25%	15%	15%
28%	28%	15%	15%	28%	28%	15%	15%
33%	33%	15%	15%	33%	33%**	20%**	20%**
35%	35%	15%	15%	35%	38.8%*	23.8%*	23.8%*
				39.6%	43.4%*	23.8%*	23.8%*

*Includes 3.8% Medicare Surtax.
**Medicare surtax may apply to some investment income to those in the 33% tax marginal bracket

Social Security Tax
2012 employee portion 4.2%
2013 employee portion 6.2%

Federal Estate and Generation Skipping Transfer Tax		
	Exempt amount	Maximum Rate
2012	$5,120,000	35%
2013	$5,250,000	40%

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How 2012 compares to 2013

2012 Tax Rates					2013 Tax Rates				
Taxable Income				Of the amount over	Taxable Income				Of the amount over
Over	but not over	tax +	% on Excess		Over	but not over	tax +	% on Excess	
Single Filer					**Single Filer**				
$0	$8,700	$0.00	10%	$0	$0	$8,925	$0.00	10.0%	$0
$8,700	$35,350	$870.00	15%	$8,700	$8,925	$36,250	$892.50	15.0%	$8,925
$35,350	$85,650	$4,867.50	25%	$35,350	$36,250	$87,850	$4,991.25	25.0%	$36,250
$85,650	$178,650	$17,442.50	28%	$85,650	$87,850	$183,250	$17,891.25	28.0%	$87,850
$178,650	$388,350	$43,482.50	33%	$178,650	$183,250	$398,350	$44,603.25	33.0%	$183,250
$388,350	∞	$112,683.50	35%	$388,350	$398,350	$400,000	$115,586.25	35.0%	$398,350
					$400,000	∞	$116,163.75	39.6%	$400,000
Married Filing Jointly					**Married Filing Jointly**				
$0	$17,400	$0.00	10%	$0	$0	$17,850	$0.00	10.0%	$0
$17,400	$70,700	$1,740.00	15%	$17,400	$17,850	$72,500	$1,785.00	15.0%	$17,850
$70,700	$142,700	$9,735.00	25%	$70,700	$72,500	$146,400	$9,982.50	25.0%	$72,500
$142,700	$217,450	$27,735.00	28%	$142,700	$146,400	$223,050	$28,457.50	28.0%	$146,400
$217,450	$388,350	$48,665.00	33%	$217,450	$223,050	$398,350	$49,919.50	33.0%	$223,050
$388,350	∞	$105,062.00	35%	$388,350	$398,350	$450,000	$107,768.50	35.0%	$398,350
					$450,000	∞	$125,846.00	39.6%	$450,000
Head of Household					**Head of Household**				
$0	$12,400	$0.00	10%	$0	$0	$12,750	$0.00	10.0%	$0
$12,400	$47,350	$1,240.00	15%	$12,400	$12,750	$48,600	$1,275.00	15.0%	$12,750
$47,350	$112,300	$6,482.50	25%	$47,350	$48,600	$125,450	$6,652.50	25.0%	$48,600
$112,300	$198,050	$25,220.00	28%	$112,300	$125,450	$203,150	$25,865.00	28.0%	$125,450
$198,050	$338,350	$46,430.00	33%	$198,050	$203,150	$398,350	$47,621.00	33.0%	$203,150
$338,350	∞	$109,229.00	35%	$338,350	$398,350	$425,000	$112,037.00	35.0%	$398,350
					$425,000	∞	$121,364.50	39.6%	$425,000