2013 YEAR-END INCOME TAX PLANNING FOR INDIVIDUALS

INTRODUCTION

As the end of 2013 approaches, it's time to consider planning moves that could reduce your 2013 taxes. Year-end planning is particularly important given the rapid pace of tax law changes and the extensive list of current tax breaks scheduled to ***expire at the end of 2013.*** In addition, there are several 2013 law changes providing new tax saving opportunities as well as the many "time-tested" tax saving techniques that continue to apply.

We are sending you this letter to remind you of the *traditional* year-end tax planning strategies that help lower your taxable income and postpone the payment of your taxes to later years. In this letter, we also highlight new tax planning opportunities available to individuals because of recent law changes. **Planning Alert!** Since many tax breaks are currently scheduled to ***expire after 2013,*** it is extremely important that you act timely to obtain maximum benefits! **Tax Tip.** Many of the recent tax changes impacting your 2013 income tax liability are dependent on the amount of your adjusted gross income, modified adjusted gross income, or taxable income. We highlight these income thresholds prominently in this newsletter.

To help you locate items of interest, we have divided planning ideas into the following topics:

- Tax Breaks Expiring After 2013
- New Taxes And Tax Rates Impact Year-End Planning
- Tax Planning For Investment Income
- Postponing Taxable Income
- Taking Advantage Of Deductions
- Miscellaneous Year-End Opportunities

Caution! Tax planning strategies suggested in this letter may subject you to the alternative minimum tax (AMT). For example, many deductions are not allowed for AMT purposes, such as: personal exemptions, the standard deduction, state and local income taxes, and real estate taxes. Also, the AMT can be triggered by taking large capital gains, having high levels of dividend income, or exercising incentive stock options. Therefore, **we suggest that you call our firm before implementing any tax planning technique discussed in this letter.** You cannot properly evaluate a particular planning strategy without calculating your overall tax liability (including the AMT and any state income tax) with and without that strategy. **Please Note!** This letter contains ideas for Federal income tax planning only. **State income tax issues are not addressed.**

TAX BREAKS EXPIRING AFTER 2013

A host of current tax breaks for individual taxpayers are scheduled to expire at the ***end of 2013,*** unless Congress extends these provisions. **Caution!** Although Congress has traditionally extended a majority of expiring tax breaks in the past, there is no guarantee that it will do so in the future. **Tax Tip.** Regardless of how Congress ultimately addresses these expiring tax breaks, there are real tax savings available if you take advantage of these provisions ***before the end of 2013.*** The following are some of the more popular tax breaks that we have enjoyed over the past several years, but are ***currently scheduled to expire after 2013*****:** School Teachers' Deduction (Up to $250) for Certain School Supplies; Deduction for State and Local Sales Taxes; Deduction (Up to $4,000) for Qualified Higher Education Expenses; Qualifying Tax-Free Transfers from IRAs to Charities for Those at Least 70½; Increased Charitable Deduction Limits for Qualifying Conservation Easements; $500 Credit for Qualified Energy-Efficient Home Improvements; Deduction for Qualified Home Mortgage Insurance Premiums; Income Exclusion for Principal Residence Mortgage Cancellations; and Temporary 100% Gain Exclusion from Sale of "Qualified Small Business Stock." **Planning Alert!** If you would like to take advantage of any of these provisions, but you need more information, please call our office so we can help you take the necessary steps to lock in these tax benefits before it is too late.

NEW TAXES AND TAX RATES IMPACT YEAR-END PLANNING

Traditional year-end tax planning typically includes strategies that lower your current taxable income and postpone the payment of taxes to later years. The classic technique to accomplish both of these goals is to ***defer the recognition of taxable income*** to later years, and to ***accelerate deductible expenses*** into the current tax year. Although these strategies are still advisable for many taxpayers, please keep in mind that 2013 has ushered in for higher income individuals: **1)** a ***new top tax bracket of 39.6%*** (up from the previous top bracket of 35%); **2)** a ***new .9% Additional Medicare Tax;*** and **3)** a ***new 3.8% tax*** on net investment income. These changes should be considered in preparation for year-end planning.

Highest "Ordinary" Income Tax Rate For Individuals Increased To 39.6%. The American Taxpayer Relief Act of 2012 (ATRA) continues the Bush-era 10% to 35% tax brackets with no sunset and adds an additional 39.6% tax bracket for higher income individuals. ***Beginning in 2013,*** the new 39.6% bracket applies to ***taxable income*** of an individual **in excess of** the following thresholds: ***$450,000*** for married couples ***filing joint returns*** ($225,000 if married filing separate returns); ***$400,000*** for ***single filers;*** and ***$425,000*** for ***heads of households.*** These thresholds are adjusted for inflation after 2013.

- **39.6% Rate Creates New Marriage Penalty.** The income thresholds for the new 39.6% tax bracket have created a new marriage tax penalty. For example, if a married couple files a 2013 joint return and each spouse has taxable income of $400,000, their joint taxable income of $800,000 will generally be taxed at 39.6% to the extent it exceeds the $450,000 threshold for married individuals filing joint returns (i.e., $350,000 will be taxed at 39.6%). By contrast, if the individuals were not married and each filed as single, neither would be subject to the 39.6% tax rate because neither would have exceeded the $400,000 taxable income threshold that triggers the 39.6% rate for single individuals.

Highest Long-Term Capital Gain And Qualified Dividend Rates Increased To 20%. *ATRA* permanently retains the maximum long-term capital gain and qualified dividend rates at 15% for lower and moderate income individuals. *ATRA* also permanently retains the zero percent tax rate for long-term capital gains and qualified dividends where the capital gain or dividend income would otherwise be taxed in the 15% or 10% brackets (for 2013, taxable income up to $36,250 for single individuals and $72,500 for joint filers is taxed in the 15% bracket or below). However, ***beginning in 2013,*** for long-term capital gains or qualified dividends that would otherwise be taxed in the 39.6% bracket, *ATRA* increases the tax rate to 20%. For example, to the extent long-term capital gains of a single individual cause his or her taxable income to exceed $400,000 in 2013 (i.e., the income threshold for the 39.6% bracket), the capital gains will be taxed at 20%.

Personal Exemption And Itemized Deduction Phase-Outs Reinstated. During most of the past two decades, higher-income individuals were subject to an income phase-out provision that reduced their ***personal exemptions*** and ***itemized deductions*** as their income exceeded certain thresholds. All individuals were given a three-year reprieve from these phase-outs ***from 2010 through 2012. Beginning in 2013,*** ATRA permanently reinstates these phase-out provisions for individuals with ***adjusted gross incomes*** exceeding the following threshold amounts: ***$300,000*** for married couples ***filing joint returns*** ($150,000 if married filing separately); ***$250,000*** for ***single filers;*** and ***$275,000*** for ***heads of households.*** These thresholds will be adjusted for inflation after 2013. **Tax Tip.** The phase-out provisions ***do not apply*** to the following itemized deductions: medical expenses, investment interest, gambling losses, casualty losses, and theft losses. **Practice Alert!** Individuals whose itemized deductions and/or personal exemptions are reduced by these phase-out provisions will have higher "effective" tax rates than listed in the published statutory-rate schedules.

.9% Additional Medicare Tax On "Earned Income" Of Higher-Income Individuals. Generally, ***effective for wages and self-employment earnings received after 2012*** that exceed certain thresholds, the *Affordable Care Act* imposes a new ***.9% Additional Medicare Tax*** on individuals with higher W-2 wages and self-employment income. This .9% Medicare tax generally applies to the amount by which the ***sum of*** your ***W-2 wages*** and your ***self-employment earnings*** exceeds the following thresholds: ***$250,000*** if you are ***married filing jointly; $200,000*** if you are ***single;*** or ***$125,000*** if you are ***married filing separately.*** For married individuals filing a joint return, the .9% Medicare tax will apply to the extent *the sum of* both spouses' W-2 earnings and the self-employment earnings exceeds the $250,000 threshold. **Planning Alert!** These income thresholds are fixed and are ***not indexed*** for future inflation.

3.8% Tax On "Net Investment Income" Of Higher-Income Taxpayers. ***Beginning in 2013,*** the *Affordable Care Act* imposes a new 3.8% tax on the ***net investment income*** (*3.8% NIIT*) of ***higher-income*** *taxpayers*. With limited exceptions, ***"net investment income"*** generally includes the following types of income (less applicable expenses): interest, dividends, annuities, royalties, rents, "passive" income (as defined under the traditional "passive activity" loss rules), long-term and short-term capital gains, and income from the business of trading in financial securities and commodities. **Planning Alert!** Income, including "passive" income, ***is not*** *"net investment income"* (and is therefore exempt from this new 3.8% NIIT), ***if the income is "self-employment income"*** subject to the 2.9% Medicare tax. The 3.8% NIIT applies to individuals with modified adjusted gross income (MAGI) exceeding the following ***"thresholds"*** (which are ***not indexed*** for future inflation): ***$250,000*** for ***married filing jointly; $200,000*** if ***single;*** and ***$125,000*** if ***married filing separately.*** The 3.8% NIIT is imposed upon ***the lesser of*** an individual's **1)** modified adjusted gross income (MAGI) in excess of the ***threshold,*** or **2)** net investment income.

- **Example.** For 2013, Mark (a single taxpayer) has MAGI of $210,000 comprised of W-2 compensation of $180,000 and "investment income" (e.g., capital gains, interest, dividends) of $30,000. Mark has $10,000 of deductible expenses allocable to investment income. Therefore, Mark's "net investment income" is $20,000. The 3.8% NIIT would be imposed on the ***lesser of*** **1)** ***$10,000*** (i.e., Mark's MAGI of $210,000 less the $200,000 threshold for a single individual), or **2)** ***$20,000*** (Mark's net investment income). Therefore, Mark would pay NIIT of $380 (i.e., $10,000 x 3.8%).

TAX PLANNING FOR INVESTMENT INCOME

Planning For The New 3.8% Net Investment Income Tax (3.8% NIIT). The introduction of the ***new 3.8% Net Investment Income Tax*** (3.8% NIIT) creates new investment tax planning strategies **starting in 2013,** including:

- **Consider Shifting To Investments That Generate Tax-Exempt Income.** Fortunately, the following types of income are ***not subject*** to the *3.8% NIIT*: ***tax-exempt bond interest;*** gain on the sale of a principal residence *otherwise excluded* from income under the ***home-sale exclusion*** rules (i.e., up to $250,000 on a single return, up to $500,000 on a joint return); and ***distributions from qualified retirement plans*** (e.g., 401(k) plans, IRAs, §403(b) annuities, etc.). Therefore, investments that generate tax-exempt income are more attractive beginning in 2013. For example, tax exempt municipal bond interest will potentially provide higher-income individuals with a double tax benefit: **1)** the interest will not be included in the taxpayer's MAGI thus, reducing the chance that the taxpayer will exceed the income thresholds for the 3.8% NIIT, and **2)** the tax-exempt interest itself is exempt from the 3.8% tax. **Planning Alert!** Although taxable distributions from qualified retirement plans (e.g., IRAs, 401(k) plans, etc.) are not investment income, the taxable distributions will increase your "modified adjusted gross income" (MAGI). Therefore, to the extent the taxable distributions cause your MAGI to exceed the 3.8% MAGI thresholds (i.e., $250,000 for joint returns; $200,000 for singles), the distributions could cause your "net investment income" to be taxed by the 3.8% NIIT.

- **Consider "Tax-Deferred" Investments.** The 3.8% NIIT does not apply to earnings generated by a ***tax-deferred annuity*** (TDA) contract ***until the income is distributed.*** Thus, after first considering the economics, investing in a TDA in your higher-income years may allow you to defer the annuity income until later years when your MAGI is below the 3.8% NIIT thresholds.

- **"Passive" Income.** *"Net Investment Income*" for purposes of the 3.8% NIIT generally includes net income from a business activity if you are a "passive" owner (unless the income constitutes *self-employment* income that is subject to the 2.9% Medicare tax). You will generally be deemed a "passive" owner if you do not "materially participate" in the business as determined under the traditional "passive activity loss" rules. For example, under the *passive activity loss* rules, you may be a *"passive"* owner unless you spend more than 500 hours working in the business during the year or meet some other material participation test. Furthermore, subject to limited exceptions, *rental income* is generally deemed to be "passive" income under the *passive activity loss* rules, regardless of how many hours you spend working in the rental activity. However, there are several exceptions in the passive activity rules where rental income is not considered passive income. If you believe that you may have income that could be classified as "passive" under these rules, please contact our firm. We will be glad to evaluate your situation to determine whether there are steps you could take to avoid "passive" income classification, and thus, minimize your exposure to the 3.8% NIIT.

- **<u>Trusts And Estates Can Be Subject To The 3.8% NIIT.</u>** Starting in 2013, if a trust or estate has *net investment income,* and also has *adjusted gross income* (AGI) in excess of a ***"threshold"*** amount (for 2013, the threshold is $11,950), it must pay the 3.8% NIIT ***unless the income is timely distributed to beneficiaries.*** **<u>Caution!</u>** Timely distributions of *net investment income* from an estate or trust could cause the beneficiary to be subject to the 3.8% NIIT on the distributed investment income. However, the beneficiary would avoid the 3.8% tax altogether on the distributed investment income if the beneficiary's MAGI is below the NIIT threshold for individuals (e.g., below $200,000 for a beneficiary who is single). **<u>Tax Tip!</u>** If you want the trust's or estate's net investment income (NII) to be taxed to the beneficiary, the NII must generally be distributed by the end of the taxable year of the trust or estate. For example, assume that a trust has a taxable year-end of December, 31, 2013, and you want the trust's NII to be taxed to the beneficiary. The trust must generally distribute its NII to the beneficiary ***no later than December 31, 2013.*** **<u>Planning Alert!</u>** The distribution may be ***made within the first 65 days of 2014,*** if the trustee makes an ***affirmative election*** (by checking the appropriate box on the trust's 2013 income tax return) to treat the distribution as made during 2013.

<u>Traditional Year-End Planning With Capital Gains And Losses.</u> Generally, net capital gains (both short-term and long-term) are potentially subject to the new 3.8% NIIT. Starting in 2013, this could result in an individual who is taxed in the 39.6% ordinary income tax bracket paying tax on his or her ***net long-term capital gains*** at a ***23.8%*** rate (i.e., the maximum capital gains tax rate of 20% plus the 3.8% NIIT). This individual's ***net short-term capital gains*** could be taxed as high as ***43.4%*** (i.e., 39.6% plus 3.8%). Consequently, traditional planning strategies involving the timing of your year-end sales of stocks, bonds, or other securities may save you more taxes this year than in previous years. The following are time-tested, year-end tax planning ideas for sales of capital assets. **<u>Planning Alert!</u>** Always consider the ***economics of a sale or exchange first!***

- **Planning With Zero Percent Tax Rate For Capital Gains And Dividends.** Long-term capital gains and qualified dividends that would be taxed (if ordinary income) in the 15% or lower ordinary income tax bracket, are taxed at a zero percent rate. **<u>Planning Alert!</u>** For 2013, ordinary income (e.g., W-2, interest income) up to $72,500 for joint returns ($36,250 if single) is taxed at the 15% rate, or below. Thus, taxpayers filing jointly can benefit from the zero percent tax rate if (and to the extent) they have 2013 ordinary taxable income under $72,500 ($36,250 if single). **<u>Tax Tip.</u>** Taxpayers who have historically been in higher tax brackets but now find themselves between jobs, recently retired, or expecting to report higher-than-normal business deductions in 2013, may temporarily have income low enough to take advantage of the zero percent rate for 2013. If you are experiencing any of these situations, please call our firm and we will help you take advantage of this zero percent tax rate for long-term capital gains and qualified dividends.

- **Timing Your Capital Gains And Losses.** If you have already recognized capital gains in 2013, you should consider selling securities ***prior to January 1, 2014*** that have declined in value. Your losses will be deductible on your 2013 return to the extent of your recognized capital gains, plus $3,000. **Tax Tip.** These losses may have the added benefit of reducing your income to a level that will qualify you for other tax breaks, such as the: $2,500 American Opportunity Tuition Tax Credit, $1,000 child credit, $12,970 adoption credit, etc. **Planning Alert!** If within 30 days before or after the sale of loss securities, you acquire the same securities, the loss will not be allowed currently because of the "wash sale" rules (although the disallowed loss will increase the basis of the acquired stock). **Tax Tip.** There is *no* wash sale rule for *gains*. Thus, if you decide to sell stock at a gain in order to take advantage of a zero capital gains rate, or to absorb capital losses, you may acquire the same securities within 30 days without impacting the recognition of the gain.

POSTPONING TAXABLE INCOME

It continues to be a good idea to defer income into 2014 if you believe that your marginal tax rate for 2014 will be equal to or less than your 2013 marginal tax rate. In addition, deferring income into 2014 could increase various credits and deductions for 2013 that would otherwise be phased out as your adjusted gross income increases. **Tax Tip.** This classic tax planning strategy may be particularly valuable for 2013 if it also keeps your 2013 income below the phase-out thresholds for any of the tax breaks that are currently scheduled to expire after 2013 (e.g., $4,000 qualified higher education expense deduction, deduction for home mortgage "insurance premiums").

- **Planning Alert!** Deferring taxable income from 2013 to 2014 may have an added benefit if: **1)** the deferral of income causes your 2013 taxable income to fall below the thresholds for the new 39.6% tax bracket (i.e., $450,000 for joint returns; $400,000 if single), or **2)** if you have *net investment income* and the income deferral causes your 2013 modified adjusted gross income (MAGI) to fall below the thresholds for the new 3.8% NIIT (i.e., $250,000 for joint returns; $200,000 if single).

If, after considering these factors, you believe that deferring taxable income into 2014 will save you taxes, consider the following strategies:

Self-Employment Income. If you are self-employed and use the cash method of accounting, consider delaying year-end billings to defer income until 2014. **Planning Alert!** If you have already received the check in 2013, deferring the deposit does not defer the income. Also, you may not want to defer billing if you believe this will increase your risk of not getting paid.

Installment Sales. If you plan to sell certain appreciated property in 2013, you might be able to defer the gain until later years by taking back a promissory note instead of cash. If you qualify for installment treatment, the gain will be taxed to you as you collect the principal payments on the note. This is called reporting your gain on the "installment method." **Planning Alert!** Although the sale of real estate and closely-held stock generally qualify for this deferral treatment, some sales do not. For example, even if you are a cash method taxpayer, you cannot use this gain deferral technique if you sell publicly-traded stock or securities. Also, you may not want to take back a promissory note in lieu of cash if you believe this reduces your chances of getting paid. **Tax Tip!** After 2012, installment sales of investment assets may prevent an individual's income for the year of sale and possibly subsequent years from exceeding the NIIT thresholds (i.e., $250,000 for joint returns; $200,000 if single) and therefore avoid the 3.8% NIIT on the gain.

TAKING ADVANTAGE OF DEDUCTIONS

"Above-The-Line" Deductions Become Even More Important In 2013. So-called ***"above-the-line"*** deductions reduce both your "adjusted gross income" (AGI) and your "modified adjusted gross income" (MAGI), while ***"itemized"*** deductions (i.e., below-the-line deductions) do ***not*** reduce either AGI or MAGI. ***Starting in 2013,*** your level of AGI or MAGI becomes much more important because they determine your exposure to: **1)** the 3.8% net investment tax (3.8% NIIT only applies if MAGI exceeds $250,000 if married filing jointly; $200,000 if filing single), and **2)** the phase-out of your itemized deductions and your personal exemptions (only applies if AGI exceeds $300,000 if married filing jointly; $250,000 if single). Consequently, starting in 2013, an above-the-line deduction may provide you a double tax benefit by reducing your taxable income and, to the extent the deduction reduces your AGI or MAGI below the applicable thresholds, reducing your exposure to the 3.8% NIIT or the itemized deduction and personal exemption phase-outs.

- **<u>"Above-The-Line" Deductions May Have Additional Tax Benefits.</u>** ***"Above-the-line"*** deductions include deductions for IRA or Health Savings Account (HSA) contributions, health insurance premiums for self-employed individuals, qualified student loan interest, qualified education tuition, qualified moving expenses, alimony, and business expenses for a self-employed individual. **<u>Tax Tip.</u>** ***Above-the-line*** deductions may not only allow you to reduce your exposure to the 3.8% NIIT or the itemized deduction/personal exemption phase-outs, these deductions could also reduce your AGI or MAGI below the phase-out thresholds for many other tax benefits (e.g., child credit, education credits, adoption credit, deductible IRA contributions, etc).

- **<u>Accelerating "Above-The-Line" Deductions.</u>** As a cash method taxpayer, you can generally accelerate a 2014 deduction into 2013 by "paying" it in 2013. "Payment" typically occurs in 2013 if a check is delivered to the post office, if your electronic payment is debited to your account, or if an item is charged on a *third-party credit card* (e.g., Visa, MasterCard, Discover, American Express) in 2013. **Caution!** If you post-date the check to 2014 or if your check is rejected, no payment has been made in 2013. **<u>Planning Alert!</u>** The IRS says that prepayments of expenses applicable to periods beyond 12 months after the payment are not deductible in 2013.

- **<u>Tax-Free IRA Payments To Charities May Be Equivalent To An Above-The-Line Deduction!</u>** The popular rule that allows a taxpayer who is at least age 70½ to have the IRA trustee make a *qualifying* transfer of up to $100,000 from his or her IRA directly to a qualified charity and allows the tax-free transfer to reduce the required minimum distribution for the year, may produce substantial tax benefits. Having the IRA trustee make the charitable contribution is the equivalent of receiving an above-the-line deduction for the charitable contribution to the extent the transfer eliminates a taxable required minimum distribution for the year. The contribution reduces your AGI and MAGI by the lesser of the amount of the charitable contribution or the reduction in the IRA distributions for the year. Therefore, reducing your AGI and MAGI using this technique, may increase deductions that are reduced as your AGI increases, may keep you in a lower tax bracket, and may prevent your being subject to the NIIT by keeping you below the applicable MAGI thresholds. **<u>Tax Tip!</u>** To qualify under this provision, the check from your IRA must be made out "directly" to your designated charity. **<u>Planning Alert!</u>** This tax break ***is scheduled to expire after 2013.***

<u>"Bunching" Medical Expenses Even More Important Starting In 2013.</u> Prior to 2013, you were allowed an *itemized deduction* for un-reimbursed medical expenses (including un-reimbursed health insurance premiums) only to the extent your aggregate medical expenses exceeded ***7.5%*** of adjusted gross income (10% for alternative minimum tax purposes). ***Starting in 2013,*** the *Affordable Care Act* generally increases this threshold from 7.5% of adjusted gross income (AGI) ***to 10% of AGI.*** However, if either you or your spouse is at least age 65 before the close of the tax year, the 7.5% of AGI threshold will continue to apply **through 2016.** Therefore, consider accelerating as many elective medical expenses (i.e., braces, new eye glasses, etc.) into 2013 as possible if paying the expenses in 2013 will cause your deductible medical expenses to be above the 2013 AGI threshold, but you will not exceed the threshold if the expenses are paid in 2014. **<u>Planning Alert!</u>** The 10% of AGI threshold for alternative minimum tax purposes has not changed.

<u>Charitable Contributions.</u> As you plan for year-end charitable giving, don't forget that you will be allowed a charitable deduction for 2013 only if your check is mailed (or hand delivered) on or before December 31, 2013 or your contribution is made by a credit card charge in 2013. However, if you merely give a note or a pledge to a charity, no deduction is allowed until you pay off the note or pledge. Also, if you are considering a significant 2013 contribution to a public charity (e.g., church, synagogue, or college), it will generally save you taxes if you contribute *appreciated* long-term capital gain property, rather than selling the property and contributing the cash proceeds to charity. By contributing capital gain property held more than one year (e.g., appreciated stock, real estate, etc.), a deduction is generally allowed for the full value of the property, but no tax is due on the appreciation. **<u>Planning Alert!</u>** If you want to use "loss" stocks to fund a charitable contribution, you should sell the stock first and then contribute the cash proceeds. This will allow you to deduct the capital loss from the sale, while preserving your charitable contribution deduction. **Tax Tip.** If you plan to contribute appreciated realty or stock for 2013, make sure that you begin the paperwork for the transfer early enough so that all documentation is completed by ***December 31, 2013.*** In addition, you must obtain a qualified appraisal for contributions of property valued in excess of $5,000 unless the property is securities for which market quotations are readily available or nonpublicly traded stock valued at $10,000 or less. Furthermore, for contributions of $250 or more, you must have a receipt stating whether or not you received goods or services in return for your contribution. The IRS has been disallowing deductions where proper receipts were not obtained and/or where taxpayers failed to obtain appraisals where required.

MISCELLANEOUS YEAR-END PLANNING OPPORTUNITIES

Consider Increasing Withholding If Facing An Estimated Tax Underpayment Penalty. If you have failed to pay sufficient estimated taxes during 2013 potentially causing an underpayment penalty, ***increasing your withholdings before the end of 2013*** may solve the problem. Any income tax withholding (including withholdings at the end of 2013 from a year-end bonus or IRA distribution) is generally deemed paid 1/4 on April 15, 2013, June 17, 2013, September 16, 2013 and January 15, 2014. Therefore, amounts ***withheld on or before December 31, 2013*** may reduce or eliminate your penalty for underpaying estimated taxes. Please call us if you have any questions.

Consider Utilizing The $14,000 Annual Gift Tax Exclusion. For individuals dying in **2013,** there is generally a **40%** estate tax to the extent the estate's value plus any taxable gifts made during the decedent's life exceeds **$5.25 million** (the "estate and gift unified exclusion amount"). **Tax Tip.** You can reduce your estate without using any of the unified exclusion amount by making annual gifts up to the annual gift tax exclusion amount of $14,000 per donee. Your spouse can do the same, bringing the total gifts that can be made free of gift tax and without using any of the unified exclusion amount to $28,000 per donee. **Planning Alert!** If you make your 2013 gift by check, the IRS says that the donee must actually "deposit" the check ***by December 31, 2013*** in order to utilize the $14,000 annual gift tax exclusion amount for 2013. Therefore if gifts are made near the end of the year, you should consider making the gifts using a cashier's check which should constitute a gift when the check is delivered.

FINAL COMMENTS

Please contact us if you are interested in a tax topic that we did not discuss. Tax law is constantly changing due to new legislation, cases, regulations, and IRS rulings. Our firm closely monitors these changes. In addition, please call us before implementing any planning ideas discussed in this letter, or if you need additional information. **Note!** The information contained in this letter represents a general overview of tax developments and should not be relied upon without an independent, professional analysis of how any of these provisions may apply to a specific situation.

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