Tax code uncertainty continues

Nothing is certain but death and taxes, according to Benjamin Franklin. To this we might now add, it is also certain that Congress is always debating tax code changes, and that the tax code itself has become so filled with temporary tax provisions that its own uncertainty makes it unreliable for comprehensive tax and financial planning.

Here's a partial list of tax breaks that are scheduled to expire at the end of this year:

- Social Security 2% tax cut on earned income;
- Charitable contributions from IRAs;
- The inflation-adjustment to the Alternative Minimum Tax;
- Deduction for state sales taxes instead of state income taxes;
- Home energy tax credit of up $500;
- Higher education deduction of up to $4,000;
- Schoolteacher expense deduction of up to $250.

All but the Social Security tax cut, which is under active debate at this writing, could be retroactively restored next year by Congress. If the Social Security tax cut is retained, it will likely happen before the first of the year, before new paychecks are cut. Next year legislators may be more concerned about these changes, which occur as 2012 closes:

- Top income tax rate of 35%;
- The 15% top tax rate on long-term capital gains and qualified dividends;
- The $5.12 million federal estate tax exemption and 35% top tax rate;
- Return of the personal exemption phaseout;
- Return of the "Pease" limits on itemized deductions;
- American Opportunity Education Credit.

For affected taxpayers, the estate and gift tax expirations could be the most consequential. In 2013 the estate tax exemption falls to $1 million, and the top rate zooms to 55% (60% for some estates).

Another tax increase begins in 2013, the new 3.8% tax on net investment income for upper-income taxpayers. This was added to the tax code, with a delayed implementation date, as part of the health care overhaul legislation.

Tax uncertainties make tax-efficient investment management problematic, but no less important. Professional guidance is a must!

(December 2011)