13 FINANCIAL PLANNING STRATEGIES FOR 2013

Timely, actionable ideas following the American Taxpayer Relief Act

KEY TAKEAWAYS

With the passing of the American Taxpayer Relief Act of 2012 in reaction to the fiscal cliff we finally have certainty on the tax landscape for 2013.

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Bottom line, taxes are going up for almost everyone, with some being affected more than others. Changes impact income taxes, capital gains and dividend taxes, Medicare taxes, limitations on itemized deductions, AMT and estate and gift tax exemptions.

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There are a number of actionable strategies that can help reduce 2013 taxes. Work with your financial advisor and tax professional to review the new tax environment and how your financial objectives may be impacted.

RAYMOND JAMES®

INTRODUCTION

Congress passed the American Taxpayer Relief Act of 2012 (ATRA) with barely an hour left on New Year's Day. A number of changes came out of ATRA that will affect your overall tax bill and financial plan for 2013 and beyond. While the outcome and resolution of the fiscal cliff means higher taxes for many, we now have certainty on the tax landscape for 2013.

This paper summarizes the changes resulting from ATRA and offers 13 financial planning strategies for you to consider in 2013. Take action now and avoid an unexpected tax bill next April.

WHAT HAS CHANGED FOR 2013?

The following highlights the most significant changes that took effect January 2, 2013:

- **Income Taxes**
  Highest income tax bracket increased to 39.6% from 35.0% for individuals earning $400,000 or more and joint filers earning $450,000 or more a year. The maximum corporate income tax rate remains 35%.
- **Long-Term Capital Gains and Dividends**
  Capital gains and dividend taxes increased to 20% from 15% for individuals and families in the new 39.6% bracket.
- **New Medicare Taxes**
  As part of the healthcare reform bill, an additional 3.8% Medicare surtax on investment income for individuals earning more than $200,000 a year and joint filers earning more than $250,000 a year took effect as well as a 0.9% surtax on wages in excess of the same thresholds.
- **Roth 401(k) Conversions**
  Greater flexibility for in-plan Roth conversions in 401(k)s, 403(b)s and 457 plans.
- **Personal Exemptions**
  Personal exemption phaseouts were reinstated with exemptions reduced by 2% for each $2,500 of income that exceeds a threshold of $250,000 for individuals or $300,000 for joint filers.
- **Itemized Deductions**
  The limitation on itemized deductions was also reinstated, reducing the value of most itemized deductions by 3% of adjusted gross income in excess of $250,000 for individuals and $300,000 for joint filers (but no more than 80% of impacted itemized deductions).
- **Estate and Gift Taxes**
  The maximum federal gift and estate tax rate increased to 40% with a $5,250,000 (2013) exemption amount indexed for inflation; exemption portability was also made permanent.
- **Alternative Minimum Tax (AMT)**
  Annual AMT adjustments for inflation were made permanent.
- **Payroll Taxes**
  The 2011 temporary cut to Social Security payroll taxes was not extended, increasing them from 4.2% to 6.2%.

1 CONSIDER THE TYPES OF INCOME YOU'RE GENERATING

All Investors

To counter, or reduce the overall impact of rising taxes, evaluate your income sources. Varying types of income are taxed differently (see table).

TAXATION OF INCOME TYPES

Income Type	Taxation
Earned Income	Marginal Income Tax Rate
Corporate Bonds	Marginal Income Tax Rate
Qualified Dividends	Long-Term Capital Gains Rate
Municipals	Exempt from federal and in many cases state income taxes in their state of issue*

* While interest on municipal bonds is generally exempt from federal income tax, keep in mind that it may be subject to the federal alternative minimum tax, state or local taxes. Profits and losses on federally tax-exempt bonds may be subject to capital gains tax treatment. In addition, certain municipal bonds (such as Build America Bonds) are issued without a federal tax exemption, which subjects the related interest income to federal income tax. Dividends are not guaranteed and will fluctuate.

To reduce the tax burden created by your investments:

Consider rebalancing your portfolio to include more tax-advantaged investments such as municipal bonds or dividend-paying stocks, especially in higher tax brackets.

When rebalancing, consider using new money coming into the account versus selling off certain investments to avoid incurring unnecessary capital gain taxes.

Tip: While the tax treatment of income is an important factor, don't lose sight of your risk tolerance and goals.

2 REVIEW YOUR PORTFOLIO'S TAX EFFICIENCY

All Investors

Tax efficiency is essential to maximizing returns. Simply put, tax efficiency is measured by how much of an investment's return remains after taxes are paid. Certain investments generate more taxable distributions than others. Work with your advisor to evaluate your investments and after-tax returns.

Review your portfolio's turnover ratio and historical distributions to get a sense of your annual tax liability, and take steps to add more tax efficient investments to minimize taxes.

Consider tax loss harvesting as another effective way to offset realized gains.

3 ALIGN INVESTMENTS WITH ACCOUNT TYPES

All Investors

Certain investments may be better suited for certain account types from a tax standpoint. For example, carry income-producing investments in a tax-advantaged account such as a 401(k) or IRA where taxes are deferred until later years and opt for stocks held long term or tax-advantaged municipal bonds in a traditional brokerage account.

4 TAKE ADVANTAGE OF OPPORTUNITIES FOR TAX-DEFERRED GROWTH

Pre-Retirees

Tax-deferred growth is even more advantageous when taxes are higher. You can lower your taxable income now and reduce taxes by capitalizing on the following strategies:

Qualified Plans

Defer up to $17,500 a year, $23,000 if you're age 50 or over, into a 401(k) or 403(b) plan.

Individual Retirement Accounts

You may also be able to deduct IRA contributions, even if you participate in a retirement plan at work, if your modified adjusted gross income is under $69,000 for individuals or $115,000 for joint filers. The maximum contribution to a traditional or Roth IRA in 2013 is $5,500, $6,500 if you're age 50 or over.

Annuities

Annuities also offer an opportunity for tax-deferred growth on assets.

Life Insurance

Accumulating cash value in life insurance can also offer tax-deferred growth and tax-advantaged retirement income.

5 CONSIDER ROTH 401(K) CONVERSIONS

Younger Investors; Pre-Retirees

Since 2010, **eligible** participants in a Roth 401(k), Roth 403(b) or Roth 457 plan were permitted to convert, or roll, vested amounts into their designated Roth account within the plan. **ATRA allows every participant to do so going forward within plans that allow for it.** Keep in mind, however, that you will not be allowed to re-characterize, or undo, the conversion and that a conversion is a taxable event. The advantage of making the conversion now is you pay the taxes today for a tax-free distribution later in life when you could be in a higher income tax bracket or taxes may have risen further.

Ask yourself the following questions in deciding if a conversion makes sense for you.

? Will the converted assets remain in the Roth environment for at least 15 years?

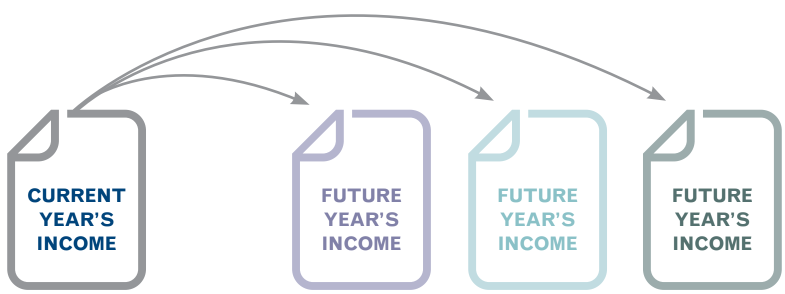
? Will you be in a lower tax bracket when you begin withdrawing the Roth funds?

Unless certain criteria are met, Roth IRA owners must be 59½ or older and have held the IRA for five years before tax-free withdrawals are permitted. Each converted amount is subject to its own five-year holding period. Investors should consult a tax advisor before deciding to do a conversion.

6 USE DEFERRED COMPENSATION

Pre-Retirees; Corporate Executives

Deferred compensation strategies in qualified (401(k)) and nonqualified (supplemental employee retirement plan (SERP), life insurance) plans – available through many employers – are an excellent way to defer or minimize income taxes over the long term. By using a deferred compensation plan, you can defer compensation into future years when your income may be lower, you may have more deductions or tax rates may be lower due to legislative changes.



7 REVISIT YOUR PLANNED CHARITABLE GIVING

Charitably Inclined Investors

Charitable giving can reduce your tax burden and also provides a sense of satisfaction by benefiting your favorite causes. Generally, donations to qualified charities count as an itemized deduction for that tax year. This includes cash, real estate, goods or other assets. The deductibility of charitable gifts is based on several factors, such as the donor's income, the nature of the donation, and the charity receiving the donation. A sound plan can help offset an increase in taxes in 2013 due to higher taxes.

WHEN CREATING A CHARITABLE PLAN, CONSIDER:

Outright Gifts

Give appreciated securities to avoid capital gains taxes.

Qualified Charitable Distributions (QCDs)

Individuals over 70½ can make a tax-free qualified charitable distribution of up to $100,000 from their traditional IRA directly to a qualified charity; QCDs can be made for 2013 and retroactively for 2012 if done by January 31 and can be used to fulfill required minimum distribution (RMD) requirements.

Donor Advised Funds

Fund a donor advised fund, which will allow you to make future donations and claim the current income tax deduction.

Charitable Lead Annuity Trusts (CLATS)

Consider establishing a CLAT, which can generate a larger tax deduction in a low-interest rate environment.

8 MONITOR YOUR COST BASIS

All Investors

As of January 2011, firms like Raymond James along with broker/dealers, banks, custodians and transfer agents are required to report this information directly to the Internal Revenue Service. In some situations, such as when assets are inherited or transferred from another firm, this information may be incomplete or missing. Review your cost basis information regularly to ensure accuracy, and avoid paying more in capital gains tax than needed.

9 MANAGE SHORT-TERM CASH FLOW NEEDS

All Investors

If you're faced with short-term liquidity needs such as a large tax bill or another significant expense like a family member's college tuition, think about how you will pay for it. Don't immediately default to selling part of your portfolio that could result in capital gains, trigger new higher taxes, unbalance your asset allocation and disrupt your overall investment strategy. Consider options that may ultimately cost less to meet your cash flow needs.

Ask yourself, "How will I pay for planned or unanticipated expenses?" If your answer is, "I don't know" or the thought of selling assets comes to mind, consider making sure your accounts have margin availability or establishing a securities-based line of credit (SBLC) just in case something unexpected arises.

Both are convenient and flexible borrowing options. Neither has a cost to establish, and both allow you the flexibility to repay at your convenience at attractive interest rates. The application process is simple and credit is generally established immediately. By borrowing from a margin loan or SBLC, you can delay the need to sell assets that may generate capital gains and perhaps earn a return that more than offsets the interest on the loan.

Margin or a securities based line of credit may not be suitable for all clients. Borrowing on securities based lending products and using securities as collateral may involve a high degree of risk. Market conditions can magnify any potential for loss. If the market turns against the client, he or she may be required to deposit additional securities and/or cash in the account(s) or pay down the loan. The securities in the pledged account(s) may be sold to meet the margin call, and the firm can sell the client's securities without contacting them. The interest rates charged for a securities based line of credit are determined by the market value of pledged assets and Capital Access. The interest rates charged for margin are determined by the amount borrowed. For additional information on margin, visit http://sec.gov/investor/pubs/margin.htm.

Securities based line of credit provided by Raymond James Bank. Raymond James & Associates, Inc. and Raymond James Financial Services, Inc. are affiliated with Raymond James Bank.

10 CONSIDER THE ADVANTAGES OF YOUR MORTGAGE

Homeowners

Mortgage interest deductibility was not affected by ATRA as some had predicted, but the overall limitation on itemized deductions – sometimes called the 3% haircut – has been reinstated, reducing the value of total allowable itemized deductions for individuals with income in excess of $250,000 or for joint filers with income in excess of $300,000.

As a result, many affluent investors may no longer realize the full deductibility of their mortgage interest and ask whether they should stay invested or pay it down faster. Additionally, when purchasing a new property they may ask whether they should liquidate assets to pay cash or whether they should finance the purchase.

We suggest weighing the opportunity costs of these decisions to decide if a mortgage is your best option:

- Mortgage rates are at historical lows, some as low as 3%, resulting in low borrowing costs, even before considering potential tax benefits.
- Selling assets to pay down a mortgage or pay cash for a new property could trigger capital gains taxes that exceed borrowing costs.
- For many investors, their home is one of their most significant assets but also one of their most illiquid assets. Now, more than ever, it is difficult to gain access to the equity in one's house. As a result, aggressively paying down a mortgage with more liquid assets can disrupt access to liquidity should you need it in the future as well as derail progress toward your long-term goals.

EXAMPLE

Individual in the 39.6% tax bracket

3% mortgage

Can only deduct limited mortgage interest expense due to new limitations

Averaged an after-tax return of 5% on portfolio since home purchase

For this individual, staying invested versus taking funds out to pay down the mortgage was the right choice.

11 REVIEW YOUR ESTATE PLAN

All Investors

Estate planning means ensuring your assets will be used according to your wishes, both now and in the future. ATRA raised the maximum estate tax rate to 40% and made permanent the $5,000,000 estate tax exemption amount (indexed for inflation going forward; $5,250,000 in 2013). Portability of this exemption between spouses was also made permanent.

Even if your taxable estate is not in excess of the $5,250,000 ($10,500,000 for couples), there are important steps everyone should take to ensure a smooth and effective transfer of their estate:

Review your documents regularly

An estate plan is based on the available information when it is developed, and once the plan is created, the work is not over. Your life is constantly changing. Take time in 2013 to review your estate plan and related documents and ensure they're up to date.

Review your beneficiary designations

Making sure your beneficiary designations are accurate and up to date can help make asset transfer a smooth and easy process for your loved ones, while ensuring distribution is completed as intended. Remember to review beneficiary designations after major life events to avoid transfer of assets to unintended beneficiaries.

Consider wealth transfer strategies

Transferring or gifting assets to an irrevocable trust while living for the benefit of an heir allows you to ensure distribution goes according to your desires and offers several advantages:

- Future appreciation of these assets is removed from your estate
- Income may be shifted to beneficiaries in a lower income tax bracket
- Transferred assets may be protected from potential creditors, lawsuits or divorce proceedings

ESSENTIAL ESTATE PLANNING DOCUMENTS

- Living Will
- Power of Attorney
- Healthcare Power of Attorney
- Revocable Living Trust
- Last Will and Testament

MAJOR LIFE EVENTS

Birth	Divorce
Death	Job Changes
Marriage	Inheritance

12 WATCH FOR ALTERNATIVE MINIMUM TAX (AMT)

High Income Investors

ATRA permanently "patched" the AMT for 2012 and subsequent years by increasing the exemption amounts and indexing them for inflation. The 2013 AMT exemption is expected to be $51,900 for individuals and $80,800 for joint filers.

There are a number of factors to be aware of that will help avoid or reduce your AMT:

Exercising incentive stock options (ISOs)

When exercising ISOs, be aware of the AMT income you are generating.

Deferring income or accelerating deductible expenses

If you think you may be subject to AMT in 2013, plan carefully when it comes to these actions.

Claim AMT credits and refunds when possible

The good news if you have to pay AMT is you may be eligible for a credit, which can be carried forward and used when your regular tax liability exceeds your AMT liability. In a given year you may also request a refund of up to 50% per year of refundable AMT credits that are at least four years old.

2013 AMT EXEMPTION

$51,900
for individuals

$80,800
for joint filers

13 WORK WITH YOUR FINANCIAL ADVISOR

All Investors

Planning for your taxes and overall financial position in light of the American Taxpayer Relief Act of 2012 is important, but it may also feel daunting. To get started, we recommend you work with your financial advisor to review the new tax environment and how your financial objectives may be impacted.

He or she can then work with your CPA or tax professional to coordinate appropriate tax strategies. Remember, what is most critical is establishing your short- and long-term goals, planning accordingly and stress testing your plan under different scenarios. Financial planning is an ongoing process, and it is important to have several planning conversations throughout the year.

If you don't have a documented financial plan, 2013 should be the year you put one in place with your advisor given the more long-term tax certainty we now have.

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INTERNATIONAL HEADQUARTERS: THE RAYMOND JAMES FINANCIAL CENTER

880 CARILLON PARKWAY // ST. PETERSBURG, FL 33716 // 800.248.8863

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