EYE ON MONEY

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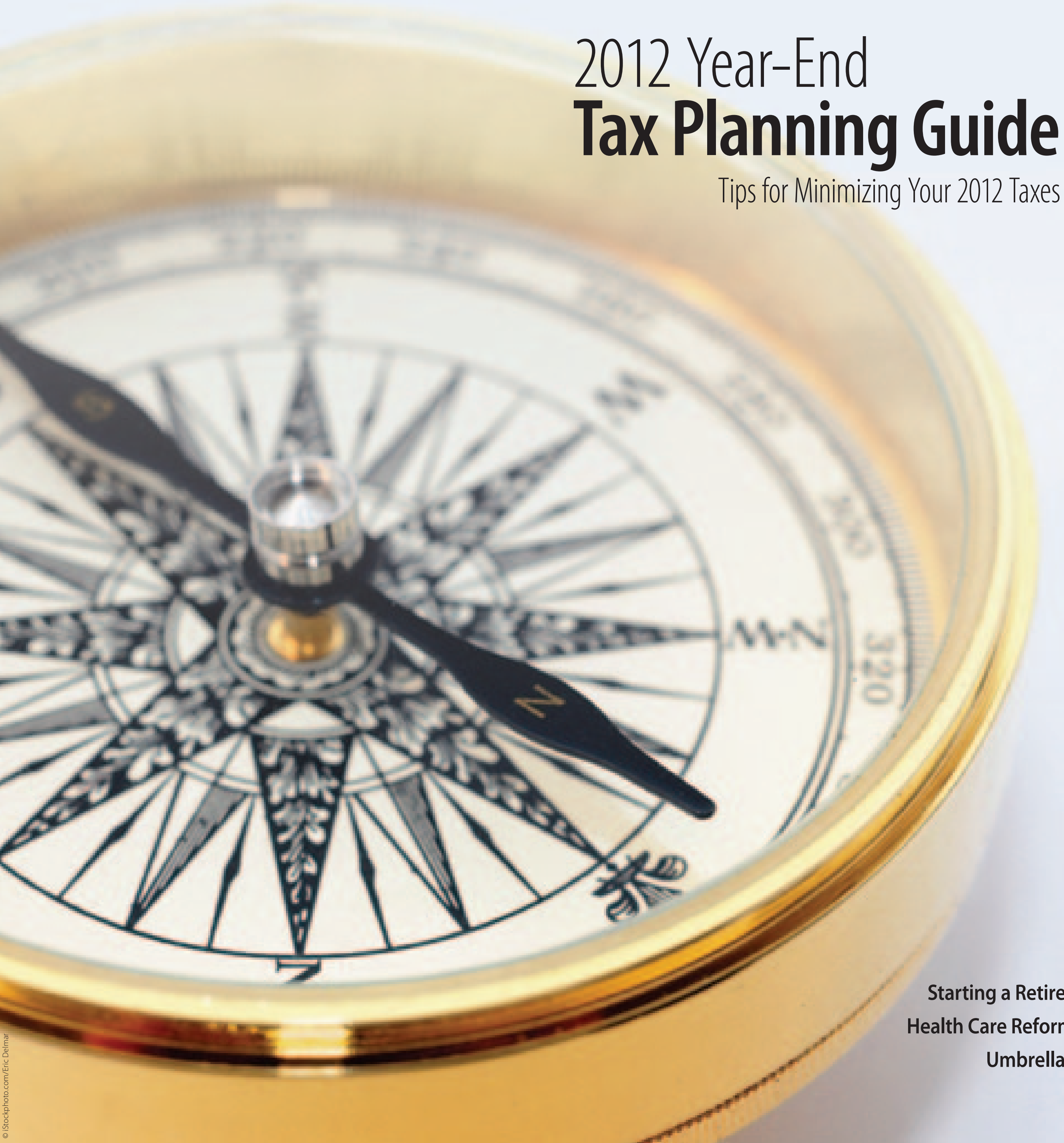

2012 Year-End
Tax Planning Guide
Tips for Minimizing Your 2012 Taxes

Plus...

Starting a Retirement Plan

Health Care Reform Timeline

Umbrella Insurance

The Ins and Outs of WASH SALES

YOU SELL SOME STOCKS for less than you paid for them so that you can deduct the losses on your tax return, but now one of the stocks is rebounding and you want it back. Before you buy it, be sure to consider the IRS's wash sale rule. If you buy the stock too soon, the IRS will consider your sale of the original shares to be a wash sale and will not allow you to deduct the loss.

Specifically, you may not deduct a loss if within 30 days before or after the sale of a security:

- You buy or acquire a substantially identical security (including in your IRA).
- You acquire a contract or an option to buy a substantially identical security.
- Your spouse or any corporation you control buys a substantially identical security.

The wash sale rule is designed to prevent investors from selling a security (including mutual funds) at a loss simply to improve their tax situation and then quickly rebuying the same or substantially identical security.

If you end up with a wash sale, you may still be able to benefit tax-wise from your loss. The IRS allows you to add the amount of your loss to the cost of your new shares, provided the new shares are not held in an individual retirement account (IRA), which essentially postpones your loss deduction until the new shares are sold.

Let's take a look at how this works. Say you sell shares of stock at a $1,000 loss and then purchase an equal number of shares of the same stock for $5,000 a week later. You cannot deduct the $1,000 loss because you bought the same security within 30 days. However, you can add the $1,000 loss to the $5,000 cost of the new shares, to arrive at a $6,000 basis for your new shares. If you sell the new shares for, say, $6,500, your gain is only $500. If you sell the shares for $5,000 (the price you paid for them), you can deduct the $1,000 loss. So, despite a wash sale, you will generally still receive the tax benefit of your loss, just later than you had originally planned.

You will lose the tax benefit, however, if you buy replacement securities in an IRA because the IRS will not allow a loss from a wash sale to be added to the cost of replacement securities in an IRA.

Please consult your tax and financial advisor for more details regarding wash sales. ■

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FYI

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8 REASONS TO START A BUSINESS RETIREMENT PLAN

If you own a business or are self-employed, listen up: There is still time to start a business retirement plan and make deductible contributions for 2012, but you will need to act soon. Please consult your tax and financial advisors for the details. Meanwhile, here are eight reasons you may want to start a retirement plan.

1 **Give yourself a tax cut this year.** Income that you contribute to your tax-deferred retirement account reduces your taxable income for the year. For example, if you contribute $17,000, you will not have to pay income tax on that $17,000 this year. (Income tax is deferred until money is withdrawn from your account.) Depending on your tax bracket, a $17,000 contribution may trim this year's federal taxes by as much as $5,950.

2 **Minimize your exposure to the new 3.8% Medicare tax on net investment income.** Beginning in 2013, the tax will affect individuals with modified adjusted gross incomes over $200,000 ($250,000 if married filing jointly, $125,000 if married filing separately). If your income exceeds the threshold, reducing it by contributing to a tax-deferred retirement plan may help minimize your current exposure to the tax.

3 **Reduce the income tax that your business pays.** Contributions that your business makes to your retirement account and your employees' retirement accounts are generally tax-deductible as a business expense.

4 **Investment earnings grow tax-deferred.** In a tax-deferred retirement account, your investment earnings are not subject to tax while in the account, enabling your investments to potentially grow faster than in a taxable account.

5 **You can contribute more each year than you can to a personal IRA.** While contributions to a personal IRA in 2012 are limited to a maximum of $5,000 ($6,000 if age 50 or older), some business retirement plans permit annual contributions of as much as $50,000 ($55,500 if age 50 or older), between employee and employer contributions.

6 **Attract and retain great employees.** A retirement plan helps level the playing field between your business and the larger employers that you compete with for employees.

7 **Retirement assets are generally protected from creditors.**

8 **Gain access to a Roth retirement account.** There are no income limits on who can contribute to Roth accounts in business retirement plans (unlike personal Roth IRAs), so even high-income individuals can contribute to a Roth account at work. ■

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Umbrella insurance helps cover you on the rainiest days.

YOU THINK IT IS NEVER GOING TO HAPPEN to you, and then… Someone is seriously injured on your property or while you are driving. The injured person sues you and is awarded millions of dollars. Your homeowners or auto insurance policy will fully cover the judgment, right? Wrong! Primary insurance policies, such as homeowners, auto, and boat, generally limit liability coverage to $100,000, $300,000, or $500,000. If a judgment exceeds your liability coverage, you are on the hook for the balance.

Fortunately, there is a type of insurance—personal umbrella insurance—that can help protect you by providing extra liability coverage if a judgment exceeds the limit on your primary policy.

Here's generally how it works. Let's say the liability coverage on your auto insurance policy is limited to $300,000 and you have a $5 million personal umbrella policy. If the injured person is awarded, say, $2 million, your auto policy picks up the first $300,000, less any deductible you may owe. Your umbrella policy picks up the remaining $1,700,000. Without the umbrella policy, you would have to pay the remaining judgment from your assets and perhaps your future earnings.

In addition to providing extra liability coverage, an umbrella policy generally offers broader coverage than your primary insurance policies. For example, a personal umbrella policy will generally pay the legal fees you incur in the lawsuit, up to the limit of your coverage. These fees can be substantial even if you win the case. A personal umbrella policy may also cover claims for libel, slander, or defamation of character, as well as provide coverage anywhere in the world.

It is a good idea to review your insurance policies every year or so. If your current liability coverage is not sufficient to protect your assets and income, talk to your financial advisor about extending your coverage with a personal umbrella policy. Commercial umbrella policies are also available for businesses. ■

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Charitable contributions increased in 2011.

DESPITE THE LINGERING EFFECTS of the recession, Americans dug a little deeper into their pockets last year, contributing an estimated $298 billion to charities. That's a 4% increase over 2010 contributions in current dollars and a 0.9% increase in inflation-adjusted dollars. Here's how the contributions shook out, according to *Giving USA: The Annual Report on Philanthropy*.

Who Made the Gifts

Types of Donors	Estimated Gifts (Billions)	Percent of Total Giving
Individuals	$217.8	73%
Foundations	$41.7	14%
Bequests	$24.4	8%
Corporations	$14.6	5%

Who Received the Gifts

Types of Charities	Estimated Gifts (Billions)	Percent of Total Gifts
Religious Groups	$95.9	32%
Education	$38.9	13%
Human Services	$35.4	12%
Foundations	$25.8	9%
Health	$24.8	8%
Int'l Affairs	$22.7	8%
Public-Society	$21.4	7%
Arts-Culture	$13.1	4%
Enviro-Animal	$7.8	3%
Unallocated	$9.0	3%
Individuals	$3.7	1%

Giving USA is a publication of the Giving USA Foundation™, researched and written by the Center on Philanthropy at Indiana University.

2010 Health Care Reform Act
Implementation Timeline

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Although many provisions in the 2010 health care reform act are already in effect, many others will go into effect over the next few years. This implementation timeline highlights some of the major provisions impacting individuals. Please consult your tax and financial advisors to learn more about how you or your business may be affected.

ALREADY IN PLACE

Children up to age 26 can remain on their parent's policy.

Uninsured individuals with pre-existing conditions can access insurance through a temporary high-risk pool.

Children with pre-existing conditions cannot be denied coverage by health plans.

Health plans cannot drop people from coverage when they get sick.

Lifetime limits on benefits are prohibited and the use of annual limits is restricted.

Medicare beneficiaries receive a free annual wellness visit and personalized prevention plan services.

Medicare Part D enrollees receive a 50% discount on all brand-name drugs while in the donut hole. (The donut hole is scheduled to be completely closed by 2020.)

2013

An additional 0.9% Medicare tax is imposed on wages and self-employment income that exceed $200,000 ($250,000 for married couples filing joint returns, $125,000 for married couples filing separate returns).

A new 3.8% Medicare tax is imposed on the net investment income of individuals with incomes over $200,000 ($250,000 for married couples filing joint returns, $125,000 for married couples filing separate returns).

The income threshold for claiming the itemized deduction for medical expenses increases from 7.5% to 10%. The threshold for individuals age 65 or older remains at 7.5% through 2016.

Contributions to health Flexible Spending Accounts (FSAs) are limited to $2,500 per year, indexed for inflation.

SEE THE ARTICLE ON PAGE 6 FOR TIPS ON HOW TO MINIMIZE THE 2013 TAX HIKES

2014

Health Insurance Exchanges open to individuals and small employers.

Premium assistance tax credits are available through the Exchange for people with incomes above Medicaid eligibility and below 400% of the federal poverty level who are not eligible for or offered other acceptable coverage.

Most individuals must obtain health insurance or pay a penalty of $95 for 2014, $325 for 2015, $695 for 2016 (or, up to 2.5% of income in 2016), up to a cap of the national average bronze plan premium offered through the Exchange. Families will pay half of the amount for children, up to a cap of $2,085 per family (in 2016).

Insurance companies cannot refuse to sell or renew policies due to an individual's health status. Plus, health plans can no longer exclude coverage for treatments based on pre-existing health conditions.

Health plans cannot impose annual limits on the amount of health benefits an individual may receive. ■

2012 YEAR-END
TAX PLANNING GUIDE

WHAT DO LOWER INCOME TAX RATES, lower tax rates on long-term capital gains, and the payroll tax cut all have in common? They are all set to expire at the end of 2012, along with thirty or so other federal tax breaks.

Among the tax provisions scheduled to expire are the Bush-era tax cuts, which include lower tax rates for individuals, as well as a slew of other tax-minimizing provisions. Provisions enacted in the Obama era, such as the 2% payroll tax cut and the $5.12 million exemption for estate and gift taxes, are also set to expire at the end of this year. Some provisions will revert to what they were in 2001 before the tax cutting began, while others will simply vanish.

Washington has pulled us back from the brink of tax increases a few times in recent years, with a patch here and an extension there, and may do so again. As of mid-September when this publication was produced, Congress had not yet addressed the expiring tax cuts. Both parties say that they do not want to raise taxes on low- and middle-income taxpayers, but they remain divided on tax increases for high-income taxpayers. In light of the partisanship in Congress and the Presidential election, legislation addressing the expiring provisions may not come until after the November election.

Regardless of what happens with the Bush- and Obama-era tax cuts, a tax increase is in store for higher-income taxpayers in 2013 when the new Medicare taxes kick in. As a result of the 2010 health care reform act, an additional 0.9% Medicare tax will apply to taxpayers' wages and self-employment income that exceeds $200,000 ($250,000 for married couples who file joint returns, $125,000 for married couples who file separate returns). Plus, a new 3.8% Medicare tax on net investment income kicks in for individuals with modified adjusted gross incomes over $200,000 ($250,000 for married couples who file joint returns, $125,000 for married couples who file separate returns).

So what is a taxpayer to do? Explore your options and plan very carefully. There may be actions you can take before the end of this year that will minimize your 2012 and 2013 taxes. Some tax planning points are touched upon here. They are not appropriate for everyone, so we strongly encourage you to consult your tax and financial advisors before the end of the year for advice on your specific situation.

Shift income to the more advantageous year. It is generally a good idea to defer income into the following year—right along with the tax liability that goes with it! But if ordinary income tax rates increase as scheduled or if you expect to be in a higher tax bracket next year, you may be better off accelerating income into this year so that it is taxed at a lower rate. Among the types of income that lend themselves to being timed are income from self-employment, property sales, retirement plans, and exercising certain stock options.

Accelerate income to minimize payroll taxes. The current 2% payroll tax cut for workers is set to expire at the end of the year. The tax cut applies to the first $110,100 of wages and net self-employment income. While wage-earners are not typically able to control when they receive wages, self-employed individuals can time when they bill end-of-year work and may benefit from accelerating income into 2012 if it reduces the amount that may be taxed at a higher rate next year.

Accelerate income to minimize the hit by the new 0.9% Medicare tax. Higher-income workers may also benefit from accelerating income into 2012 if it reduces the amount of their 2013 earned income that will be subject to the additional 0.9% Medicare tax.

Effective in 2013, wages and self-employment income above $200,000 ($250,000 for married couples who file joint returns, $125,000 for married couples who file separate returns) will be subject to an additional 0.9% Medicare tax.

What happens if the federal tax cuts expire at the end of 2012?

Scheduled to expire at the end of 2012	What it means to you	Planning points
Reduced rates on ordinary income	The tax rates on ordinary income will increase for all individual taxpayers.	• Shift income to 2012 to take advantage of the current low rates. • In general, consider shifting deductable expenses to 2013 to help offset potentially higher rates. • Convert an IRA or old 401(k) to a Roth IRA this year while the tax rates on the conversion are lower.
No cap on exemptions and overall deductions	The phase-out on personal exemptions and the overall limitation on itemized deductions will be reinstated, reducing the benefit of exemptions and deductions for higher-income taxpayers.	• Consider shifting deductions that are subject to the limitation into 2012 if your adjusted gross income (AGI) is such that your deductions will be limited next year.
2% payroll tax cut	Workers will pay higher Social Security taxes in 2013 as the rate increases to 6.2% (from 4.2%) for employees and 12.4% (from 10.4%) for self-employed individuals.	• Consider accelerating bonuses and self-employment income into 2012.
Reduced rates on long-term capital gains	The current 15% and 0% rates on long-term capital gains are scheduled to increase to 20% and 10% respectively.	• If you plan to sell long-term appreciated investments, consider doing it this year. • Maximize your gifts by giving long-term appreciated assets to someone in the lowest two income tax brackets who can sell them without the gain being subject to tax.
Reduced rates on qualified dividends	Qualified dividends will be taxed as ordinary income instead of the current 15% or 0% rates.	• Businesses should consider accelerating 2013 dividend payments into 2012.
Favorable estate and gift tax provisions	The tax rate on estate, gift, and generation-skipping transfer taxes will increase to 55% (from 35%) and the amount you can exempt from transfer taxes will decrease to $1 million (from $5.12 million). Exemption portability between spouses will expire.	• Consider taking advantage of the current $5.12 million exemption amount by making gifts to your children and loved ones in 2012. • Take steps to ensure that the estate tax exemption of the first spouse to die is not lost.

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In the case of joint returns, the additional 0.9% tax applies to the combined wages and self-employment income of the worker and the worker's spouse. So even if you and your spouse each earn under $250,000, you will still be subject to the 0.9% additional tax if your combined wages exceed the $250,000 threshold for joint filers. For example, if you earn $200,000 and your spouse earns $100,000, the portion of your combined wages that exceeds $250,000 ($50,000 in this example) will be subject to the additional tax.

While 0.9% may not sound like much, it can really add up. For example, a single taxpayer with wages of $1 million will pay an additional $7,200 in Medicare taxes next year. So if you expect next year's earned income to be greater than the threshold for your filing status, accelerating some of it into 2012 may result in a sizable tax savings over the two-year period as a whole. To gauge how your wages or self-employment income may be impacted by the additional Medicare tax, check out the table on the next page.

Shift deductions to the more advantageous year. Shifting deductions into the year with the higher ordinary income tax rates generally offers you the greater benefit. If income tax rates increase next year or if you expect to be in a higher tax bracket, consider waiting until next year to make gifts to charity and pay deductible expenses so that you gain a greater tax benefit from those expenditures. But before shifting deductions, please read the next planning point.

Take advantage of the repeal of the overall limitation on itemized deductions. Higher-income individuals may find their itemized deductions severely curtailed in 2013 if the repeal of the overall limitation on itemized deductions is allowed to expire at the end of 2012.

Prior to the repeal, the overall amount you could deduct for certain itemized deductions—taxes paid, interest paid, gifts to charity, business expenses, and most miscellaneous deductions—was gradually reduced once your income exceeded a certain threshold. (The threshold was $166,800 in 2009; $83,400 for married couples who file separate returns.) As a result of the limitation, higher-income taxpayers lost up to 80% of the value of their otherwise allowable deductions.

If Washington allows the overall limitation on itemized deductions to be restored next year, higher-income taxpayers should consider moving deductible expenses into 2012 that they had planned to pay in 2013. This might include gifts to charity, your January mortgage payment, and your 2013 real estate taxes.

Shifting income and deductions between years can have unintended consequences, such as making you liable for the alternative minimum tax (AMT), so be sure to check with your tax advisor before making a move.

Watch out for the AMT. Before you begin year-end tax planning, determine whether you will be subject to the alternative minimum tax (AMT). This knowledge is important because some deductions, credits, and other tax preferences allowed when calculating regular income tax are not allowed when calculating the AMT.

To determine whether you will be subject to the AMT, your taxes are calculated both ways. If the AMT calculation results in a higher tax, you are subject to the AMT. Although some planning points mentioned in this article are not appropriate for the AMT, there may be other actions you can take to limit the AMT's impact or avoid it altogether. Please consult your tax advisor.

Pay medical expenses before the deduction threshold increases. Taxpayers who itemize deductions can deduct the medical expenses they pay during the year that exceed an adjusted gross income (AGI) threshold. This year, the AGI threshold is set at 7.5%, so you can deduct the portion of your qualified medical expenses that exceeds 7.5% of your AGI. Next year, the deduction threshold will increase to 10% of AGI for most taxpayers, due to a provision in the 2010 health care reform act. Senior citizens may continue to use the 7.5% threshold through 2016 if either they or their spouse is age 65 or older.

So if you and your spouse are under age 65 and your medical expenses are currently near or above 7.5% of your AGI, consider moving up some of the medical procedures and purchases you had planned for next year. For example, buy prescription drugs, prescription eyeglasses, and dentures in December rather than January so that you can take full advantage of this year's lower deduction threshold.

The AGI threshold for the medical expense deduction under the AMT is currently 10% and will remain 10% for the foreseeable future.

Bunch deductions to surpass the standard deduction. If your itemized deductions tally up to just shy of the standard deduction amount, consider accelerating or deferring payment of some deductible expenses

Impact of the additional 0.9% Medicare tax on high-income workers in 2013

	SINGLE TAXPAYERS	JOINT FILERS
If wages or self-employment income is...	**The additional Medicare tax** *on earned income above $200,000 is...*	**The additional Medicare tax** *on earned income above $250,000 is...*
$250,000	$450	–
$350,000	$1,350	$900
$500,000	$2,700	$2,250
$1,000,000	$7,200	$6,750
$2,500,000	$20,700	$20,250
$5,000,000	$43,200	$42,750

Federal Income Tax

			2012 TAX BRACKETS			
	2012	**2013** if the tax cuts are allowed to expire	**Unmarried** Taxable Income	**Married Filing Jointly or Surviving Spouse** Taxable Income	**Married Filing Separately** Taxable Income	**Head of Household** Taxable Income
Ordinary Income Tax Rates	**10%**	**15%**	Not over $8,700	Not over $17,400	Up to $8,700	Not over $12,400
	15%	**15%**	$8,701-$35,350	$17,401-$70,700	$8,701-$35,350	$12,401-$47,350
	25%	**28%**	$35,351-$85,650	$70,701-$142,700	$35,351-$71,350	$47,351-$122,300
	28%	**31%**	$85,651-$178,650	$142,701-$217,450	$71,351-$108,725	$122,301-$198,050
	33%	**36%**	$178,651-$388,350	$217,451-$388,350	$108,726-$194,175	$198,051-$388,350
	35%	**39.6%**	Over $388,350	Over $388,350	Over $194,175	Over $388,350
2012 Standard Deduction			$5,950	$11,900	$5,950	$8,700

so that your itemized deductions surpass the standard deduction amount either this year or next.

For example, if you are single with $4,500 in deductible expenses so far this year, you could just claim the $5,950 standard deduction amount for singles. But let's say you have a $3,000 real estate tax bill that is due in January. If you paid it in December, you could itemize your deductions and deduct $7,500 ($4,500 + $3,000). Although your deductible expenses may be lower next year as a result of making your real estate tax payment in 2012, you can claim the standard deduction amount then, which will likely be a few hundred dollars more than this year's standard deduction amount. By bunching deductions in this example, you are able to deduct about $13,450 over the two-year period ($7,500 this year + about $5,950 next year). If you used the standard deduction in both years, your deductions would total about $11,900 ($5,950 this year + about $5,950 next year).

Before bunching deductions, be sure to consider which year offers you the greater benefit and whether your overall deductions may be limited next year.

Convert to a Roth IRA this year while the tax rates are still low. If you are thinking about converting your traditional IRA or old 401(k) to a Roth IRA, doing so while the tax rates on ordinary income are still low may save you a bundle in taxes. Remember, any part of the converted amount that was not taxed previously will be taxed as ordinary income in the year of the conversion. So if tax rates are allowed to increase in 2013, you may pay less tax on a conversion this year than next. Keep in mind that it is generally a good idea to pay the taxes from a source other than the IRA or 401(k) you are converting.

The following investment-related planning points apply to taxable accounts; they do not apply to IRAs and 401(k) accounts.

Aim for long-term gains. When you hold appreciated stocks, bonds, mutual funds, and other securities for longer than one year before selling or trading them, the profit (gain) you realize on the sale is eligible for long-term capital gains tax rates. These rates are generally lower than the rates that apply to ordinary income, which is what you pay on the gain from investments held less than one year. This year, the top rate on long-term capital gains from securities is 15% while the top rate on ordinary income is 35%. So by holding onto your securities for longer than one year, you may prevent as much as 20% of your profit on their sale from winding up in Uncle Sam's pocket.

Realize capital gains in 2012 while the long-term capital gains tax rates are still low. The low tax rates on long-term capital gains will remain in effect through the end of this year. After that, the current 15% and 0% rates are scheduled to increase to 20% and 10% respectively. If Washington allows that to happen, you may be better off tax-wise selling appreciated stocks, bonds, mutual funds, and other securities that you have held for longer than one year in 2012 rather than 2013.

New Medicare tax on investment income begins in 2013.

The net investment income of individuals with incomes over $200,000 ($250,000 for married couples who file joint returns, $125,000 for married couples who file separate returns) will be subject to a new 3.8% Medicare tax beginning in 2013. The new tax will also apply to the net investment income of certain trusts and estates.

Net investment income includes the following items, less any deductions that may apply:

- Income from interest, dividends, net capital gains, annuities, royalties, and rent (unless the income is derived from a trade or business to which the tax does not apply)
- Income from passive activities
- Income from a business of trading financial instruments or commodities

Net investment income generally does not include:

- Income from an active trade or business
- Income subject to self-employment tax
- Gain on the sale of property that is held in an active trade or business
- Distributions from IRAs and qualified retirement plans
- Interest on tax-exempt bonds

How the tax is calculated for individuals:

For individuals, the 3.8% tax applies to the lesser of your net investment income or the excess of your modified adjusted gross income (MAGI) over the threshold amount for your filing status.

The threshold amounts are:

- $250,000 for married filing jointly or surviving spouse
- $125,000 for married filing separately
- $200,000 for singles

How may you be affected?

- *Example 1:* A single person has a $150,000 salary and $20,000 of net investment income. She is not subject to the tax because her $170,000 MAGI is under the $200,000 threshold for singles.
- *Example 2:* A married couple who files jointly has combined salaries of $270,000 and net investment income of $30,000. Their $300,000 MAGI is over the $250,000 threshold by $50,000. Their net investment income ($30,000) is less than that so the 3.8% tax applies to the $30,000 of net investment income.
- *Example 3:* A single person has a $50,000 salary and net investment income of $300,000, which puts his MAGI $150,000 over the $200,000 threshold for singles. The excess in MAGI ($150,000) is less than the net investment income ($300,000), so the 3.8% tax applies to the $150,000 excess in MAGI.

Planning points:

- Consider investing in tax-exempt municipal bonds whose interest is not subject to the new tax.
- Consider maximizing contributions to qualified retirement plans and tax-deductible IRAs in order to reduce your MAGI for the year, which in turn may reduce your current exposure to the new tax.
- Realize capital gains in 2012 before the tax kicks in.
- Sell your home in 2012 rather than 2013 if you expect the gain to exceed the IRS exclusion for main homes ($250,000 for singles, $500,000 for married couples). The tax will not apply to the excluded amount.
- If you are subject to this new Medicare tax, you may be required to make estimated tax payments.


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Give appreciated securities to individuals eligible for the 0% tax rate. If your income is too high to take advantage of the 0% tax rate on long-term capital gains, consider giving appreciated securities to someone (perhaps your parent or an adult child) whose income falls in the lowest two income tax brackets. As long as the securities have been held for longer than one year, the gift recipient can sell the securities before the end of 2012 without owing any capital gains tax. The holding period is calculated by adding the time you held the securities to the time the gift recipient holds the securities before selling them.

You may also give securities to your younger children, but be sure to consider the "kiddie" tax first. In general, investment income in excess of $1,900 (the 2012 threshold) is taxed at the parent's rate if a child is under age 19, or age 24 if a full-time student.

Harvest losses. It is a good idea to review your portfolio before the end of the year with an eye towards weeding out some of the investments that have lost value so that the losses can be used to reduce your taxes.

Here's how this works. When you sell an asset in a taxable account for less than you

Federal Tax Rates on Investment Income

These rates do not apply to investments held in a tax-favored account, such as an IRA or 401(k).

	2012	2013 if the tax cuts are allowed to expire
Long-Term Capital Gains	**15%** (0% for taxpayers in the lowest two income tax brackets)	**20%** (10% for taxpayers in the lowest two income tax brackets)
Qualified Dividends	**15%** (0% for taxpayers in the lowest two income tax brackets)	**Taxed as ordinary income**
Medicare Tax on Net Investment Income	**None**	**2013** **3.8%** for individuals with incomes over $200,000 ($250,000 for joint filers)

Federal Estate, Gift, and Generation-Skipping Transfer Taxes

	2012	2013 if the tax cuts are allowed to expire
Top Tax Rate	**35%**	**55%**
Exemption	**$5.12 million**	**$1 million**
Exemption Portability	The unused portion of the exemption can be used by the surviving spouse.	Exemption portability is no longer in effect.


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paid for it, the loss can be used to offset the capital gains you accumulated during the year. If your losses exceed your gains, up to $3,000 of the excess loss can be deducted from your ordinary income. Any remaining unused losses can be used in future years to reduce your taxes.

Keep in mind that if the tax rates on long-term capital gains increase next year or if you expect your investment income to be subject to the new 3.8% Medicare tax in 2013, your capital losses may be more valuable to you next year.

By the way, if you sell securities at a loss in a taxable account, do not immediately repurchase them. The IRS will not allow you to claim the loss if you or your spouse purchased substantially identical securities within 30 days before or after a sale.

Make gifts in 2012 while the gift tax exemption is still high. With the $5.12-million exemption for the federal gift tax set to revert to $1 million after 2012, taxpayers who expect their estates to be subject to estate taxes may want to take steps now to reduce the size of their taxable estate by making gifts to their children and others before the end of the year.

Please note that when the legislation increased the exemption amount through 2012, it did not address what may happen if the exemption amount is decreased in future years. For example, if you use all of the $5.12 million exemption now and the estate tax exemption is lower when you die, will the difference be subject to estate taxes? It is a good idea to discuss this possibility with your estate planning advisor if you are interested in making major gifts this year.

Give up to $13,000 away without gift or estate tax repercussions. The annual federal gift tax exemption is set at $13,000 for 2012. This means that you can give up to $13,000 to as many people as you'd like in 2012 without your gift being subject to the federal gift tax or reducing the amount that can be exempted from your federal estate taxes later on. Married couples can combine their exemptions and give up to $26,000 to as many individuals as they'd like.

Certain types of gifts are not taxable to begin with so there is no need to keep them under $13,000. They include gifts to your spouse, payments you make directly to a medical or educational institution for someone else's medical or tuition expenses, gifts to a political organization for its own use, and gifts to charities. ■

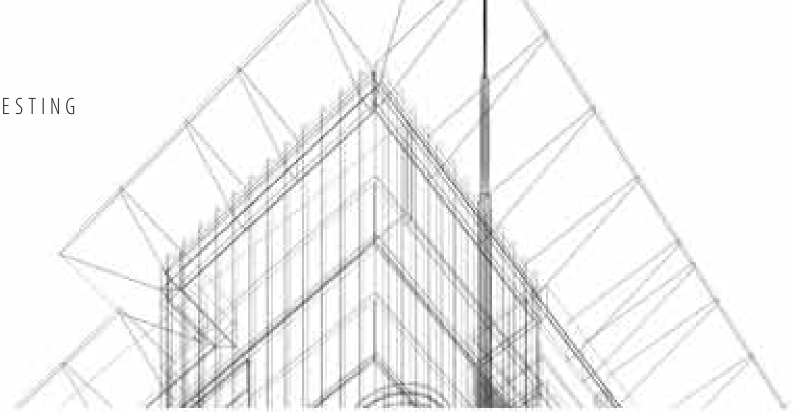
Please consult your tax and investment advisors for year-end advice.

You may be able to reduce your 2012 or 2013 tax liability if you act soon. The first step is to contact your tax and investment advisors.

Your tax advisor can review your situation in light of the latest tax laws, which may have changed since this publication was produced.

Your investment advisor can review your portfolio and identify moves that may benefit both your tax and investment situation.

The key is to get started now because most tax-minimizing strategies will need to be implemented before the end of the year.



5 TIPS FOR Municipal Bond Investors

With tax rates scheduled to increase in 2013, Uncle Sam may soon lay claim to a larger share of your interest income, dividends, and capital gains. Even if the Bush-era tax cuts are extended, a new 3.8% Medicare tax on net investment income will kick in for investors with incomes over $200,000 ($250,000 for married couples who file joint returns, $125,000 for married couples who file separate returns). What can an investor do to minimize the impact of tax increases? One strategy is to shift more of your portfolio to tax-exempt municipal bonds whose interest is not subject to federal taxes, including the new Medicare tax.

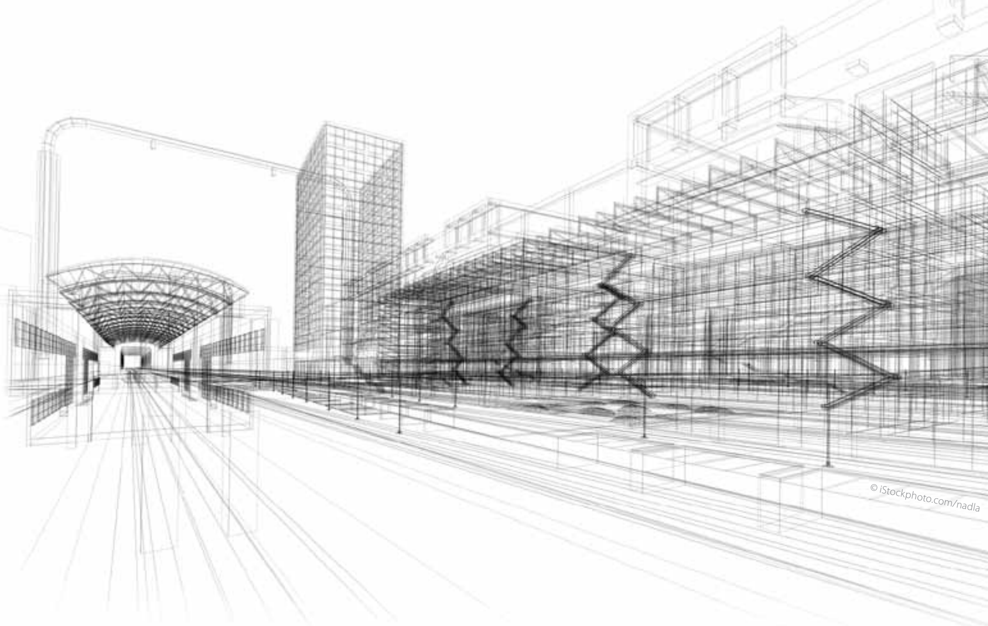
Here are five tips regarding investing in municipal bonds. Your financial advisor can tell you more.

1 **It pays to do the tax math**. Which bond offers you a higher return? A tax-exempt municipal bond yielding 5% or a taxable bond yielding 6%. Hard to tell at a glance, isn't it? After all, your actual return from the taxable bond will depend on how much of the interest you get to keep after taxes.

It takes a bit of math to be able to compare the yields. Specifically, you must determine the taxable equivalent yield for the tax-exempt municipal bond—that is the yield you would need to earn on a taxable security to equal the yield on the municipal bond. This can be determined using a taxable equivalent yield calculator.

Generally, the higher your tax bracket, the higher the taxable equivalent yield and the more attractive tax-exempt bonds become.

For example, if you are in the 35% federal



income tax bracket, the taxable equivalent yield on a 5% tax-exempt bond is 7.69%. This means you would need to find a taxable security yielding more than 7.69% to beat the yield on a 5% tax-exempt bond.

The result is significantly different, however, for someone in a lower tax bracket. If you are in the 15% tax bracket, for example, the taxable equivalent is 5.88%. If you can find comparable taxable securities yielding more than 5.88% (or whatever the actual taxable equivalent yield is), then municipal bonds generally do not make sense for you.

It pays to do the math before investing in municipal bonds to ensure that the tax benefit you will receive more than compensates you for the lower interest rates that municipal bonds typically pay.

2 Consider bonds issued in your state. The interest from municipal bonds issued in your home state is generally exempt from state and local taxes, in addition to federal taxes. If you live in a state with high personal income taxes, such as California, New York, Oregon, or New Jersey where top rates exceed 8%, choosing in-state bonds over comparable bonds from other states may save you a bundle in taxes. Of course, taxes are only one of several factors to consider when choosing bonds.

3 Check the call date. Many municipal bonds have a call provision, meaning that the bond issuer can choose to redeem the bonds early at a predetermined price and time. For example, a municipal bond issued with a maturity date in twenty years may have a call date in ten years. The ability to redeem bonds before the maturity date benefits the bond issuer. If interest rates have declined since the bonds were originally issued, the issuer may buy back its bonds (perhaps at a premium) and issue new bonds that pay a lower interest rate.

In the current low-interest rate environment, higher-coupon bonds that were issued several years ago when interest rates were higher are apt to be redeemed early by the issuer when their call date arrives. For this reason, it is important to check the call date, the call premium, and yield-to-call when deciding whether to invest in a callable bond.

4 Diversify. Like other types of investments, municipal bonds are subject to risk. Among the risks associated with investing in bonds are credit risk (the risk that the bond issuer will be unable to make the interest payments or return the principal) and interest rate risk (the risk that when interest rates rise, bond prices will fall).

You can help manage these and other risks by diversifying your municipal bonds among different bond issuers, geographic locations, and maturity dates. This can be accomplished by either investing directly in a wide range of municipal bonds or by choosing a bond fund that is already diversified.

5 Hold tax-exempt bonds in taxable brokerage accounts. A municipal bond's most attractive feature is its tax-exempt interest payments. This feature will go to waste, however, if you hold your tax-exempt bonds in an IRA or other type of tax-deferred retirement plan, such as a 401(k). Remember, income generated in tax-deferred accounts is subject to tax when withdrawn, regardless of whether the income was generated by tax-exempt bonds.

Please consult your financial advisor. If you are concerned about the upcoming tax increase, talk to your financial advisor about it. Your advisor can help you determine if municipal bonds make sense for you, as well as identify other strategies that may help minimize the bite that taxes take out of your investment returns. ■

PLEASE NOTE:

- *Diversification does not ensure a profit or protect against loss in declining markets.*
- *When investing in a mutual fund, be sure to consider the fund's objectives, risks, charges, and expenses, which can be found in the fund's prospectus. You can get a copy of it from your financial advisor. Please read it carefully before investing.*
- *When interest rates rise, bond prices generally fall, and vice versa. The effect is usually more pronounced for longer-term securities.*
- *You may have a gain or a loss if you sell a bond prior to its maturity date.*
- *A portion of a municipal bond's income may be subject to state tax, local tax, and the federal alternative minimum tax.*
- *Fixed income securities also carry inflation risk and credit and default risks for both issuers and counterparties.*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Queensland, Australia: State of Pleasure

BY BRIAN JOHNSTON

ONE MOMENT THE SUN is glaring overhead, birds wheel in a familiar sky, and you're a clumsy creature with a heavy tank strapped to your back, staggering across a boat deck. Then you tip yourself over the edge and suddenly you're almost weightless, surrounded by deep blue. Fish in bewildering colors float around you: violent pink, neon green, Nemo orange. Grey carbuncled shells of giant clams open up to reveal soft mauves dotted with electric blue. Angelfish swoop past, pouting seductively with their marigold lips. Zebra-fish, striped white and black, maneuver busily through savannahs of coral, ignoring the brash damsel fish flirting in bold blues and yellows.

The first heady plunge into the Great Barrier Reef isn't just a highlight of Queensland in Australia: it's one of the world's most glorious travel moments. Pick one of the three thousand reefs that straggle all the way down the coast almost as far as Brisbane, and you'll feel like Alice in a new wonderland. You don't even have to be a certified diver; cruise companies offer introductory dives to shallow depths accompanied by a qualified instructor.

If you're worried about getting in over your head, the snorkeling is almost as dazzling: float on a scintillating blue sea gazing down at orange-and-white striped clownfish as they sail sedately over a bed of purple sea urchins. Massive potato cod bigger than you loiter majestically in the shadows. This is an improbable landscape of improbable creatures: staghorn coral, tiger cowries, batfish, coral trout showing off in pink dappled with white spots. When you clamber back up onto the boat deck, heavy and clumsy, you'll feel a sense of loss, as if you've awoken from a beautiful dream. Don't worry: there are another 2,999 reefs to explore, and every one of them astounding.

Welcome to Queensland. The state's long coastline has it all: cute fish, endless sunny days, golden beaches, palm trees, and cocktails. The food is sophisticated, the cheerful natives speak English (or at least something that resembles it), and the nightlife is humming along. Queensland is one big beach resort, but it's also so much more. From reef to rainforest and rust-red outback, the natural environment seduces and surprises at every turn. You don't even

From the Great Barrier Reef (left) and the Gold Coast (top right) to the hinterland's tropical rainforests (lower right), Queensland seduces you at every turn.

need to turn, or dive, or do anything at all. Just sit outdoors with a long cool drink and look up in the trees; you'll soon be gawking in amazement at bizarre birds in bright orange and scarlet plumage, shrieking like express trains.

Queensland lives the Australian stereotype, from the tips of its giant eucalypts to the bronzed toes of its Speedo-clad lifesavers. But explore beyond its resorts and you'll discover the real depths behind Australian history and the quirks of its culture: this is a place that reveres Aboriginal rock art and giant fiberglass pineapples alike. Its capital, Brisbane, was once derided for its provincial tedium; now it's the fastest-growing and most desirable city in the country. Artistic glass towers, restored Victorian buildings, and stately palm trees typify the city center, where walkers, bikers, and latte-drinkers drift in shoals along the riverbanks. Voters came out in droves for drag queen Tamara Tonite in a recent mayoral election, and in Paddington diners tuck into fresh local figs with prosciutto and feta. But quirky and sophisticated as it might be, Brisbane is still all Queensland at heart: you can stand on the downtown pier and fish in your bare feet.

Just north of Brisbane, the Sunshine Coast demonstrates the same laid-back lifestyle combined with new urban chic. Competition among Noosa's upmarket restaurants is so fierce that the resulting fare is sublime: dine out on spanner-crab and papaya and mint salad as you watch long-haired surfers hauling boards into battered station wagons. Noosa's rocky headland is a national park scalloped by the Pacific and haunted by pelicans, and koalas doze among the eucalyptus. From here it's about 155 miles to Bundaberg, the stepping off point for the southern Barrier Reef, which kicks off in splendid style at Lady Elliot, with its colonies of seabirds and turtles, and Lady Musgrave, a coral cay with a lagoon full of manta rays. If you just want a long-day trip to the Barrier Reef from the Sunshine Coast you're in luck—these two islands are among the best snorkeling and dive sites in Queensland.

A short skip to the south of Brisbane, the Gold Coast is legendary. To really enter its adrenaline-fueled spirit you have to fling yourself into surf and nightlife, then skydive and bungee-jump before heading to the big theme parks: Warner Brothers MovieWorld, Dreamworld (prepare for the Giant Drop, the tallest freefall on the planet), Wet'n Wild, and possibly the best of them all, Sea World. The holiday frenzy centers mostly around Surfers Paradise, but steering clear of Australia's biggest party zone isn't difficult. An extensive system of waterways allows tranquil fishing, yachting, and sunset cruises. (Do the really Aussie thing and rent a 'tinnie'—a small basic motorboat—and splutter through lazy canals yourself.) Even the beaches have quiet corners; you can still walk down little sandy paths lined with flowering banksias and find no one but a leather-skinned fisherman standing knee-deep in surf.

The coast is a bundle of fun, but what makes Queensland more than just another beach destination is the Barrier Reef on one side and the hinterland on the other. Your guidebook will probably give it scant justice, but put aside plenty of time to explore inland. (With so much to see and do in this corner of Australia, you might find yourself coming to Queensland for three weeks and returning for as many months.) The state's southeast corner is very Australian: yellow grass and green pastureland, undulating escarpments and giant gum trees where parrots cackle against a wide blue sky. The country's rugged colonial history comes alive in gold-rush towns like Gympie, the rattling steam trains of Mary Valley, the magnificent sandstone architecture of Rose, and the historic pubs of Ipswich, Queensland's oldest provincial town. Brisbanites hunt for traditional leadlight windows, much prized for home renovations, in the antique stores.

The bushwalking is terrific in Queensland and the views unparalleled. Bandicoots snuffle on the roadside, glow worms haunt

the caves, macadamia and coffee plantations alternate with World Heritage rainforest. You could be a thousand miles in time and history from the Sunshine and Gold Coasts rather than a one-day drive; sometimes the silence in these hills is so deep you can hear the trickling of a nearby stream or the soft flutter of leaves twirling down from the top of a giant eucalyptus. And if you think the Barrier Reef's fish are fabulous, try the eucalyptus trees. Some have salmon-pink bark, smooth and cool to the touch; others have white bark that looks as if it has been scribbled on by a furious child with a black pencil; others peel long strips and glow in the moonlight. There are few other places in the world where even the trees make you gasp—that's Queensland. ■

Museum Openings in 2012

Boston, MA
Isabella Stewart Gardner Museum's New Wing
Opened January 2012

A new 70,000-square-foot addition to the Museum's Palace building opened this past January. Designed by Pritzker Prize-winning architect Renzo Piano, the new wing features spaces for special exhibitions, concerts, and classes. "This new wing is an extraordinarily elegant workshop, a bustling counterpoint to the historic building's serenity. Here, the thinking and the work of the Museum is performed, so that the Palace, which had been put to uses for which it was not equipped, can once again give visitors the experience Isabella Stewart Gardner intended: a personal confrontation with art," said Anne Hawley, *Norma Jean Calderwood Director* of the Museum.

New York, NY
Museum of Mathematics *Opening December 15, 2012*

Designed to spark interest in mathematics, the new Museum of Mathematics opens to the public this December in Manhattan.

An exterior view of the Special Exhibition Gallery in the new wing of the Isabella Stewart Gardner Museum in Boston.
Photography © Nic Lehoux / Renzo Piano Building Workshop

Tacoma, WA
LeMay—America's Car Museum *Opened June 2012*

Photo courtesy of David Imanaka

A museum celebrating America's love affair with the automobile opened in Tacoma in June 2012. The 165,000-square-foot museum showcases up to 350 cars, trucks, and motorcycles and more than 100 years of automotive history. Many of the vehicles on display are from Harold and Nancy LeMay's vast car collection, estimated to number over 3,000. "We've created a fun destination in addition to a beautiful museum," said David Madeira, the Museum's President and CEO. "We've got our 3.5 acre Haub Family Field to host concerts, car shows, civic events, and even drive-in movies. We have an educational center that will attract 100,000 school kids each year and unique exhibits that blend cars, music, film, and photos. And all of this is centered around preserving history and creating a thriving museum at the heart of the world's automotive culture."

Water Mill, NY
Parrish Art Museum's New Building *Opening November 10, 2012*

Located on the East End of Long Island, the Parrish Art Museum will open the doors to its expansive new building this November, tripling the exhibition space it had in the prior facility. "Now, for the first time, the Parrish will have the wherewithal to make available on a permanent basis our distinguished collection of American art, while simultaneously presenting special exhibitions," said Alicia Longwell, *Lewis B. and Dorothy Cullman Chief Curator, Art and Education*. The low-slung building, designed by Herzog & de Meuron, references the architecture of the East End, while the landscaping, designed by Reed Hilderbrand, evokes the East End's meadows, wetlands, and scrub woodlands, with long views of expansive sky and horizon. The inaugural special exhibition, *Malcolm Morley: On Paper*, runs through January 13, 2013. ■

British Authors

1. Who wrote *Pride and Prejudice*?

A. Jane Austen
B. Charlotte Bronte

2. Which author coined the word "utopia" in his novel of the same name?

A. Sir Thomas More
B. Christopher Marlowe

3. Which author satirized British society in *Vanity Fair*?

A. Charles Dickens
B. William Makepeace Thackeray

4. The early sci-fi classic, *The War of the Worlds*, was written in 1898 by:

A. Arthur C. Clarke
B. H.G. Wells

5. The Sherlock Holmes character was an invention of:

A. Sir Arthur Conan Doyle
B. Mary Shelley

6. This British author achieved fame and fortune with a series of novels about a boy wizard named Harry.

A. J.K. Rowling
B. C.S. Lewis

7. Novels for children, such as *Charlie and the Chocolate Factory* and *James and the Giant Peach*, were this author's forte.

A. Alistair MacLean
B. Roald Dahl

8. Which play was *not* written by William Shakespeare?

A. Much Ado About Nothing
B. Edward the Second

9. The initial escapades of James Bond 007 were penned by:

A. John Le Carre
B. Ian Fleming

ANSWERS: 1–A, 2–A, 3–B, 4–B, 5–A, 6–A, 7–B, 8–B, 9–B.