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VOLUME 21 | EDITION 05

Berman Capital Advisors LLC
Justin F. Berman, MBA, Founder and Principal

"How will the likely changes in tax law impact the investment landscape?"

By Justin F. Berman

As we edge toward the "fiscal cliff," it is increasingly likely that tax rates for wealthy taxpayers will increase in 2013. If the Bush-era tax cuts are allowed to expire, scheduled ordinary income tax rates will increase to 39.6 percent, as will taxes on qualified dividends; long-term capital gains rates will increase to 20 percent.

Still other taxes will impact our clients in 2013. These include the Medicare tax of 3.8 percent; the 3.8 percent investment income surtax; and the "stealth tax," whereby itemized deductions will be reduced by 3 percent of "excess income," meaning the amount of adjusted gross income that exceeds a threshold. This latter change, from the current reduction of 2 percent, will effectively increase the marginal tax rate on this income. As a result, most of our clients will be paying 44.6 percent on ordinary income and dividends and 25 percent on long-term capital gains even before state and local taxes are considered.

While we do not let taxes influence our fundamental investment decisions, we are advising our clients to consider certain steps this year:

Sale of a Business Interest: All other things being equal, an increase in tax rates makes selling a business in 2012 a prudent decision. By realizing a multiple of future earnings today, taxed at the 15 percent capital gains rate, sellers will enjoy significant savings over the 44.6 percent they will have to pay in ordinary income taxes in future years.

Converting a Traditional IRA to a Roth IRA: It makes sense to consider a rollover this year if there is cash outside the IRA to pay the ordinary income tax charged upon conversion. Roth IRAs provide tax-deferred growth just as traditional IRAs do, only with tax-free distributions and less stringent distribution restrictions (subject to limitations). Eligible individuals should continue contributing to retirement accounts, since tax-deferred growth during periods of higher ordinary income tax rates becomes even more valuable.

Realizing Capital Gains from Investments: If there are no offsetting current capital losses or carry-forwards, realizing a gain in 2012 might be wise. A break-even analysis shows that 13.3 percent appreciation is required to justify waiting and then paying 25 percent in taxes next year, versus paying 15 percent today. Defer realizing losses to offset against future gains to save more tax dollars.

Executive Compensation: With non-qualified stock options, executives are taxed at ordinary income rates on the difference between the stock price and the exercise price on the date of exercise. The appreciation after the exercise date is subject to capital gains taxes if the stock is held longer than one year. Therefore, senior executives might consider exercising options this year before ordinary income tax rates increase.

Asset Classes: With higher ordinary income tax rates, certain asset classes become more attractive in taxable accounts, including municipal bonds, which provide a higher after-tax equivalent yield, and master limited partnerships (MLPs), which pass deductions through to individual investors. Dividend-yielding stocks become less appealing. Investments in collectibles and certain precious metals are not affected, as those tax rates are not scheduled to change.

Philanthropic Decisions: Philanthropic clients need to consider that as ordinary income tax rates increase, deferring charitable contributions from 2012 to 2013 can result in tax savings. Clients who make their gifts at year end may want to wait until January 1. However, the effect of the "stealth tax" should be factored into this decision.

BCA does not provide legal, tax or accounting advice. Investors are encouraged to consult their attorney or CPA regarding their individual situation. The information presented herein is for illustrative purposes only. This article is based on information believed to be reliable, but BCA makes no representation or warranty as to its completeness or accuracy.

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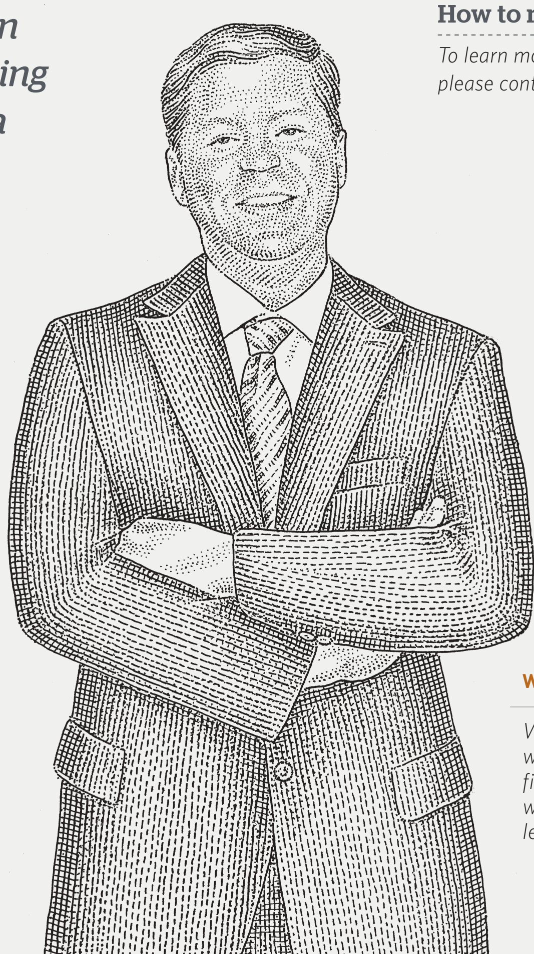
>
> —Justin F. Berman



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How to reach **Justin F. Berman**

To learn more about Berman Capital Advisors, please contact me at 404.554.4999.

IF I WEREN'T A WEALTH ADVISOR, I'D BE...

An athletic director at a major college

WHAT MAKES A GOOD WEALTH ADVISOR...

A good wealth advisor's only agenda is to provide excellent service to clients, with a top-notch team assembled to anticipate and proactively tend to clients' needs.

WHAT MAKES A GOOD CLIENT...

We particularly enjoy clients willing to be educated about the financial markets and investments, who are philanthropic and seek to leave a legacy for the community.

About Justin F. Berman

Justin F. Berman founded Berman Capital Advisors in 2010 to provide objective wealth management and investment consulting services to high net worth clients. Previously he was a vice president in the Private Wealth Management Group of Goldman Sachs and was a member of the firm's leadership council. He has also held positions within the Investment Advisory Group of MyCFO, Inc. and the Private Client Group at Arthur Andersen. Educated at Georgetown University, where he received his BSBA degree and graduated summa cum laude, he also holds an MBA degree from The Wharton School, at the University of Pennsylvania, where he was a Palmer Scholar. In his nonprofit activities, he is a trustee for Families First, Georgia's leading foster care agency; a trustee of Georgetown University's athletic department; a board member of the Assistance in Healthcare program for The Cancer Treatment Centers of America, Southeast Region; and a member of the American Jewish Committee.

Assets Under Management
$1.2 billion (as of 12/31/11)

Minimum Net Worth Requirement
$10 million (for planning and investment services)

Minimum Fee for Initial Meeting
None required

Largest Client Net Worth
Confidential

Financial Services Experience
13 years

Compensation Method
Asset-based and fixed fees

Professional Services Provided
Planning, investment advisory, money management and family office services

Primary Custodian for Investor Assets
Pershing, a BNY Mellon Company

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