MARKET STREET OVERVIEW | SEPTEMBER 2012

TAXES & PHILANTHROPY

TAX TALK

As in 2010, the U.S. once again is approaching the expiration of significant tax legislation with no resolution in sight. The probability of a resolution before year end is uncertain; especially considering this is an election year. In the face of tax uncertainty, what can we expect for 2013? While it is impossible to predict how the tax code will change even if we knew the outcome of the November elections, we know some tax changes will occur next year. This newsletter discusses the possible changes and how they might impact your financial future. It also highlights two areas of focus by the IRS and/or state taxing authorities as they seek additional revenue through accessing use tax and enforcing foreign asset reporting.

Susan M. Doud
Tax Manager,
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NEW TAXES

We do know, as a result of the Supreme Court upholding the Affordable Care Act, taxes increase for high income taxpayers beginning in 2013. New Medicare surtaxes instituted to defray the costs of the implementation and maintenance of the Healthcare Reform law will take effect. This means:

- A new 3.8% tax on unearned income for individuals whose income is over $200K ($250K for those married, filing jointly) based on of the lesser of a) net investment income or b) new modified adjusted gross income (AGI).

- A new 0.9% tax on wages over $200K ($250K for those married, filing jointly).

INCOME & ESTATE TAX PLANNING POSSIBILITIES

Historically, the likelihood of taxes being increased in an election year is low. However, the new Medicare surtaxes mentioned above effectively raise taxes on high income taxpayer's wages and investment income. Additionally, under current law, if Congress does not act, income taxes will increase due to the expiration of the Bush tax cuts at the end of 2012.

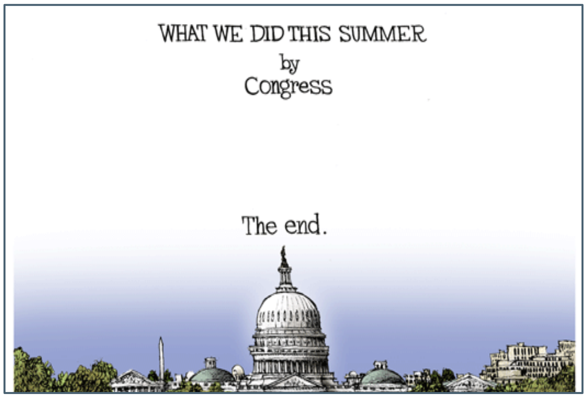
LAW	2012	2013
Top income tax brackets	35%	39.6%
Tax on dividends	15%	39.6%
Tax on long term capital gains	15%	20%
GST* tax and lifetime gift tax exemptions	$5,120,000 per person	$1,000,000 per person
Gift tax and estate tax top rates	35%	55%

*Generation Skipping Tax

Market Street is actively planning with our clients to minimize the impact of these potential changes and to take advantage of existing opportunities. One strategy is to maximize the current gift and GST exemptions and reduced gift tax rates. While we hope that the current estate, gift, and GST exemptions and tax rates are extended, they may not stay at their current favorable levels. If they are not extended, the maximum opportunity may be lost effective January 1, 2013.

WHERE DOES THIS TAKE US?

The prevailing thought is that Congress will institute another temporary fix until a more permanent solution can be instituted. In other words, tax commentators assert there is strong probability that we will see another two year extension of some of the favorable tax rates and provisions.



Given the possibility of a less favorable tax environment for high net worth individuals in the near future, however, there are a number of tax planning opportunities to consider now based on your individual circumstances. We can say that 2012 is a great year to consider maximizing your gifting to enhance tax efficient wealth transfer if you have not already done so.

Market Street will continue to monitor Congress and potential legislation and provide appropriate updates. We encourage you to continue conversations with your Market Street Wealth Advisor or your Tax Accountant to discuss a strategy that takes advantage of the current law before it may expire.

USE TAX

Use tax has become a hot issue recently as states struggle to increase revenues. Use tax is imposed on both businesses and individuals. Domestically, use tax is due on the purchase of goods where sales tax was not paid in the state where the item was purchased. Use tax is typically assessed at the same rate as the sales tax which would have been owed if the goods had been purchased in the state of residence. In addition, use tax applicability includes purchases made in a foreign country. When purchases are declared in customs upon return from a trip abroad, those items may be reported to your state taxing authority and you may be assessed use tax on those purchases. In many cases, this includes items on which you have already paid a Value Added Tax (VAT).

If you paid a VAT when a foreign purchase was made, it is occasionally possible to obtain a refund of the VAT. This refund opportunity must be addressed before you return to the U.S., generally at the foreign airport. For more information, contact your Wealth Advisor.

FOREIGN ASSET REPORTING

Due to the U.S. Treasury's increased interest in U.S. taxpayers with foreign assets, it is important to inform your tax preparer if you have a financial interest or signature authority over a financial account in a foreign country. Under the Bank Secrecy Act, the IRS requires anyone with an interest in a foreign account to include the related income on their personal income tax return. Additionally, taxpayers must report ownership of foreign accounts if at any time during the year the account had a balance in excess of $10,000. While there is no tax assessed with the reporting of foreign assets, penalties for not reporting the accounts are severe.

PHILANTHROPICALLY MINDED

In light of our volatile economic environment and with rising tax rates in the future, creating a Strategic Giving Plan can provide tax benefits that are a bit of a silver lining in the brewing tax clouds. Following is a discussion about the benefits of developing a Strategic Giving Plan that meets your philanthropic goals while saving you tax dollars.

Rachel J. Sherman, *Director, Client Service*

CHARITABLE GIVING AND TAXES

The charitable contribution deduction has been the subject of much debate in the press, especially after it was the subject of an income tax reform proposal by President Obama in his 2013 fiscal year budget where he recommended a cap of 28%. For those of us who care about the strength of our communities, important artistic and cultural institutions, education, the well-being of children and the elderly, and helping to protect vulnerable populations (among other worthy causes), the charitable contribution deduction is a tool that can be used to increase giving beyond that which we might have otherwise been able to do.

With the prospect of rising tax rates, there is an opportunity to time your giving to achieve its maximum efficiencies. For example, let's assume you plan to support the capital campaign of the local food bank, an art institution, or your alma mater with a sizeable gift. A $200,000 donation on December 31st of this year for an individual in the 35% marginal tax bracket might be worth $70,000 in saved taxes (assuming no phase outs under the Alternative Minimum Tax). Thanks to the expiration of the Bush tax cuts on the top bracket, in the first week of January 2013, it might be worth $79,200, a difference of over $9,000. If the timing is of no difference to the charity (something you may wish to inquire about as some are counting on gifts within a calendar year for budget purposes), delaying big gifts to a year with higher tax rates may increase the value of the deduction.

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On the other hand, if you expect to be in a lower tax bracket in the future, either as the result of a retirement, a large, lifetime wealth transfer to heirs, or similar change in circumstances, you may benefit from front-loading your giving during your very high income producing years. A gift to a family foundation or donor advised fund to hold charitable dollars for future philanthropy may be appropriate for some. Accelerating an individual gift you would have otherwise done in the future (say to honor an institution's anniversary a few years hence, or the later years of a multi-year pledge) might also be associated with projected tax savings.

Another strategy to maximize tax benefits is to make the gift with low basis stock of a public company. In this way, you would not realize a taxable gain, but get the deduction equivalent to the fair market value. Charitable contribution deductions may be limited based on your AGI. We recommend that you consult with your Tax Accountant before making any changes to your giving plans.

On the estate planning front, you may want to consider the effect of possible rising estate tax rates since charitable bequests made as a part of a will or trust instrument are deductible on an estate tax return. One method some clients consider is establishing a Charitable Lead Annuity Trust (CLAT) as a part of their estate plan, naming a charity (sometimes a family foundation) as the beneficiary of the annuities, and children as the remainder beneficiaries. This wealth transfer strategy creates a charitable deduction for the estate based on the value of the annual charitable annuity and benefits your descendants at the end of the trust term.

The charitable giving vehicle that is right for your goals, interests, and tax situation is specific to your financial situation and should be discussed with your Wealth Advisor and Tax Accountant. Please do not hesitate to call us at Market Street to explore your options.

STRATEGIC GIVING PLANS

Strategic Giving Plans can take your charitable intentions to the next level. The process of creating a Strategic Giving Plan allows to you incorporate your family's philanthropic purposes and goals. It also provides an opportunity for legacy planning and family education. Strategic Giving Plans can be complex or simple, but should be focused on ensuring that your philanthropic activities are achieving the highest level of personal and family satisfaction.

The process starts with an exploration of your motivations and goals for giving. We look at why you are giving, what you hope to achieve, and how you think your giving will affect a change. Embarking on a personal exploration of your giving involves analyzing where you spend your time and talents in addition to your money, otherwise known as your 'time, talent, and treasure'. This information combined with that of your spouse and adult children's interests will bring to light areas of common interest and passions. Your Wealth Advisor will use this information to present various wealth transfer strategies that meet your financial and philanthropic goals. We have found that our clients who are committed to their own or their family's philanthropic interests often have a deep sense of enrichment that comes from helping to make the world a better place.

"I had one idea that never changed in my mind - that you should use your wealth to help people."

Chuck Feeney, Successful Entrepreneur and Founding Chairman, Atlantic Philanthropies

With many years' experience and a philanthropy-focused Center of Excellence, Market Street is dedicated to helping our clients fully effectuate their charitable designs from a tax, investment, and philanthropic perspective. We look forward to assisting you in the development of your own customized Strategic Giving Plan.

UPCOMING PHILANTHROPIC EVENTS

You may be interested to know of two upcoming philanthropic events geared toward assisting families as they expand their philanthropic efforts. The Council on Foundation's Family Philanthropy conference in January 2013 in San Jose, California promises to be an enriching experience and will be attended by like-minded family philanthropists from around the country. Further, Market Street's long and valued association with the Grantmakers Forum of New York (GFNY) makes resources, conferences, and other GFNY programs accessible to our clients. The GFNY annual meeting, held in Syracuse, New York on October 9th, will focus on capacity building grantmaking. **If you would like to join us at either of these two events, please feel free to contact me at rsherman@marketstreettrust.com or 1-800-962-6876.**

END OF YEAR GIFTS REMINDER

As the end of year approaches and your thoughts turn to end-of-year charitable gifts, please be reminded that all requests to process donations of stock must be received by Wednesday, December 12, 2012 to ensure timely processing. Also, cash charitable contributions must be received by the recipient by December 21, 2012 in order to qualify for a current year deduction.

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