WHITEPAPER

2013 Year-End Tax Planning

National Wealth Planning Strategies Group, U.S. Trust

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Year-end tax planning, always a key part of the wealth management process, is even more important this year with all of the recently implemented tax changes. This whitepaper addresses several common year-end federal tax issues for high-net-worth individuals, but only at a general level. Your particular situation can only be evaluated by your tax advisor who knows the details of your situation. Several of the matters discussed here reflect the American Taxpayer Relief Act of 2012, which is generally effective as of January 1, 2013. This will be referred to as "ATRA 2012."

TABLE OF CONTENTS

New 3.8% Medicare surtax 1

Basic tax planning

Quarterly estimated taxes 1

Timing deductions 3

Phase-out of itemized deductions 3

AMT planning 4

Stock transactions

How long-term and short-term gains/losses are netted 5

New maximum capital gain rate 5

Planning with the capital gain netting rules 5

Will the gain/loss be in 2013 or 2014? 6

The Wash Sale Rule 7

Planning with the Wash Sale Rule 7

Identifying which shares are sold 8

Worthless stock 9

Planning with a covered call at year end 9

New 3.8% Medicare surtax

Enacted three years ago as part of health care reform, a new 3.8% surtax on investment income takes effect in 2013. The new 3.8% surtax is imposed on "net investment income," assuming certain conditions are met. The surtax applies to individuals, trusts and estates. For an individual, the surtax is imposed on the lesser of: (i) "net investment income" or (ii) the excess of "modified adjusted gross income" over a specified threshold—$250,000 for married couples, ($200,000 for individuals). Some of the planning matters mentioned in this guide will be affected by the 3.8% surtax. That new issue will be highlighted in this summary when it arises.

Basic tax planning

QUARTERLY ESTIMATED TAXES

Although estimated tax payments are not always a year-end planning matter, there are a few planning tips that are related to year end.

Federal (and most state) estimated tax payments are due quarterly on April 15, June 15, September 15 and January 15 (except if the 15th falls on a Saturday, Sunday or legal holiday). To the extent withholdings from your salary do not satisfy the amount due, you may have to make additional payments to the IRS by these quarterly due dates or incur an underpayment penalty. There are three ways to calculate your federal quarterly estimated tax payments; you can choose the method that requires the smallest payment.

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See last page for important information.

Rules that expire/revive annually

Sales tax deduction....9

AMT exemption....9

IRA distribution to charities....10

Conservation easements....10

Gain on sale of QSB stock....10

S corp "built in" gain....10

IRAs

Required minimum distributions (RMDs)....10

Divide an inherited IRA....11

Roth conversions, recharacterizations & reconversions....11

Year-end charitable gifts

Charitable income tax deduction limitations....12

Beware gifts of certain investments....13

Making sure the deduction is in 2013....13

Substantiating charitable gifts....13

Wealth transfers

General estate plan review....14

$14,000 annual exclusion gifts....14

Gifts to 529 plans....14

Beware the "kiddie" tax....15

The 3.8% Medicare surtax deadline....15

Income tax rates....16

Method #1: 90% Rule. Each quarter, pay 25% of 90% of the current year's tax. This requires that you predict the current year's tax.

Method #2: 100/110% Rule.

- If your adjusted gross income (AGI) on last year's return was $150,000 or less and you filed singly or jointly ($75,000 for married filing separately), then your quarterly payment under this method must be 25% of 100% of last year's tax. This requires no prediction.
- If your AGI was more than these amounts, then your quarterly payment must be 25% of 110% of last year's tax (which is mathematically equivalent to 27.5% of 100% of last year's tax).

Method #3: Annualization. Each quarter, based on the year-to-date pace of your income, you predict what would be 90% of the current year's tax. You pay 25% of that for the first quarter. For the second quarter, you would pay whatever additional amount would make your year-to-date estimated tax payments total 50% (of 90% of the predicted tax), etc. This annualized method can be favorable if your income is not earned evenly throughout the year.

Planning tip. Taxes that are withheld from wages are deemed to have been withheld ratably on the estimated tax payment dates throughout the year. This can be beneficial if at year end you find that you have underpaid prior quarters' estimated taxes. If your employer will withhold more tax, a portion of that amount will be deemed to have been retroactively and evenly paid in prior quarters, possibly mitigating an estimated tax underpayment penalty.

Similar withholding rules apply to distributions from IRAs. If it is advantageous, you can withdraw from your IRA and have tax withheld. The taxes that are withheld are deemed to have been withheld ratably on the estimated tax payment dates throughout the year. Because you would incur income tax on withdrawn amounts, this can make most sense if you are over 70½ and have to withdraw required minimum distributions. In that case, you would not be incurring additional income tax since you must withdraw from your IRA; rather you would just be having more tax withheld from your required minimum distributions.

3.8% Surtax Alert

Traditionally, the estimated taxes discussed above have encompassed income taxes, self-employment taxes, and alternative minimum taxes. Beginning in 2013, taxes due under the 3.8% Medicare surtax also must be included in estimated tax calculations.

TIMING DEDUCTIONS

Income tax deductions are subject to many limitations. It can be beneficial to time the payment of deductible amounts, either accelerating payment into the current year or delaying payment into next year. Here are two possible reasons to do this.

Thresholds. Several categories of deductions have thresholds that must be exceeded before a deduction is allowed. For example, medical expenses are deductible as an itemized deduction only to the extent they exceed 10% of adjusted gross income (AGI).[1] As another example, so-called "miscellaneous itemized deductions" are deductible only to the extent they exceed 2% of AGI. If you can control the timing of these deductible payments, two planning ideas are as follows.

1. If your AGI is lower in one year than another, then these thresholds will also be lower for that year. If you make a deductible expenditure in the year in which your threshold is lower, you might obtain a larger tax deduction.
2. If your expenditures don't exceed the threshold when paid each year, then "bunching" them together in one year might allow you to exceed the threshold. Other factors will also affect this, such as whether your AGI is fairly steady.

PHASE-OUT OF ITEMIZED DEDUCTIONS—THE "PEASE" LIMITATION[2]

Subject to limitations described below, certain itemized deductions are phased out once your AGI exceeds certain thresholds, which depend on your filing status, summarized in the following chart.

Filing Status	AGI Threshold For Pease Limitation
Married filing jointly	$300,000
Married filing separately	150,000
Single	250,000
Head of Household	275,000

You are required to reduce the amount of certain itemized deductions by 3% of the excess of your AGI over these threshold amounts (but the reduction cannot be more than 80% of the total of these deductions). The following itemized deductions are subject to this limitation:

- State and local taxes;
- Mortgage interest;
- Charitable contributions; and
- Miscellaneous itemized deductions.

The following itemized deductions are ***not*** subject to this limitation:

- Medical expenses (which are already subject to a "floor" of 10%, reduced to 7.5% if one spouse is 65 or older);
- Investment interest; and
- Casualty, theft or wagering losses.

This limitation is applied after the application of any other limitation on the itemized deduction. For example, this limitation would apply to miscellaneous itemized deductions after the 2% floor has been taken into account. Similarly, this limitation would apply to charitable deductions after the various AGI limitations applicable to charitable deductions (discussed on page 12) have been taken into account.

Example of the Pease limitation

Assume during 2013, a married couple filing jointly has adjusted gross income of $500,000 and total itemized deductions of $50,000. Of these itemized deductions, $10,000 are miscellaneous itemized deductions, and $40,000 are mortgage interest and taxes. The miscellaneous itemized deductions would be allowed only to the extent they exceed the 2% floor. The 2% floor would be $500,000 x 2% = $10,000. As a result, none of the miscellaneous itemized deductions would be allowed; itemized deductions now total $40,000.

Next, we apply the Pease limitation to the remaining itemized deductions of $40,000.

AGI	$500,000
Pease threshold	300,000
Excess of AGI over threshold	$200,000
3% of Excess	$ 6,000

The phase-out results in a further reduction in itemized deductions of $6,000. Total allowable itemized deductions would be $40,000 minus $6,000, or $34,000.

Understanding the effect of the Pease limitation

It is important to understand which particular deductions are reduced by the Pease limitation; otherwise you can be mistaken in your planning. This will depend on your particular tax situation, illustrated in the following examples.

[1] For many years this "floor" was 7.5% of AGI; 2013 is the first year it has been raised to 10%. For tax years 2013 through 2016, the floor will remain at 7.5% if you or your spouse has attained age 65 by December 31.

[2] This limitation had expired for years 2010 through 2012 but is in effect again for 2013 and thereafter.

Example 1. Assume you are married filing jointly, your AGI is $650,000, and your itemized deductions are as follows:

Itemized deductions subject to Pease limitation	
State and local taxes	$20,000
Mortgage interest	15,000
Charitable contributions (after AGI limitations)	15,000
Miscellaneous itemized deductions (after 2% floor)	5,000
Total subject to Pease	**$55,000**
Itemized deductions *not* subject to Pease limitation	
Medical expenses (after 10% floor)	$ 7,500
Investment interest	4,000
Total not subject to Pease	**$11,500**

Your threshold for purposes of the Pease limitation is $300,000, and your AGI of $650,000 exceeds that by $350,000. The amount of itemized deductions phased out is the lesser of (i) 3% of that excess ($10,500), or (ii) 80% of the $55,000 of deductions subject to the phase-out ($44,000). As a result, $10,500 of deductions will be phased out under the Pease limitation.

In this Example 1 there are $55,000 of deductions subject to the Pease limitation, and $10,500 of deductions are phased out. Of the four deductions totaling $55,000, which comprise the $10,500 that are phased out by the Pease limitation?

There is no ordering rule required by the statute. However, in this Example 1, state/local taxes and mortgage interest must be paid; charitable contributions and the miscellaneous deductions are optional expenditures. From that perspective, it is fair to view the phase-out as denying a deduction for $10,500 of the $35,000 you would have paid anyway for taxes and mortgage interest. To put it another way, given that the $35,000 you paid for taxes and mortgage interest is more than the amount of deductions phased out, your charitable contribution of $15,000 truly increased your itemized deductions by $15,000. The point of this Example 1 is that it would be a mistake to think that your charitable contributions must be adjusted to account for the Pease limitation. In this example, your charitable contributions are not affected by the Pease limitation.

Example 2. Assume you are married filing jointly, your AGI is $650,000, and your itemized deductions are as follows:

Itemized deductions subject to Pease limitation	
State and local taxes	$ 0
Mortgage interest	0
Charitable contributions (after AGI limitations)	55,000
Miscellaneous itemized deductions (after 2% floor)	0
Total subject to Pease	**$55,000**
Itemized deductions *not* subject to Pease limitation	
Medical expenses (after 10% floor)	$ 7,500
Investment interest	4,000
Total not subject to Pease	**$11,500**

The totals are the same as from Example 1, and the Pease limitation would again phase out $10,500 of itemized deductions. However, because your only deduction subject to the Pease limitation is the $55,000 charitable contribution, in this Example 2 your charitable contribution deduction has indeed been reduced by the Pease limitation.

In short, the effect of the Pease limitation will depend on the particular itemized deductions you have. You should not assume that charitable contributions will be affected; they might be (as in Example 2), or they might not be (as in Example 1).

ALTERNATIVE MINIMUM TAX (AMT) PLANNING

If you are subject to AMT, your marginal federal income tax rate is 26% or 28%, compared with a top marginal bracket of 39.6% for regular tax purposes.[3] Thus, once you are subject to AMT, it can actually be beneficial to recognize income while in that tax bracket. Conversely, some deductions (such as charitable contributions and mortgage interest) are more valuable if your income tax rate is 39.6% than if your income tax rate is 28%. Other deductions (such as state income taxes) are not deductible for AMT purposes and therefore are "wasted" if incurred in a year you are subject to AMT.

If you will be paying AMT in 2013 but do not expect to do so in 2014. If you will be paying AMT in 2013 but do not expect to do so in 2014, you might consider accelerating ordinary income into 2013 so that it is taxed at 28% rather than 39.6% or higher. For example, if you are considering exercising nonqualified stock options, exercising a portion in 2013 might

[3] For income subject to the 3.8% surtax, the top federal rate is 43.4%.

reduce taxes overall if that income would be taxed at the marginal AMT rate of 28% in 2013 rather than, say, 39.6% in 2014. (You need to be careful not to exercise so many options that it causes you to no longer be subject to AMT.)

If you will be paying AMT in 2013 but not 2014, deferring certain deductions can also be beneficial. For example, it is common to pay estimated state income taxes in December, rather than January, in order to accelerate the deduction. If you are subject to AMT in 2013, state taxes paid in December 2013 will not be deductible and so paying those taxes in December would provide no tax benefit. Consider deferring payment until 2014 if that would provide more of a benefit.

If you will not be paying AMT in 2013 but expect to do so in 2014. If you will not be subject to AMT in 2013 but expect to be in 2014, the suggestions in the previous paragraphs should be reversed—consider accelerating deductions into 2013 and deferring income into 2014.

The AMT is a moving target. For example, if you shift income or expenses from 2013 to 2014 (or vice versa), that can affect your AMT status for both years. You should always quantify the benefit and have your tax advisor run "before and after" tax projections prior to implementing a strategy.

Stock transactions

HOW LONG-TERM AND SHORT-TERM GAINS/LOSSES ARE NETTED

Capital gains and losses are subject to a series of "netting rules" that govern how capital gains are offset by capital losses. These netting rules are applied at year end to the entire year's capital gains and losses. The steps involved in this netting process are as follows:

1. Short-term losses are netted against short-term gains.
2. Long-term losses are netted against long-term gains.
3. If one of the preceding two steps is a net gain and the other a net loss, you net those.
4. Any resulting short-term gains are taxed at ordinary income rates. Any resulting long-term gains are taxed at the appropriate long-term capital gain rates, which are as follows for 2013 (maximum rates):[4]
   - 15% for securities (for long-term capital gains). If your taxable income exceeds certain thresholds, the maximum rate applicable to long-term capital gains is 20%.
   - 25% for real estate depreciation recapture.
   - 28% for collectibles (such as art) and the portion of gain from the sale of "qualified small business" stock that is taxable.[5]

3.8% Surtax Alert

Each of these rates is increased by an additional 3.8% if the gain is subject to the new surtax.

5. If there is an overall capital loss, up to $3,000 can be deducted against ordinary income. This $3,000 comes first from short-term capital losses, if any, and then long-term capital losses.
6. After applying the foregoing rules, any remaining excess capital loss is carried forward to future years indefinitely (until death), retaining its character as short- or long-term capital loss.

NEW MAXIMUM CAPITAL GAIN RATE

As part of ATRA 2012, the maximum tax rate imposed on most[6] long-term capital gain has increased to 20%. The maximum rate on "qualified dividends" also increased to 20%. This new maximum rate begins at the level of taxable income at which you would be subject to the highest marginal rate of 39.6%, which is summarized in the following chart:

Filing Status	Taxable income threshold for the 20% rate for long-term capital gain and qualified dividends
Married filing jointly	$450,000
Head of Household	425,000
Single	400,000
Married filing separately	225,000
Trusts and Estates	11,950

PLANNING WITH THE CAPITAL GAIN NETTING RULES

Long-term capital gains are often viewed as "better" than short-term gains because of the lower tax rate applicable to long-term gains. Similarly, short-term losses are often viewed as more valuable than long-term losses because under the netting rules they offset 39.6% gain, whereas long-term losses offset 15%/20% gain. However, the capital gain netting rules described

[4] Each of these rates is increased by an additional 3.8% if the gain is subject to the new surtax.

[5] The portion of gain from the sale of "qualified small business" stock that is taxable can vary due to several recent legislative amendments. This is discussed on page 10.

[6] As listed above, certain types of gain, such as recapture and gain from collectibles, can be taxed at higher rates.

above apply to the entire year's cumulative capital gains and losses. There is no universal rule that your next capital transaction is better being short-term or long-term. Rather, it depends how it would affect the entire year's capital gains and losses.

Below are two examples illustrating that (i) a long-term capital gain is not necessarily better than a short-term capital gain and (ii) a short-term capital loss is not necessarily better than a long-term capital loss. In each case, it depends on how it would affect the entire year's capital gains and losses.

Example: You want to raise $50,000 in cash and can do that by selling one of two stocks. One will generate $10,000 of long-term capital gain; the other will generate $10,000 of short-term capital gain. Which is better?[7]

You might assume it is better to incur the long-term capital gain because it is more favorably taxed at 15%/20%, but that's true only with respect to the entire year's net long-term gains. For a particular transaction, long-term is not necessarily better.

Consider if we add the assumption that you have previously recognized $10,000 of capital losses during this tax year. Under the netting rules described above, assuming no other gains or losses, this $10,000 capital loss will offset either of the $10,000 gains being considered, whether it be the short-term gain or the long-term gain. Given that, which $10,000 gain would you rather leave behind, so to speak—(i) the short-term gain potentially taxed at 39.6% or (ii) the long-term gain taxed at 15%/20%? It would probably be better to incur the $10,000 of short-term capital gain now, knowing it will be fully offset by the already-existing loss, and leave for later the $10,000 long-term gain, which already qualifies for the favorable 15%/20% rate.

Thus, although generally long-term capital gains are to be preferred when viewing the entire year's capital gains, for this particular transaction it could be more beneficial to recognize short-term capital gain.

Capital Gains

There is no universal rule that your next capital transaction is better being short-term or long-term. Rather, it depends on how it would affect the entire year's capital gains and losses.

Example: You have $10,000 of short-term capital gain for the year so far, and you want to "harvest" a $10,000 capital loss. You can generate a $10,000 loss by selling either of two stocks. One will generate a $10,000 long-term capital loss; the other will generate a $10,000 short-term capital loss. Which is better? It might seem better to harvest the short-term capital loss, but that's not necessarily true.

Under the netting rules discussed previously, either loss will fully offset the $10,000 short-term capital gain. Think of the short-term capital loss as normally offsetting 39.6% income and the long-term capital loss as normally offsetting 15%/20% income. Under this particular fact pattern, incurring the long-term capital loss will actually allow it to offset 39.6% income. Therefore, it might be better to incur the long-term capital loss and save the short-term capital loss (though it will eventually "mature" into a long-term capital loss).

WILL THE GAIN/LOSS ON A SECURITY BE IN 2013 OR 2014?

Depending on your tax situation, you might prefer to have a year-end gain taxed in 2013 or 2014. Similarly, with a loss, you might prefer to recognize the loss sooner in 2013 or later in 2014. In general, you can achieve whatever result you want if you follow the tax rules summarized below.

Most of the rules summarized below depend on the "trade date," which is when your order to buy or sell is entered. One rule, however, depends on the "settlement date," which is normally three business days after the trade date. (This can differ depending on the particular type of security involved.) In order to get the tax result you want, it is important to understand which rule applies to your transaction.

Gains. For gains, there is one rule that covers both long and short positions[8]—the gain is recognized for federal income tax purposes on the trade date.

- **Long positions.** A "long" position means you purchased stock, you own it, and you will profit if the stock's price increases. If you sell stock that you own for a gain, the gain is recognized for tax purposes as of the trade date. So, if you want to defer the gain until 2014, your trade date must be in 2014. (This assumes the stock is sold on an exchange. In a private transaction, state commercial law governs when the transaction is closed and the gain recognized.)
- **Short positions.** A "short" position means you borrowed stock to immediately sell it; you do not own it but rather must repay it to the lender, and you will profit if the stock's price decreases (because you can then repurchase the stock at a lower price to repay your debt). If you shorted stock and now want to close

[7] These examples assume that the sale of either stock, and therefore the retention of either stock, is consistent with your investment strategy. Always remember that it is risky to make investment decisions based solely on tax consequences.

[8] This assumes the short position is not a "short against the box."

out that short to take a gain, the gain will be taxed as of the trade date. So, if there is a gain in the short position, then closing with a trade date of December 30, 2013 and a settlement date of January 3, 2014 (three business days later) will trigger the gain in 2013. If you want to defer the gain until 2014, your trade date must be in 2014.

Deferring Gain

If you sell stock that you own for a gain, the gain is recognized for tax purposes as of the trade date. So, if you want to defer the gain until 2014, your trade date must be in 2014.

Losses. For losses, there's one rule for long positions, another for short positions.

- **Long positions.** If you own stock and want to sell it for a loss, the loss is incurred as of the trade date (same rule as for gains on long positions). So, if you want to be able to take the loss on your 2013 tax return, make sure your trade date for the sale is on or before December 31, even if that sale settles in January 2014. (This assumes the stock is sold on an exchange. In a private transaction, state commercial law governs when the transaction is closed and the loss incurred.)
- **Short positions.** If you shorted stock and now want to close out that short to take a loss, the loss is recognized for tax purposes on the settlement date when the shares are delivered to close the short. So, if you want to be able to take the loss on your 2013 tax return, make sure your trade date will be early enough so that the settlement date will also be in 2013.

THE WASH SALE RULE

Although the Wash Sale Rule can be triggered at any time and so is not limited to year-end planning, it often comes into play when you "harvest" a loss, which often occurs at year end.

The rationale behind the Wash Sale Rule is to disallow a current tax loss if you haven't changed your economic position due to a quick sale/repurchase. So, if you sell stock at a loss and reacquire "substantially identical securities" within 30 days before or after the loss[9] (total of 61 days), that is a "wash sale" and the result is:

- The loss is disallowed currently;
- The disallowed loss is added to the basis of the reacquired securities, in effect deferring the loss until you sell those reacquired securities (there is an important exception, noted in the paragraph below labeled "Beware repurchasing in an IRA"); and
- The holding period of the "old" securities carries over to the holding period of the reacquired securities.

The result is approximately the same as if you had not sold/reacquired the shares. *IRS Publication 550* states that the Wash Sale Rule is also triggered if the reacquisition is by your spouse or your controlled corporation.

The Wash Sale Rule can also apply to short sales. For example, assume that you short stock and the stock price appreciates, which means you have a built-in loss. Assume you close the short position to incur the loss and, within 30 days, you short the same stock again. The Wash Sale Rule would apply and the loss would be disallowed.

Be aware that with multiple investment managers and separate account investments, the Wash Sale Rule can be inadvertently triggered. There is no requirement that it be triggered intentionally. For example, assume fund manager A of your separately managed account sells shares of ABC stock to harvest a loss, while fund manager B buys ABC stock within 30 days. That is a wash sale.

The Wash Sale Rule can apply partially. For example, if you sell 100 shares at a loss but reacquire only 60 shares of the same stock, the Wash Sale Rule would apply to 60 shares. For the other 40 shares that were sold at a loss, the loss would be allowed.

Beware repurchasing in an IRA. The Wash Sale Rule will apply even if the loss is incurred in a taxable account and the repurchase occurs in an IRA (traditional or Roth). In a 2008 Revenue Ruling, the IRS stated that, assuming the conditions of the Wash Sale Rule are met, the loss would be disallowed, but the disallowed loss would not be added back to the basis of the security repurchased inside the IRA. This is a worse result than if the repurchase had occurred in a taxable account, in which case the disallowed loss would have been added to the basis.

PLANNING WITH THE WASH SALE RULE

Each of the following constitutes a reacquisition under the Wash Sale Rule. That means if you recognized a loss 30 days before or after any of these transactions in the same or "substantially identical" stock, the loss is disallowed. Although some of these reacquisitions might be beyond your control, that just means you need to control when you incur the loss.

- Buying the same stock on the market (including via a dividend reinvestment program)

[9] It is irrelevant whether or not the year-end is straddled. A loss incurred in December followed by a repurchase in January still triggers the Wash Sale Rule if the requirements are met.

- Receiving the same stock as a compensatory stock bonus[10]
- Being granted a compensatory stock option (The Wash Sale Rule can be triggered by the acquisition of an option to purchase the security, as well as by the reacquisition of the security itself.)[11]
- Exercising a compensatory stock option (unless the grant of the option previously triggered the Wash Sale Rule; an option can trigger the Wash Sale Rule only once.)
- Buying a listed option on the stock on an exchange
- Acquiring convertible preferred stock, convertible into the security that was sold for a loss
- Selling "deep in the money" puts (the theory being that if you sell deep in the money puts, as a practical matter you are going to end up with the stock again because the put option will likely be exercised)

There are straightforward ways to avoid the Wash Sale Rule.

- You could incur a loss and then wait 30 days before reacquisition. Remember, the loss is incurred on the trade date if you are selling long stock, while the loss is incurred on the settlement date if you are closing a short position for a loss.
- An approach similar to the preceding idea is to first purchase more of the stock that you intend to sell (called "doubling up"), and then wait 30 days before selling the stock for a loss. (You would need to be sure to properly identify the stock being sold for the loss. How to do that is discussed in the next section.) The main difference between this approach and the approach described in the preceding paragraph is that you would be "in" the market during the 30-day waiting period.
- You could make sure that what is reacquired is not "substantially identical securities."
  - For stocks, a different issuer/company is not "substantially identical." Therefore, you could sell your stock and reacquire shares of a different company that is in the same sector as the stock you sold.
  - For bonds, you could purchase the bonds of a different issuer. It is possible to stay with the same issuer, but the terms of the bond would have to be sufficiently different.
  - For mutual funds, former *IRS Publication 564* stated the following: "In determining whether the shares are substantially identical, you must consider all the facts and circumstances. Ordinarily, shares issued by one mutual fund are not considered to be substantially identical to shares issued by another mutual fund." *Publication 564*, however, has been discontinued. *Publication 550* states that it incorporates *Publication 564*. Unfortunately, *Publication 550* does not address mutual funds (or ETFs) in the context of the Wash Sale Rule.
- If you have triggered the Wash Sale Rule and the triggering repurchase has not occurred within an IRA, then the disallowed loss has been deferred by adding the disallowed loss to your basis in the replacement shares. If you sell those replacement shares and do not reacquire "substantially identical" securities for 30 days, then the Wash Sale Rule would not apply to that later sale.

IDENTIFYING WHICH SHARES ARE SOLD

Like the Wash Sale Rule, this issue can arise any time and is not limited to year-end planning. However, because year-end planning often includes recognizing gains or losses for tax purposes, it is important to be sure that the tax lots sold will generate the desired gain or loss.

To understand why this issue can be important, consider the following example.

Example. Assume your account holds two lots of ABC shares. One lot consists of 1,000 shares purchased at $100/share on January 3 for $100,000. The second lot consists of 1,000 shares purchased at $75/share on March 14 for $75,000. You want to sell 1,000 shares. Which lot should be sold?

Answer: It depends on your situation. The first lot has a higher basis and will generate less capital gain, which is normally to be preferred. However, if you have tax losses that can offset the gains, it might make sense to sell the second lot.

There are rules for determining which lots are considered sold for tax purposes. If you know the rules and follow them properly, you can get whatever result you want. If you do not affirmatively address this, a result will be imposed on you via a default rule, which might or might not produce the best tax result for you.

For securities other than mutual funds:

You can identify which shares you want to sell, and those will be the shares you are considered to have sold. This process is known as "specific identification" and has two requirements:

1. When the trade is requested, you must communicate to your portfolio manager which shares are to be sold. This can be done orally or in writing.
2. You must receive written confirmation of your identification within a reasonable time.

[10] There is no clear guidance whether a restricted (i.e., non-vested) stock grant constitutes a reacquisition.

[11] There is also no clear guidance whether a non-vested stock option grant constitutes a reacquisition.

If you do not follow the "specific identification" method described above (or you fail to meet both requirements), then the default rule applies, which is first in, first out (FIFO). In other words, the first shares you acquired in the account are deemed to be the first shares sold from the account.

For mutual fund shares and shares subject to a Dividend Reinvestment Plan (DRIP):

Beginning with 2012, the rules for determining which mutual fund shares (including DRIP shares) have been sold, and the basis in those shares, have changed. The rules are complicated, and the rule that you will be subject to can depend on your investment manager's default method.

Which stock have you sold?

If you know the rules and follow them properly, you can get whatever result you want. If you do not affirmatively address this, a result will be imposed on you via a default rule, which might or might not produce the best tax result for you.

WORTHLESS STOCK

The general rule is that if a stock (or any security) becomes worthless during the year, it is treated as if you sold it for $0 on December 31, resulting in a capital loss. You must be able to prove the stock is worthless. Bankruptcy might be such proof, but if the bankruptcy is a reorganization and the company might emerge as a continuing enterprise, then the stock is probably not worthless.

This rule is not optional. If the stock becomes worthless, you must deduct it in the year it first becomes worthless or not at all. This can lead to a sort of dilemma if you have an asset that might be worthless but it's not certain:

- If you deduct the stock as worthless before it actually becomes worthless, the IRS can disallow the loss. The stock must be totally worthless to get the write-off.
- If you wait too long to deduct the stock as worthless, the IRS can claim it was first worthless in a prior year. If the statute of limitations for that prior year has expired, it would be too late to go back and amend the prior year's return to claim the loss.

Because of this, some advisors suggest that it is better to claim worthlessness sooner rather than later. An alternative might be to sell the stock for pennies. A sale is much more easily identifiable as a transaction triggering a loss than is worthlessness.

PLANNING WITH A COVERED CALL AT YEAR END

Selling a covered call is a common investment technique in which you receive a premium for selling a call option on stock that you already own (that is, your obligation under the call option, should it be exercised, is "covered"). This can present a year-end tax planning opportunity that may seem too good to be true—and it is. There is a special tax rule that addresses what otherwise could be a good tax planning opportunity.

Because the two positions (the owned stock and the sold option) are inversely related, at year end one of them might have a built-in loss and the other a built-in gain. That loss and offsetting gain have a net economic value of $0, but for tax purposes you might be tempted to harvest the loss in late December and take the same amount of gain in early January. If the loss and gain are recognized within 30 days of each other, then the loss would be disallowed in the earlier year under the so-called "tax straddle" rules.

Rules that expire/revive annually

SALES TAX DEDUCTION

This provision was enacted in 2004 and has been extended several times since then. ATRA 2012 extended this provision for 2012 and 2013.

For 2013, you can deduct as an itemized deduction either your state income tax paid or your state sales tax paid. If you choose to deduct your state sales tax paid, you can choose either (i) your actual sales tax paid or (ii) an amount allowed under the IRS table. Because you have to choose between deducting sales tax or income tax, this sales tax deduction is most beneficial for those who live in states without an income tax.

ALTERNATIVE MINIMUM TAX (AMT) EXEMPTION

When calculating AMT, each taxpayer is entitled to an AMT exemption. For several years, the AMT exemption amounts have been scheduled to revert to their 2000 levels, pursuant to a prior law. Many people would become newly exposed to AMT due to this decrease in exemption. For the past several years, Congress has enacted a one-year "patch" to avoid this for one more year. As part of ATRA 2012, Congress enacted a "permanent patch," increasing the AMT exemption and, just as importantly, indexing it for inflation. The chart on the following page summarizes the exemptions for 2013.

2013 AMT Exemption*	
Married filing jointly	$80,800
Married filing separately	40,400
Single	51,900
*As AGI increases over a certain threshold, the AMT exemption is phased out, possibly to $0.	

IRA DISTRIBUTION TO CHARITIES

Under a law first passed in 2006, up to $100,000 of an IRA distribution can be transferred directly to a "qualified" charity and be excluded from your income (and you would receive no deduction). You have to be 70½ or older at the time of the transfer (and meet several other requirements). ATRA 2012 extended this for 2012 and 2013.

CONSERVATION EASEMENTS

Charitable contributions are subject to various deduction limitations. A charitable gift of a conservation easement is generally deductible only to the extent of 30% of your adjusted gross income, with any excess carrying forward for up to five years.

Under legislation first passed in 2006 and extended several times since then, a charitable gift of a conservation easement was deductible to the extent of 50% (100% for farmers or ranchers) of adjusted gross income, and any excess could be carried forward for up to 15 years. ATRA 2012 extended this for 2012 and 2013.

SPECIAL RULES FOR "QUALIFIED SMALL BUSINESS STOCK" (QSBS)

There are special income tax provisions applicable to "Qualified Small Business Stock," also known as QSB stock. Under one such rule, if you hold QSB stock for more than five years, then you can exclude from income a certain percentage of the gain on sale of the stock, subject to limitations. The percentage has been changed several times by legislation over the years:

Stock Issuance Date	Maximum % of Gain That Can Be Excluded
Before 2/18/09	50%
2/18/09 to 9/27/10	75%
9/28/10 to 12/31/13[12]	100%
1/1/14 or after	50%

REDUCTION IN S CORPORATION RECOGNITION PERIOD FOR BUILT-IN GAINS TAX

In general, C corporations are subject to a "double tax" regime whereby (i) the corporation is taxed on its income and gain, and (ii) profits distributed to shareholders are taxed a second time as dividend income. In contrast, S corporations are, in general, not subject to an entity-level tax. Rather, the entity's income and gain "flow through" and are taxed to the shareholders, regardless of distributions.[13]

If a corporation was a C corporation and then converted to an S corporation, there is a special rule that in effect keeps the appreciation of the C corporation's assets subject to that entity-level of taxation for a certain period of time.[14] Under the statute as originally enacted, that period of time was ten years. That period has been adjusted frequently in recent years, and under ATRA 2012 is 5 years for tax years beginning in 2012 and 2013. The time period is currently scheduled to revert to the original 10 years starting in 2014.

IRAs

REQUIRED MINIMUM DISTRIBUTIONS

You must begin withdrawing required minimum distributions (RMDs) from your IRA by April 1 of the year following the year you turn 70½. Failure to withdraw your annual RMD could expose you to a penalty tax equal to 50% of the excess of (i) the amount you should have withdrawn, over (ii) the amount actually withdrawn. Therefore, you should be sure that you avoid an unnecessary 50% penalty by timely withdrawing your RMD.

If you turned 70½ in 2013, you are allowed to take your first RMD anytime from January 1, 2013 to April 1, 2014. (For all future years, you can withdraw that year's RMD from January 1 to December 31 of that year.) However, this does not mean that you

[12] ATRA 2012 extended the 100% exclusion period through 12/31/13.

[13] Because the income and gain are taxed on a "flow through" basis, distributions are generally not taxed because they are, in effect, distributions of already-taxed income.

[14] Only the appreciation at the time of the conversion from the C corporation to an S corporation, called "built-in gain," is subject to this special rule.

should necessarily wait until April 1, 2014. If you withdraw your 2013 RMD in 2014, you will still have to take your 2014 RMD by December 31, 2014. That would mean two IRA distributions in the same year, which would "bunch" taxable income into one year and might not be best overall.

DIVIDE AN INHERITED IRA

When an IRA owner dies, the pace at which the funds "inside" the IRA must be paid out to the beneficiaries will depend in part on who the beneficiaries are and whether they qualify as "designated beneficiaries," a technical term with a technical definition.

The determination of whether an IRA's beneficiaries are "designated beneficiaries" is made as of September 30 of the year following the IRA owner's death. This allows for disclaimers to be implemented and/or distributions to be made before the designated beneficiaries are determined.

When an IRA's designated beneficiaries have been determined, if an IRA has multiple designated beneficiaries, then generally the payout term will be governed by the oldest beneficiary's life expectancy, which can be to the disadvantage of younger beneficiaries with longer life expectancies. However, if the multiple beneficiaries timely establish and fund separate accounts, then the IRA distribution schedule can be based on each beneficiary's life expectancy. To qualify for this special rule, the separate accounts must be established and funded by December 31 of the year following the IRA owner's death.

Therefore, if you inherited an IRA from a decedent who died in 2012, and if there are multiple designated beneficiaries (determined as of September 30, 2013), it could be to your advantage to create and fund separate accounts before December 31, 2013. You should consult with your tax advisor to determine whether this would be beneficial for you.

Inherited IRA

If you inherited an IRA from a decedent who died in 2012, and if there are multiple designated beneficiaries (determined as of September 30, 2013), it could be to your advantage to create and fund separate accounts before December 31.

ROTH CONVERSIONS, RECHARACTERIZATIONS AND RECONVERSIONS

Since 2010, individuals can convert traditional IRAs and other qualified plans to Roth IRAs regardless of income. (Prior to 2010, if you had "modified" adjusted gross income in excess of $100,000, you were not allowed to convert.) As a result, many individuals have converted traditional IRAs to Roths.

If your Roth portfolio has decreased in value since conversion, it is possible to have the conversion "undone." This can raise several issues, discussed here at only a very high level.

As an initial matter, it is important to understand the different terms used. When a traditional IRA is changed/transferred to a Roth, that is called a "conversion." If a conversion is later undone by the deadline, that is called a "recharacterization." If the amounts recharacterized are then converted to a Roth again, that is called a "reconversion."

If you converted your traditional IRA to a Roth in 2012 and are considering recharacterizing, the deadline for recharacterizing a 2012 conversion was October 15, 2013, if you satisfied certain requirements.

If you converted your traditional IRA to a Roth in 2012 and have recharacterized that conversion in 2013, be aware that will retroactively increase your required minimum distribution (RMD), if any, for 2013. This is because your 2013 RMD is based on the December 31, 2012 balance in your traditional IRAs, which would have excluded balances in Roth IRAs. The effect of a recharacterization is to treat the conversion as retroactively not happening, which means the December 31, 2012 balances of your traditional IRAs will retroactively be increased, increasing your 2013 RMD.

If you converted your traditional IRA to a Roth in 2012 and have recharacterized that conversion in 2013, you could reconvert those amounts to a Roth beginning 30 days after the recharacterization. You might have the choice of reconverting in 2013 or 2014. One factor to consider is that by reconverting in 2014, you could cause the income (and resulting tax) to be recognized a full year later than if you reconverted in 2013. This, however, is just one factor to consider.

Finally, if you converted your traditional IRA to a Roth this year (2013), you can recharacterize that conversion in 2013. You could also delay recharacterization until October 15, 2014, if certain conditions are met.

Recharacterized amounts cannot be reconverted until the later of (i) 30 days after recharacterization or (ii) the year after conversion. Therefore, any 2013 conversion that is recharacterized in 2013 cannot be reconverted until January 1, 2014, at the soonest. Because of these restrictions, there appears to be little reason to recharacterize a 2013 conversion sooner than 30 days before 1/1/14.

Year-end charitable gifts

CHARITABLE INCOME TAX DEDUCTION LIMITATIONS

A gift to charity is normally deductible as an itemized deduction. However, you might not be able to deduct all of your charitable contributions. There are limitations, summarized in the following chart, based on (i) the type of property given and (ii) the type of charity. (These AGI limitations are in addition to, and are applied before, the Pease limitations discussed on page 3.)

Some common planning ideas from this chart are:

1. It is usually better to make a gift of appreciated long-term (held longer than one year) stock to a charity than to make a gift of appreciated short-term stock. A gift of appreciated long-term stock is deductible at its value; a gift of appreciated short-term stock is deductible only to the extent of basis. To put it another way, a gift of long-term appreciated stock entitles you to deduct the appreciation even though you have not been taxed on it.
2. In the case of a gift of appreciated long-term stock to a private foundation, a deduction for the fair market value is allowed only if the stock is "qualified appreciated securities." Generally that means publicly-traded stock, but you should always consult your tax advisor.

If the amount you contributed to charities this year is more than you can deduct because of the AGI limitations described above, the excess can be carried forward for up to five years. (Special rules for certain conservation easements are discussed on page 10.)

Due to multiple contributions, you might trigger several of these limitations. How these limitations interact with each other is a complicated matter beyond the scope of this summary, and you should consult your tax advisor.

Type of Property[1]	Public Charity (including Donor Advised Fund)		Private Foundation	
	Deductible Amount[2]	AGI Limitation[3]	Deductible Amount[2]	AGI Limitation[3]
Cash	Amount of cash	50%	Amount of cash	30%
Short-term[4] capital gain property or ordinary income property	Tax Cost/Basis	50%	Tax Cost/Basis	30%
Long-term[4] capital gain property	Fair Market Value	30%	Tax Cost/Basis (Fair market value if publicly traded stock[5])	20%
Tangible personal property (e.g. art) – If it will be used by the charity in conducting its exempt functions	Fair Market Value	30%	Tax Cost/Basis	20%
Tangible personal property (e.g. art) – If it will NOT be used by the charity in conducting its exempt functions	Tax Cost/Basis	50%	Tax Cost/Basis	30%

[1] Conservation easements are not discussed in this summary. Under current law, through 2013 a charitable gift of a conservation easement is deductible to the extent of 50% (100% for farmers or ranchers) of AGI, and any excess can be carried forward for up to 15 years.

[2] In all cases where the deduction is limited to tax cost/basis, if the fair market value is lower (i.e., the asset has depreciated), the deduction will be the lower fair market value.

[3] Charitable contributions that are not deductible due to the AGI limitations can be carried forward for up to five years.

[4] Short-term property is property held one year or less. Long-term property is property held more than one year.

[5] Note: gifts of publicly traded stock may be deducted at full fair market value, but the deduction for gifts of bonds (even publicly traded bonds) is limited to tax cost/basis.

BEWARE GIFTS OF CERTAIN INVESTMENTS

The preceding section referred to a gift of publicly traded stock. Many investments do not fall neatly into that category and might not qualify for the favorable charitable income tax deduction rules just summarized. For example:

- Depending on how it is structured, a charitable gift of your interest in a gold exchange traded fund (ETF) can result in a deduction equal only to your basis in the investment, not the fair market value. The same might be true of a structured note.
- For a gift of a bond, the interest component might not qualify for a charitable deduction.
- Gifts of leveraged property raise complicated tax issues.

In sum, you should confirm with your tax advisor whether a charitable gift of a particular investment would allow you the full charitable income tax deduction.

MAKING SURE THE DEDUCTION IS IN 2013

Gift of cash. You may want to make a year-end charitable gift of money in order to take the deduction in 2013. Depending on how you make the gift, there are different rules governing the determination of what year you can take the deduction.

- If you deliver cash or a check, the charity must receive it by December 31, 2013, in order for you to take the deduction in 2013.
- If you mail a check, it must be postmarked by December 31 or earlier, ***and*** it must be received by the charity in the ordinary course of mail deliveries. You can control when you have an envelope postmarked but probably cannot control if/when the envelope will be received, so this isn't the best approach.
- If you use a credit card, the gift occurs when the charge is made, regardless of when you pay your credit card bill.

Beware charitable gifts of certain investments

Many investments do not fall neatly into the category of "publicly traded stock" and might not qualify for the favorable charitable income tax deduction rules.

Gift of stock. The date on which a gift of securities is completed depends on how the securities are delivered.

- **Securities held in street name (DTC).** These are considered transferred on the date the brokerage firm transfers title, a process that normally takes one or two business days. NOTE: The transfer is not made at the time that instructions to transfer the shares are given to your agent. Rather, it is the date the transfer is made on the books of the issuing corporation or transfer agent.
- **Physical certificates you hold.** If you have the physical stock certificate, your gift of those shares to charity is completed on the date you deliver an endorsed certificate to the charity. If you mail the certificate and endorsement (which should be mailed separately), the securities are considered gifted to the charity on the date of the mailing if they are received by the charity in the ordinary course of mail deliveries.
- **Physical certificates held elsewhere.** This would include securities held in a safe deposit box or trust department with your advisor/broker, but not in street name. If the advisor/broker is considered your agent, the transfer will not be considered complete until the date the transfer agent records the transfer, which can take several weeks. If the advisor/broker has stock powers on file, the securities can be converted to DTC, at which point the much quicker process described above for securities held in street name will apply.

SUBSTANTIATING CHARITABLE GIFTS

In recent years, the documentation you need in order to claim a charitable deduction has become more stringent. Generally, for any monetary gift, you must have either a bank record (cancelled check) or a written communication from the donee charity. In addition, if the gift is more than $250, you must obtain a contemporaneous written acknowledgement from the charity containing certain required information. For a gift of property (such as a vehicle or art), certain additional valuation requirements apply. All of this must be in hand before you file your tax return.

You certainly do not want a charitable contribution deduction to be denied due to improper paperwork. You should consult with your tax advisor to make sure you comply with the ever-growing substantiation rules.

Intra-family wealth transfers

GENERAL ESTATE PLAN REVIEW

As has been mentioned for other planning ideas, reviewing your estate plan is not necessarily a year-end planning matter. However, there are several gift and estate tax planning matters that are addressed each year-end (discussed below), and therefore it can also be a good time to think about this important matter.

As a general matter, we suggest you have your overall estate plan reviewed regularly by an estate planning professional. The reasons might not be obvious, so we list several here.

A useful working definition of "estate planning" is: (1) having your assets (2) go where you want them to go (3) in the manner you want (i.e., in trust or outright) (4) with minimum taxes. Any one or more of these elements can change year to year.

Assets change. The value of your assets can change, causing the size of bequests to be very different from what you had in mind. Also, assets change locations, which can change which document governs that asset at your death. For example, funds inside an IRA will pass pursuant to your Beneficiary Designation, but once funds are distributed from your IRA they will be governed by your Will.

Recipients change. Where you want your assets to go can change for many reasons. This could be due to a change in your family. Marriage can cause you to now engage in marital trust planning. Divorce can render marital planning inappropriate. The advent of children will require trust planning. The advent of grandchildren can require generation-skipping transfer tax planning. An unnatural order of deaths can change your estate desires.

The need for trusts changes. You might have wanted a trust for a beneficiary's inheritance, but now a trust might not be needed either because the beneficiary is now older and mature or perhaps because the dollars involved are now too little to merit a trust. The reverse could also be true—you might not have thought a trust was needed before but now the beneficiary has proven to be a spendthrift. Or perhaps asset protection is more of a concern, for example if the beneficiary is in a profession prone to lawsuits.

Tax rules change. This has increased in importance the last few years because it must now be factored in that we cannot know what the tax rules will be when your estate plan gets "activated." In recent years, we have seen frequent changes to the various exemption amounts and tax rates governing wealth transfers, both at the federal level and at many state levels.

As a result, it could easily be the case that your estate plan has become outdated without your doing anything.

$14,000 ANNUAL EXCLUSION GIFTS

Gift of money. If you would like to make a gift by check and have it qualify for the $14,000 annual gift tax exclusion for 2013, two requirements must be satisfied:

1. The donee must deposit the check in 2013; and
2. It must clear in the ordinary course of business (which can happen in January).

A holiday gift of a check that doesn't get deposited until after New Year's Day is considered a gift in 2014. A cashier's check can avoid this, since a gift of a cashier's check, like cash, is complete upon delivery.

The annual exclusion amount is indexed for inflation. Although the amount for 2014 has not been officially announced as of this writing, we expect the annual gift tax exclusion to remain at $14,000 in 2014.

Gift of stock. The rules for completing a gift of stock to a family member are the same as the rules set out above for a year-end gift of securities to a charity, with one exception. If you mail a properly endorsed stock certificate to a family member, the gift is not completed until received.

GIFTS TO 529 PLANS

Paying for a grandchild's college education can be a good way to transfer wealth and may be more appealing than just making gifts to a trust. A 529 college savings plan (a "529 plan") offers a way to accelerate gifts and frontload a savings program. 529 plans allow you to make five years' worth of $14,000 annual exclusion gifts in a single tax year. This is as much as $70,000 from a single donor, or $140,000 from a couple. These gifts are treated as if they are made ratably over the current year and next four tax years.

Contributions between $14,000 and $70,000 made to a 529 plan in one year can be prorated over a five-year period without incurring gift taxes or reducing your federal estate or gift tax exemption. If you contribute less than the $70,000 maximum, additional contributions can be made in subsequent years without incurring federal gift taxes or reducing your federal estate or gift tax exemption, up to a prorated level of $14,000

per year. For contributions between $14,000 and $70,000 made in one year, if the account owner dies before the end of the five-year period, a prorated portion of the contribution is included in the taxable estate.

Be aware that such planning must be coordinated with all other gifting techniques, which might also affect how much of your $14,000 annual exclusion is available each year. If you make a gift of five years' worth of annual exclusion gifts to a 529 plan, no additional annual exclusion gifts can be made to the beneficiary within this five-year period (other than an additional $1,000 each year for each $1,000 increase in the annual exclusion amount during that five-year period).

If you are funding a 529 plan toward the end of 2013 and want to maximize the frontloading of the account, consider contributing only $14,000 ($28,000 for a couple) to the account this year. You could then frontload by contributing $70,000 ($140,000 for a couple) in January 2014. (This is based on next year's expected annual exclusion of $14,000). This will allow you to contribute a total of $84,000 by January 2014 ($168,000 for a couple). In contrast, if you first contribute $70,000 ($140,000 for a couple) to the account in December 2013, you would not be able to contribute more for the next four years (other than an additional $1,000 each year for each $1,000 increase in the annual exclusion amount during that period).

BEWARE THE "KIDDIE" TAX

Year-end planning can involve gifts to children. In general, making a gift of a financial asset to your children will cause them to be subject to income tax on the future earnings. However, under the "kiddie tax," a certain amount of your children's investment income can be taxed at your highest income tax rate. The "kiddie" tax applies to children under 18 and to 18-year-olds if their earned income doesn't exceed one-half of the amount of their support. It also applies to 19- to 23-year-olds if they are full-time students and their earned income doesn't exceed one-half of the amount of their support.

The 3.8% Medicare surtax— a deadline looms

Proposed regulations were issued last year addressing the new 3.8% Medicare surtax. Those regulations have a deadline that could be looming for you.

One of the types of income that constitutes "net investment income" for purposes of the 3.8% surtax is income from a "passive activity." The concept of "passive activity" income is not new; there have been rules limiting passive activity losses since 1986. A business activity is "passive" if you do not "materially participate."

When determining whether or not you are engaged in a "passive activity," how you define "activity" is very important. For example, it is possible that you participate in two separate businesses but in neither one does your participation rise to the level of "material participation." However, if you were to consider both businesses together to be one "activity," then your level of involvement might indeed be "material participation."

For regular tax purposes, there are regulations governing the extent to which you can "group" activities. For regular tax purposes, generally, once you have grouped activities, you cannot change those groupings.

The 3.8% surtax imposes a new consequence for being engaged in a passive activity—the income is "net investment income" potentially exposed to the 3.8% surtax. Because of this new consequence, the regulations allow you to elect to re-group passive activities—once. Such a re-grouping would apply both for regular tax purposes and surtax purposes.

Deadline to re-group. The surtax regulations are "proposed," and final regulations are scheduled to be in place for 2014. The election just described, for re-grouping passive activities, is required to be made for the first year you are subject to the surtax, starting in 2014 (the intended date of the final regulations). However, the proposed regulations also state that you can make such an election for 2013, if you want. It would seem you could also (i) not make the election for 2013, even if you are subject to the surtax, but (ii) make the election for 2014.

Income tax rates

The following tables may be helpful when trying to estimate what income tax bracket you are in, with the accompanying potential benefits. The 2014 table is not officially published at the time of this writing; it is based on expected inflation adjustments.

Federal Tax Rates for 2013

Over	But not over	Pay this...	...plus this %...	...on excess over
Single				
$ 0	$ 8,925	$ -	10%	$ -
8,925	36,250	893	15	8,925
36,250	87,850	4,991	25	36,250
87,850	183,250	17,891	28	87,850
183,250	398,350	44,603	33	183,250
398,350	400,000	115,586	35	398,350
400,000		116,164	39.6	400,000
Married Filing Jointly				
$ 0	$ 17,850	$ -	10	$ -
17,850	72,500	1,785	15	17,850
72,500	146,400	9,983	25	72,500
146,400	223,050	28,458	28	146,400
223,050	398,350	49,920	33	223,050
398,350	450,000	107,769	35	398,350
450,000		125,846	39.6	450,000
Non-grantor Trusts				
$ 0	$ 2,450	$ -	15	$ -
2,450	5,700	368	25	2,450
5,700	8,750	1,180	28	5,700
8,750	11,950	2,034	33	8,750
11,950		3,090	39.6	11,950

Federal Tax Rates for 2014 (projected, not official)

Over	But not over	Pay this...	...plus this %...	...on excess over
Single				
$ 0	$ 9,075	$ -	10%	$ -
9,075	36,900	908	15	9,075
36,900	89,350	5,081	25	36,900
89,350	186,350	18,194	28	89,350
186,350	405,100	45,354	33	186,350
405,100	406,750	117,541	35	405,100
406,750		118,119	39.6	406,750
Married Filing Jointly				
$ 0	$ 18,150	$ -	10	$ -
18,150	73,800	1,815	15	18,150
73,800	148,850	10,163	25	73,800
148,850	226,850	28,925	28	148,850
226,850	405,100	50,765	33	226,850
405,100	457,600	109,588	35	405,100
457,600		127,963	39.6	457,600
Non-grantor Trusts				
$ 0	$ 2,500	$ -	15	$ -
2,500	5,800	375	25	2,500
5,800	8,900	1,200	28	5,800
8,900	12,150	2,068	33	8,900
12,150		3,141	39.6	12,150

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