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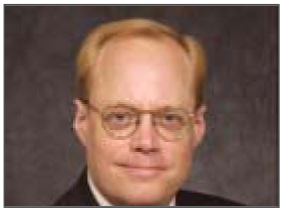

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Tea Leaves And Tax Moves At Turkey Time

You may soon feel stuffed with turkey and fixings, but there's nothing to satisfy that gnawing hunger for tax rate sustenance. What tax rates will you face a mere 39 days from now? It would be nice to have just a morsel, wouldn't it?

The Turkey Is Done (Photo credit: Wikipedia)

Year-end confusion in 2010 was bad, but in 2012 it's chaos. Congress has us in a turkey-in-the-headlights stare. Investors like to know whether to take gains, harvest losses or both. Ditto for accelerating deductions, deferring income or the reverse.

You can't really make decisions without running numbers, and that means comparisons. Yet 2013 is still up for grabs. Reminiscent of late 2010, some debates are over the Bush-era tax cuts. As in 2010, one idea is extending the Bush tax cuts for anyone with less than $250,000 of income or some other number.

The AMT patch is another mess. In 2010, Congress patched the AMT after IRS Commissioner Doug Shulman practically begged Congress to fix it. But the two-year patch covered only 2010 and 2011. For most of us, the practical dollar effects of AMT are far more than the capital gain rate spread, or between 35% and 39.6% top rates on ordinary income. AMT is a stealth tax, and 30 million taxpayers will be hit by AMT in 2012. See What's The Unkindest Tax Of All?

Still, many people seem especially distraught over the capital gain confusion. Will you pay 15% or 23.8% on long term capital gains? Cashing in now may make sense–the 15% rate may never return. See Like A Jedi, Sell A Business, Real Estate Or Stock This Year. You might sell a business, real estate, or just some stock.

Conversely, consider losing investments too. "Loss harvesting" (a euphemism to be sure) involves selling and realizing them. You might have to sell some gain assets to soak up losses. Remember, unlimited offsetting is allowed as long as your gains exceed your losses. But if you end up with excess capital losses, you can use only $3,000 per year. At that rate you can spend decades burning through a large loss unless you have other capital gains to offset them more robustly.

Accelerating deductions usually makes sense, but you may not want to take deductions if they will create problems like AMT. If you don't always itemize, bunching payments together can make sense so you get maximum advantage in years when you do itemize.

Then there is the estate and gift tax mess, making it almost impossible to plan. Most people ***still*** haven't taken advantage of the law expiring December 31, 2012. Congress enacted a $5 million exemption for both gift and estate taxes but only through 2012. Indexed for inflation, the exemption is now $5,120,000. But it drops to $1 million January 1, 2013. A free pass to give away up to $5,120,000 without tax (up to $10,240,000 for a married couple) may never come again. See Grab The $5M Gift And Estate Tax Perk: It's Gone In 2013.

This year-end, be careful out there.

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