



**PREMIER
FINANCIAL
PLANNING, INC.**

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A Registered Investment Advisor

Year 2012 Commentary | January 2013

Compromise Reached: A last minute compromise helped to avert and delay some aspects of the fiscal cliff on New Year's Day. The stock market gains on January 2nd showed strong approval. But be aware that a "band-aid" to extend the deadline on certain items was part of the deal. Additional legislation is needed by the end of February 2013 when the looming issue of the federal deficit returns and automatic spending cuts are otherwise enacted.

The American Tax Relief Act of 2012 (ATRA)

The last minute fiscal cliff compromise extends the majority of tax cuts that were scheduled to expire at the end of 2012, in addition to retroactively reinstating some rules that had expired in 2011. However, the legislation also introduces a number of changes as well. This is just a brief summary of some of the changes from ATRA and other legislation already in place to occur in 2013.

Tax Brackets: We now have a new top tax bracket of 39.6% for those with net income (after deductions) of \$400,000 (single) or \$450,000 (joint filers).

Capital Gains Tax Rates: With the additional 3.8% Medicare tax on portfolio income that begins in 2013, we now have 4 capital gains tax brackets; 0% for those in the lowest two brackets, 15% for those with net income under \$200,000(single)/\$250,000 (joint), 18.8% for net income under \$400,000/\$450,000, and 23.8% for those with net taxable income over \$400,000/\$450,000.

Dividends Tax Rates: Qualified dividend tax rates are now permanently tied to capital gains tax rates and are therefore the same as stated above based on income levels.

Phase-out of Itemized Deductions: We will also have a return of the Pease limitation (a phase-out of itemized deductions) and the Personal Exemption Phase-out. These limitations on available deductions occur based on income and a complicated formula.

Estate Tax: The gift and estate tax exemption amount remains the same as in 2012; with inflation, it is now \$5,250,000 in 2013. However, the top estate tax bracket rises to 40% (from 35%). The portability rules for a deceased spouse's unused estate tax exemption amount are also made permanent.

Annual Gift Tax Exclusion: Increases to \$14,000 in 2013 (\$28,000 for couples).

AMT Relief: The ongoing AMT exemption patches are now made permanent and fixed retroactively. The new AMT exemption amount is \$50,600 (single)/\$78,750 (joint).

Education Savings Accounts: Made permanent; remaining at \$2,000 per year.

Extended for 5 more years: The \$2,500 tax credit for college expenses, the Child Tax Credit, and the Earned Income Tax Credit are now all extended through 2017.

Extended for 1 more year: Deduction for state sales tax paid instead of state income tax (useful in states with no state income tax) and the exclusion from federal taxable income of discharged mortgage debt (in the case of a short sale).

LAPSED: The 2% payroll tax cut in place for the past two years was *not* extended. Thus payroll withholding will be higher on employee paychecks.

December 31, 2012 Benchmark Returns*

	4th Quarter	2012
Large-Cap US Benchmarks		
Dow Jones Industrial	-1.74%	10.24%
Standard & Poor's 500	-1.01%	13.41%
NASDAQ Composite	-3.10%	15.91%
Russell 1000 Growth	-1.32%	15.26%
Russell 1000 Value	1.52%	17.51%
Small-Cap Benchmarks		
Russell 2000 Growth	0.45%	14.59%
Russell 2000 Value	3.22%	18.05%
Large Cap International		
MSCI EAFE (Local Currency)	7.12%	13.55%
MSCI EAFE (US Currency)	6.57%	17.32%
Fixed Income Indices		
Barclay's Cap Aggregate Bond	0.21%	4.21%
Citigroup World Govt. Bond	-2.36%	1.51%
Real Estate Indices		
Dow Jones US Select REIT	2.31%	17.12%

** Index performance is provided as a benchmark only. The performance of your individual portfolio will vary from that of any one index. Past performance of an index is never a guarantee of future results.*

Continue an Asset Allocation Strategy with Sufficient Cash Reserves – Repeated from Last Quarter!

Our continued recommendation is to maintain an asset allocation strategy with investments that will help offset the impact of both an inflationary (equities) and deflationary (bonds and tangibles) climate *and* to hold sufficient cash reserves for any short term cash flow needs. *This past quarter is an excellent example of how asset allocation works.* Please review the index returns for the 4th quarter on the previous page. The international, real estate and value asset classes helped to achieve a positive return for client portfolios this quarter. ☺

Enclosed Investment Reports

4th Quarter and Annual 2012 Reporting:

- *Aggregate Overview; Current Value, Asset Allocation and Performance; summarized by Portfolio and Combined Portfolios, as applicable*
- *Holdings Analysis by Account; summarized by Asset, Account and Asset Allocation*
- *Portfolio Performance Detail by Account; summarized by Asset and Account for 2012 calendar year performance*
- *Statement of Fees for the 1st Quarter 2013 (based on 12/31/12 values)*
- *Disclosure Statement*

Please remember that this investment reporting is for informational purposes only and you should also refer to the investment statements you receive from your brokerage custodian. Benchmark returns listed on page one are per 12/31/12 Morningstar reported values.

Firm Announcement

- Please join me as I congratulate Jim Patterson for successfully passing his second CFP® test! Good going, Jim!

As always, we appreciate your continued confidence and trust. Should you have any questions or concerns, please contact us.

Best regards,



Patricia C. Patterson, CFP®, CMFC®