The 1040 Blues
Strategies to Deal With Higher Taxes (Sometimes It's Better to Pay)

By PAUL SULLIVAN

Even those who closely followed theumbling, eye-glazing and, at times, frus-
trating so-called fiscal cliff drama of last
December — and people could be forget-
ning about it — find themselves trying to
figure out the best angles through the tax
increases wrought by the deal. And if they are not
scrambling their heads now, wait until April 15,
when they could see a drastic increase in their tax
bill.

Consider these two situations.

First, a person has income of $550,000, which is
under the $450,000 threshold that sets off the high-
est marginal income tax rate and an increase in the
capital gains tax to 20 percent, from 15 percent.

That income is, however, sufficiently high that the
Medicare surcharge of 0.9 percent on wage income
and 3.8 percent on investment income has been ap-
piled. If that person sold a large amount of Apple
stock, with over $1 million in capital gains, would
those gains be taxed at the lower or higher capital
gains rate?

In the second case, a person has an annual salary
of $139,000 and sells a home that she has rented
out for years. Having owned it for several decades,
she has capital gains of $499,000. Would the person
pay 15 percent because her wage income is under
$266,000? Or would she pay various and higher
taxes because her total income would be $509,000, pushing it through the thresholds for the Medicare
surcharge and higher capital gains rate?

Both situations came from a real estate develop-
er in Baltimore, who asked not to be named be-
cause he “did not want to come across as gaming
the U.S. Treasury.” Far from gaming the system, he
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American savers may be asked to pay more taxes than ever before. But before the new tax law takes effect, there are several strategies that can help you prepare for this possibility.

1. **Use Wealth Management Strategies**
   - **Diversify your investments**: Diversification helps spread risk and can reduce overall volatility.
   - **Maximize tax-free investments**: Contributions to tax-advantaged accounts, such as IRAs and 401(k)s, are not taxable when earned and can help you save for retirement.

2. **Consider Alternative Investments**
   - **Real estate**: Real estate can offer tax benefits, such as depreciation deductions and capital gain exclusions. Investing in rental properties or real estate investment trusts (REITs) can also provide income and appreciation opportunities.
   - **Overseas investments**: Investments in foreign markets can offer diversification and potential for growth, especially in a global economy.

3. **Review and Adjust Your Tax Strategy**
   - **Review your tax strategy regularly**: Your financial advisor can help you adjust your tax strategy to take advantage of changes in the law.
   - **Consider a tax professional**: A tax professional can provide guidance on how to minimize your tax liability.

4. **Increase your education and awareness**
   - **Stay informed**: Keep up-to-date with changes in tax laws and regulations by reading news articles and attending workshops or seminars.
   - **Consult with professionals**: Stay in touch with your financial advisor and tax professional to ensure you are taking full advantage of available deductions and credits.

By implementing these strategies, you can better prepare for the potential increase in taxes and make informed decisions to manage your financial future effectively.