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Signature Estate & Investment Advisors LLC
Paul Taghibagi, CFP®, ChFC®, Senior Partner

"What is new and what is not in 2011 tax law?"

By Paul Taghibagi

Each year brings changes in tax law, as well as continuations. In December, President Obama surprised many on both sides of the issue when he signed the 2010 tax relief act, extending the Bush-era tax cuts. Here is a look at the tax law modifications for 2011, beginning with IRAs.

IRA CHANGES FOR 2011

01 You cannot defer taxes resulting from a Roth IRA conversion. If you converted a traditional IRA to a Roth IRA in 2010, you could divide the tax resulting from the conversion between your 2011 and 2012 tax returns. You do not have this option for 2011 conversions.

02 The IRA charitable rollover is back. IRA owners aged 70½ or older can again donate IRA proceeds to charity tax-free.

03 You may have a chance to go Roth with your 401(k) or 403(b). As a result of the Small Business Jobs Act of 2010, some employer-sponsored retirement plans now allow in-plan Roth conversions, i.e., the chance to convert a percentage of the pretax dollars you have saved to after-tax dollars without the necessity of a rollover to a Roth IRA.

04 Roth IRA phaseouts set higher for 2011. Income phaseout limits have increased by $2,000 for joint and single filers. The phaseout range for joint filers and qualifying widows this year is $169,000 to $179,000. For single filers, it is $107,000 to $122,000.

05 Traditional IRA deduction phaseouts higher. IRA contributions for individuals who are also active participants in an employer-sponsored retirement plan may or may not be deductible, depending on income. In 2011, the income phaseout ranges are bumped up slightly.

One thing has not changed. You may contribute up to $5,000 to your IRA in 2011, $6,000 if you are 50 or older. If you have more than one IRA, your total contributions to cannot exceed the above limits.

SOME RESULTS OF THE EXTENSION OF BUSH-ERA TAX CUTS

01 Estate taxes will be less imposing than at any time in the past 80 years. Key things to remember:

- For 2011, the federal estate tax rate drops to 35 percent and the estate tax exemption rises to $5 million.
- This $5 million exemption is individual and portable, meaning that couples could potentially gift up to $10 million.
- The annual gift tax exclusion is again $13,000, so one taxpayer may gift up to $13,000 each to an unlimited number of individuals this year with the lifetime exclusion of $5 million.
- After 2012, estate tax rates could change.

02 Taxes on capital gains and dividends top out at 15 percent. Passage of the tax act means rates will top out at 15 percent through 2012.

03 Businesses may expense 100 percent of their investments. Qualified investments made between September 8, 2010, and January 1, 2012, are eligible for this bonus depreciation.

04 Current income tax rates are preserved. The tax brackets remain the same for 2011 and 2012.

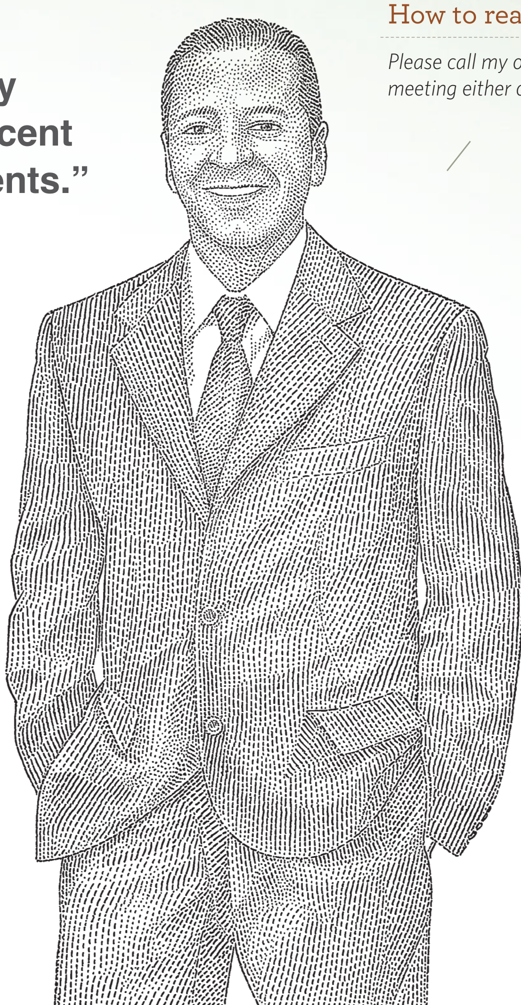
05 A payroll tax holiday occurs in 2011 for employees. The payroll taxes that employees pay will drop from 6.2 percent to 4.2 percent this year. There will be no payroll tax cut for employers.

06 No marriage penalty. The new law wards off the comeback of the marriage penalty so that couples may take a more generous standard deduction.

What is the price tag of all this short-term tax relief? It is sizable. The federal deficit is projected to increase by about $858 billion over the next two years as a consequence.

“Businesses may expense 100 percent of their investments.”

– Paul Taghibagi



How to reach Paul Taghibagi

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About Paul Taghibagi

Paul Taghibagi, CFP, ChFC, has been in the securities industry since 1990 and is one of the four founding partners of SEIA LLC. Less than 10 years after its inception, SEIA reached the milestone of $1 billion in assets under management. Mr. Taghibagi graduated with honors from the University of California, Santa Barbara, with a bachelor of science degree in business economics, and he is a Certified Financial Planner. His emphasis is investment planning and wealth management for affluent individuals, foundations and corporations. Additionally, he is a member of SEIA’s investment committee. Mr. Taghibagi lives in Pacific Palisades, Calif., with his wife and two daughters.

Assets Under Management
$360 million (Taghibagi);
$1.85 billion (firm, as of 12/31/10)

Minimum Fee for Initial Meeting
None required

Minimum Net Worth Requirement
$500,000 (investment services)

Largest Client Net Worth
$100 million

Financial Services Experience
20 years

Compensation Method Asset-based and fixed fees

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