

Wealth Management Process™

Estate & Legacy

Estate Planning

Beneficiaries

Key Person

Family Council

This Quarter: Estate & Legacy

This quarter's planning topic, Estate and Legacy, helps our clients ease the difficulty of transitions. This saves loved ones' time, expense and anxiety during stressful times. From succession planning for family businesses to health directives, we help identify areas where further expertise is needed. April's BOSS event will be geared toward business owners looking to succession plan as part of their overall estate planning process. A New York Life representative will discuss planning strategies and funding methods to improve the transition.

Next Quarter: Protection

Upcoming Event

Business Succession Planning

- Discover how to fund through insurance
 - Learn the pitfalls of waiting to long
- Speaker: Richard Early, New York Life

More at: www.BOSSworkshops.com



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Spring 2013

Greetings!

We're thankful the snow has taken a backseat and spring may finally have arrived. We enjoyed seeing many of you at our March Madness event and look forward to our next gathering

In spite of some of the national political rhetoric regarding budgets, it's been a great quarter for our clients.

Best Wishes – The Beacon Hill Team

Quarterly Market Review

If domestic equities hit the snooze button for the rest of 2013, they would still have had a pretty good record for the year. The Dow hit an all-time closing high in March, finally erasing all of its losses since October 2007, and the broader S&P 500 finally squeaked out its own new record close—by four points—on the last trading day of the quarter. The Nasdaq struggled with setbacks in the tech sector, while the small caps of the Russell 2000 continued to outpace the other three domestic indices. Despite a strong start for the quarter, the Global Dow suffered yet again from

political uncertainties, record unemployment, and a contracting economy in Europe, as well as concerns about potentially slower growth in China.

As equities showed strength, U.S. Treasury yields nudged up over the quarter, while the dollar gained more than 4% against a basket of six foreign currencies. Despite spiking briefly in February, oil prices ended the quarter up only slightly at roughly \$95 a barrel, while gold continued its six-month slide to end under \$1,600 an ounce.

Market/Index	2012 Close	As of 3/29	Monthly Change	Quarterly Change	YTD Change*
DJIA	13104.14	14578.54	3.73%	11.25%	11.25%
NASDAQ	3019.51	3267.72	3.40%	8.21%	8.21%
S&P 500	1426.19	1569.19	3.60%	10.03%	10.03%
Russell 2000	849.35	951.54	4.44%	12.03%	12.03%
Global Dow	1995.96	2108.55	1.02%	5.64%	5.64%
10-year Treasuries	1.78%	1.87%	-2bps	9 bps	9 bps

*Equities data reflect price changes, not total returns.

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Quarterly Economic Snapshot

- The Bureau of Labor Statistics said the unemployment rate fell to 7.7%; the 246,000 new jobs added by the private sector were partly offset by the loss of 10,000 government jobs. Meanwhile, economic growth during the final quarter of 2012 slowed substantially. According to the Bureau of Economic Analysis, the 3.1% growth seen in the third quarter shrank to 0.4% in Q4, while corporate after-tax profits rose 3.3% during the quarter (though they were down 1.1% year-over-year).
- It was tiny Cyprus's turn to be the focus of concerns about eurozone financial stability. After first rejecting the terms of a €10 billion bailout agreement with the international lenders known as the troika, Cyprus's parliament agreed to tax bank deposits over €100,000. It also imposed tight limits on bank withdrawals and other transactions to try to prevent capital from leaving the country, which would make debt repayment even more difficult.
- Long-term trends in the housing market continued to improve. Home prices in 20 cities measured by the S&P/Case-Shiller index were more than 8% higher than a year earlier. The Commerce Department said new single-family home sales were up more than 12% from a year ago, while housing starts were almost 28% ahead of the same time last year. And the National Association of Realtors' said home resales are more than 10% ahead of a year ago, and have reached their highest level since November 2009, when there was a homebuyer's tax credit.
- The Federal Open Market Committee will continue its bond purchases until the unemployment rate falls to 6.5%. However, it has begun to explore options for winding down quantitative easing, and may vary the size of its purchases if economic recovery picks up.
- A surge in orders for commercial aircraft helped boost U.S. durable manufactured goods orders during the quarter, according to the Commerce Department. Retail sales saw their biggest monthly increase since September during February, though the Commerce Department said increased spending at gas stations accounted for part of the higher figures. The spike in gas prices also helped push up consumer inflation over the last 12 months to 2%, while the Bureau of Labor Statistics said wholesale prices rose 1.7% during the same time.
- The \$85 billion of across-the-board federal budget cuts known as the sequester began going into effect, raising questions about how they might affect economic growth later in the year. However, Congress averted a second potential stalemate, agreeing to a continuing resolution to fund the federal government through September.
- European economies contracted during the final quarter of 2012, according to the Organization for Economic Development, while Chinese growth remained relatively stable, though slower than the year before.

Source: Broadbridge



Spring 2013

Understanding the New Medicare Tax on Unearned Income

Health-care reform legislation enacted in 2010 included a new 3.8% Medicare tax on the unearned income of certain high-income individuals. The new tax, known as the unearned income Medicare contribution tax, or the net investment income tax (NIIT), took effect on January 1, 2013.

Who must pay the new tax?

The NIIT applies to individuals who have "net investment income," and who have modified adjusted gross income (MAGI) that exceeds certain levels (see the chart below). (Estates and trusts are also subject to the new law, although slightly different rules apply). In general, nonresident aliens are not subject to the new tax.

Filing Status	MAGI over...
Single/Head of Household	\$200,000
Married filing jointly/ Qualifying widow(er)	\$250,000
Married filing separately	\$125,000

What is MAGI?

For most taxpayers, MAGI is simply adjusted gross income (AGI), increased by the amount of any foreign earned income exclusion.

AGI is your gross income (e.g., wages, salaries, tips, interest, dividends, business income or loss, capital gains or losses, IRA and retirement plan distributions, rental and royalty income, farm income and loss, unemployment compensation, alimony, taxable Social Security benefits), reduced by certain "above-the-line" deductions (see page one of IRS Form 1040 for a complete list of adjustments).

Note that AGI (and therefore MAGI) is determined before taking into account any standard or itemized deductions or personal exemptions. Note also that deductible contributions to IRAs and pretax contributions to employer retirement plans will lower your MAGI.

What is investment income?

In general, investment income includes interest, dividends, rental and royalty income, taxable nonqualified annuity income, certain passive business income, and capital gains--for example, gains (to the extent not otherwise offset by losses) from the sale of stocks, bonds, and mutual funds; capital gains distributions from mutual funds; gains from the sale of interests in partnerships and S corporations (to the extent you were a passive owner), and gains from the sale of investment real estate (including gains from the sale of a second home that's not a primary residence).

Gains from the sale of a primary residence may also be subject to the tax, but only to the extent the gain exceeds the amount you can exclude from gross income for regular income tax purposes. For example, the first \$250,000 (\$500,000 in the case of a married couple) of gain recognized on the sale of a principal residence is generally excluded for regular income tax purposes, and is therefore also excluded from the NIIT. Investment income does not include wages, unemployment compensation, operating income from a nonpassive business, interest on tax exempt bonds, veterans benefits, or distributions from IRAs and most retirement plans (e.g., 401(k)s, profit-sharing plans, defined benefit plans, SEPs, 403(b) plans, SIMPLE plans, SEPs, and 457(b) plans).

Net investment income is your investment income reduced by certain expenses properly allocable to the income--for example, investment advisory and brokerage fees, investment interest expenses, expenses related to rental and royalty income, and state and local income taxes

How is the tax calculated?

The tax is equal to 3.8% of the lesser of (a) your net investment income, or (b) your MAGI in excess of the statutory dollar amount that applies to you based on your tax filing status. So, effectively, you'll be subject to the additional 3.8% tax only if your MAGI exceeds the dollar thresholds listed in the chart above.

Example: Sybil, who is single, has wages of \$180,000 and \$15,000 of dividends and capital gains. Sybil's MAGI is \$195,000, which is less than the \$200,000 statutory threshold. Sybil is not subject to the NIIT.

Example: Mary and Matthew have \$180,000 of wages. They also received \$90,000 from a passive partnership interest, which is considered net investment income. Their MAGI is \$270,000, which exceeds the threshold for married taxpayers filing jointly by \$70,000. The NIIT is based on the lesser of \$20,000 (the amount by which their MAGI exceeds the \$250,000 threshold) or \$90,000 (their net investment income). Mary and Matthew owe NIIT of \$70 (20,000 x 3.8%).

Note: The NIIT is subject to the estimated tax rules. You may need to adjust your income tax withholding or estimated payments to avoid underpayment penalties.