



Protection

Life Insurance

Disability

Umbrella/Liability

Long-term Care

This Quarter: Protection

This quarter's topic, *Protection*, uncovers gaps within our clients' insurance needs. Going beyond a simple life insurance snapshot, we analyze scenarios in which disability could occur or potential long-term care needs arise. As you can imagine, it's burdensome, if not financially devastating, for the family if these issues are not addressed. If additional needs are required, we coordinate a competitive bid from multiple providers.

Next Quarter: Tax Efficiency

Greetings!

It's been a busy start to summer!

At the State level, Governor Kasich signed the State of Ohio biennium budget. While we won't get into some of the controversial parts of the bill, we have summarized the tax code changes in our newsletter.

In addition, the U.S. Supreme Court just ended a busy (& controversial) session. As you likely followed in the news, the Defense of Marriage Act was ruled unconstitutional; rendering same-sex marriages to be treated equally under federal law. Regardless of your social views on this matter, you should be aware of the financial impact to individuals and businesses.

Best Wishes – The Beacon Hill Team

Quarterly Market Review

Ironically, good news for the economy translated into bad news for investors after the Fed provided its blueprint for winding down the quantitative easing efforts that have benefited financial markets in recent years. Until mid-May, equities seemed unstoppable as the Dow and S&P 500 powered to new all-time records. However, as the Fed's outlook for continued moderate economic recovery grew more optimistic, both equities and bonds struggled in June. Still, domestic equities across the board managed a positive quarter, though gains were moderate compared to Q1's sizzling pace.

The prospect of less Fed support also affected other markets. Investors began to anticipate a future with

higher interest rates and sold off bonds across the board. The 10-year Treasury yield rose to its highest point since August 2011, and since bond prices tend to fall when interest rates rise, bond values were hit hard. Global equities were affected not only by the Fed but also by central bank decisions in China and Japan.

Despite some volatility, the dollar ended the quarter roughly where it began against a basket of six foreign currencies. However, gold's slide accelerated after the Fed's announcement; the precious metal briefly fell below \$1,200 an ounce before ending with a \$400 loss for the quarter. A stronger dollar helped keep oil prices in check despite concerns about Middle East supplies.



BEACON HILL
INVESTMENT ADVISORY

84 South Fourth Street
Columbus, OH 43215



Clint Edgington, CFA



Mark Fissel, CFP®



William Shorthill, CFP®

Market/Index	2012 Close	As of 6/28	Monthly Change	Quarterly Change	YTD Change*
DJIA	13104.14	14909.83	-1.36%	2.27%	13.78%
NASDAQ	3019.51	3403.25	-1.520%	4.15%	12.71%
S&P 500	1426.19	1606.25	-1.50%	2.36%	12.63%
Russell 2000	849.35	977.48	-.68%	2.73%	15.09%
Global Dow	1995.96	2110.60	-3.43%	.10%	5.74%
10-year Treasuries	1.78%	.25%	0 bps	0 bps	0 bps

*Equities data reflect price changes, not total return.



Quarterly Economic Snapshot

- The U.S. economy grew more slowly during the first quarter than previously thought, but the 1.8% increase in Q1 gross domestic product was still substantially better than the previous quarter's 0.4%. Assuming that moderate growth continues, the Fed said that by the end of the year it may start reducing the \$85 billion worth of bonds it has been buying monthly and end those purchases completely in 2014. However, it doesn't plan to raise interest rates until the unemployment rate is around 6.5%, which the Fed says could happen by the end of 2014.
- The Fed wasn't the only central bank to affect global equities. China's central bank, which had been attempting to control lending, was forced to inject additional cash into the banking system to bring down record money market interest rates after concerns about liquidity helped cause a sharp drop in Chinese stocks. Meanwhile, a massive bond-buying program announced in April by the Bank of Japan helped buoy stocks there, though there also was some volatility after the central bank later refused to expand the program.
- In a landmark ruling that struck down the Defense of Marriage Act, the U.S. Supreme Court paved the way for same-sex couples to claim the same federal tax and other benefits as other married couples in states that recognize same-sex marriages. Some of those benefits include survivor's/spousal Social Security and military benefits, the ability to inherit a spouse's estate tax-free, family medical leave rights, spousal visas and IRA contributions, joint federal income tax filings, and private pension benefit options.
- The unemployment rate saw little change; the 7.7% rate announced in March by the Bureau of Labor Statistics nudged downward to 7.6% by quarter's end. The economy added 175,000 jobs in May, slightly more than the monthly average for the quarter. Over the past three months, the private sector created 489,000 new jobs while federal, state, and local governments eliminated 23,000 jobs (14,000 federal government jobs were cut in May alone).*
- The housing market's recovery accelerated in the second quarter despite higher mortgage rates. The Commerce Department said May's 2.1% increase in new home sales represented the fastest annualized pace since the summer of 2008. As of April, home prices in the areas measured by the S&P 500/Case-Shiller 20-city index had their largest year-over-year gains—12.1%—in the last seven years. Home resales were almost 13% higher in May than a year earlier, according to the National Association of Realtors®, and housing starts were up 28.6% from last May.
- U.S. manufacturing data was mixed. A 3.6% increase in durable goods orders in May followed an equally strong April, and the Commerce Department said business orders for new capital equipment rose 9.3%. However, the Fed's gauge of industrial production was little changed, and the Institute for Supply Management's manufacturing index for May showed contraction for the first time since November.
- Inflation remained well-contained, according to the Bureau of Labor Statistics. Annual consumer inflation was a moderate 1.4% as of May, while the wholesale inflation rate remained controlled at 1.8%. By May, retail sales were 4.3% ahead of May 2012 and consumer spending during the month largely reversed April's decline, while the Bureau of Economic Analysis said inflation-adjusted incomes were up roughly 1% from a year earlier.
- The European Union continued to be mired in recession. Eurozone unemployment hit a record 12.2% and the economy shrank 0.2% during the first quarter, according to the EU's statistical agency; that represents an annual contraction of 1.1%. Meanwhile, China's growth rate continued to show signs of slowing from Q1's 7.7%.

Source: Broadridge

Mid-Year Planning: Accounting for New Tax Rules

The American Taxpayer Relief Act of 2012 (ATRA), passed in early January, permanently extended a host of expiring tax provisions. It also largely set the rules for tax planning for 2013 and beyond. As you take stock of your tax situation this year, here are a few new wrinkles to keep in mind.

New Top Tax Rate

The six tax brackets (10%, 15%, 25%, 28%, 33%, and 35%) that applied for the last several years have been made permanent for most individuals. That's really good news, since it removes a great deal of uncertainty going forward (it's always easier to plan when you know what the tax rates will be the following year).

But higher-income individuals and families will have to contend with a new top federal income tax bracket starting this year, paying tax on a portion of their income at a rate of 39.6%. The new 39.6% rate applies to individuals with taxable income exceeding \$400,000 and married individuals filing jointly exceeding \$450,000.

Higher Rates on Investment Income for Some

Most individuals won't see any change in the rate at which they're paying tax on long-term capital gains and qualifying dividends. If you're in the 10% or 15% marginal income tax

bracket, a special 0% rate will generally apply. If you are in the 25%, 28%, 33%, or 35% tax brackets, a 15% maximum rate will generally apply.

If you're in the new top 39.6% tax bracket, though, it's going to be a little different starting this year—that's because in 2013 a new maximum rate of 20% will generally apply to some or all of your long-term capital gains and qualifying dividends.

And keep in mind that a new Medicare contribution tax now applies to some or all of the net investment income of individuals with more than \$200,000 in modified adjusted gross income (\$250,000 for married couples filing a joint federal income tax return, and \$125,000 for married individuals filing separate returns). The Medicare contribution tax is 3.8%, and is in addition to other taxes that apply.

Other items that may be affected depending on income thresholds include; personal dependency exemptions, itemized deductions and qualified medical expenses.

Source: Broadridge

Ohio's New Biennium Budget

There were a few controversial social measures in the new State biennium budget which was signed into law on June 30th by Gov. John Kasich. The State fiscal year begins on July 1, 2013 and the budget totaled \$62 billion. Putting social agendas aside, you should also be aware of the tax implications for you and your business with the new State of Ohio budget. Expect to see the following changes with varying effective dates:

Income tax

- Cutting personal income tax rates ten percent across-the-board, phased in over three years (by 8.5 percent in 2013, 9 percent in 2014, and 10 percent in 2015 & beyond);
- A 50 percent small business tax cut on the first \$250,000 in net small business income;
- Limitation on who can deduct the \$20 per person individual income tax credit
- Limitation on the deduction for the Ohio joint filing credit

The minimum tax due for the commercial activity tax changed:

- For taxpayers with receipts equal to or less than \$1 million, the minimum remains \$150
- For taxpayers with receipts greater than \$1 million but less than or equal to \$2 million, the minimum is now \$800
- For taxpayers with receipts greater than \$2 million but less than or equal to \$4 million, the new minimum is \$1,100

- For taxpayers with receipts greater than \$4 million, the new minimum is now \$2,600
- Increasing the state sales tax rate from 5.5 to 5.75 percent beginning January 1, 2014;
- Suspending for three years the inflation-indexing adjustments of the nine income tax brackets and the personal and dependent exemptions;
- Maintaining the property tax homestead exemption for all seniors who currently have it, but limiting eligibility for the homestead exemption going forward for first-time applicants to those with less than \$30,000 in annual income; and

Veto Power

- Many items were line-item-vetoed from the budget bill by Gov. Kasich. Most notably was the Medicaid expansion language thus giving him maximum flexibility as discussions continue and keeping the conversation alive.

Sources: Ohio Tax Changes (Vorys)

Ohio Statehouse Update (Vorys)

Conference Committee Reports (Vorys)

