FYI2K13

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Every once in a while I struggle to come up with topics for articles. To look for ideas, I'll occasionally dredge up some of my old articles to see if there have been any changes to the laws that were the subject of previous columns. When looking over old articles last month, I came across one of the first subjects I ever wrote about: the Y2K scare.

In the late 1990s, several technological experts predicted an electronic Armageddon. As soon as the clocks rolled over to the year 2000, they predicted all computer and electronic devices would fail. Bank accounts would be wiped out, planes would drop out of the sky and anarchy would rule the world.

The United States, United Kingdom and even the United Nations created task forces to address the impending doom. Computers were upgraded with software to fix the Y2K bug. People even started to stock bunkers with cans of food, bottles of water and tons of batteries.

Then, December 31, 1999 turned into January 1, 2000…and nothing happened. There were a couple of glitches around the world, but in the end, the Four Horsemen stayed in the stable.

Reading the old Y2K article made me smile, for I distinctly remember the anxiety of the approaching millennium. However, it also hit close to home as we were in the thick of the Fiscal Cliff countdown.

The tax cuts implemented by President Bush were set to expire on December 31, 2012. Starting on January 1, capital gains tax and income tax rates were about to go up. In addition, the estate and gift tax exemptions, or the amount of funds you could pass to your loved ones either during lifetime or upon death, were set to go down, while the estate tax rate would be going up.

Out of fear of becoming financial lemmings, many people scrambled to do some last minute estate planning. They created and funded trusts, made gifts to their children and donated to charities, all in the hopes of preserving as much wealth as possible while paying as little tax as necessary.

As it turns out, the Fiscal Cliff turned out to be a gradual downward slope. With the passage of the American Taxpayer Relief Act of 2012, the income tax rates that were reduced a decade ago remained in place, except for the nation's highest earners. The Federal Insurance Contributions Act (FICA) tax went back up to 6.2% from the reduced 4.2% rate. A 3.8% surtax was added to investment income, including capital gains taxes. Thankfully, many government benefits programs that were in danger of being cut were also temporarily extended.

The $5 million estate and gift tax exemptions in place in 2012 remain intact going forward (and are actually around $5.25 million due to increases for inflation). The estate tax rate, however, did increase slightly, from 35% in 2012 to 40% going forward.

Because the financial apocalypse was averted, a lot of the tax planning people did may not have been necessary. At least this time around, people aren't stuck with tons of cans of beets that will go to waste.