January 3, 2013 -- The three major stock indices finished up for 2012 and continued to climb, in the New Year, as Congress passed a last-minute plan to avoid most of the so-called "fiscal cliff." The Congressional Budget Office estimates these measures will add $4 trillion to the deficit over the next 10 years, while raising $620 billion in revenue through a series of tax increases on wealthier Americans.

The plan calls for:

- Higher taxes on upper income households
- A permanent patch to the alternative minimum tax, which will adjust annually for inflation
- An extension of temporary tax breaks for businesses
- Postponing automatic spending cuts (the sequester) for two months
- A one-year extension of unemployment benefits for 2 million people
- A five-year extension of the Earned Income Tax Credit, the Child Tax Credit and the American Opportunity Tax Credit

The details include a 39.6% marginal tax rate, up from 35%, for individuals with incomes above $400,000 and married couples filing jointly who make more than $450,000. The tax rates for others remain the same. Taxes on capital gains and dividends also increased to 20% for households over the $400,000/$450,000 threshold. The estate exemption was also made permanent, at $5 million indexed for inflation; $10 million for married couples filing jointly. Amounts over those thresholds are now taxed at 40%. In addition, the deal re-imposed limits on tax exemptions and deductions for those higher earners. For example, the itemized deduction limitation now starts at $300,000.

The 2011 temporary cut to Social Security payroll taxes was not extended, increasing them from 4.2% to 6.2% effective immediately. The 2 percentage point increase means everyone will take home less each paycheck, which could impact consumer spending growth over the near term, according to Raymond James Chief Economist Scott J. Brown, Ph.D.

The passage of the budget deal signaled an end of the uncertainty that hovered over the stock market for months, although some business remains unfinished. The plan failed to address the federal debt ceiling and postponed harsh spending cuts, setting up what could be another contentious battle in the months ahead as Congress reconvenes to address these issues.

While the negotiations dominated the news during the last week of the year, 2012 was eventful in other ways, too. Investors were affected by the presidential election; the Federal Reserve's "Operation Twist" and third round of quantitative easing; the Facebook IPO; steps forward and back in the euro zone sovereign debt crisis; the historic closing of the NYSE after Hurricane Sandy devastated the Northeast; J.P. Morgan's losses stemming from proprietary trading; and the Supreme Court's ruling on the Patient Protection and Affordable Care Act. Despite headlines, volatility and uncertainty, the markets made progress in 2012 with the S&P 500 and NASDAQ achieving double-digit returns.

	12/31/12 Close	12/30/11 Close	Change	Gain/Loss
DJIA	13,104.14	12,217.56	886.58	7.26%
NASDAQ	3,019.51	2,605.15	414.36	15.91%
S&P 500	1,426.19	1,257.60	168.59	13.41%

As the New Year begins, many of the factors that worried investors last year have been resolved, while a few are still pending decisions. News from Washington will continue to make headlines over the next few months, but our focus should remain on long-term planning for 2013 and beyond. We wish you and yours a prosperous New Year!

Investing involves risk, and investors may incur a profit or a loss. Past performance is not an indication of future results. Investors cannot invest directly in an index. The Dow Jones Industrial Average is an unmanaged index of 30 widely held stocks. The NASDAQ Composite Index is an unmanaged index of all common stocks listed on the NASDAQ National Stock Market. The S&P 500 is an unmanaged index of 500 widely held stocks.