

# Tax Update & Planning Speaker Outline

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## Tax Rates

- Example (2013):
- Capital Gains Rates
  - 2013 - 20% rate for high-income individuals (\$400,000 Single/\$450,000 MFJ)
- Dividends

## New Net Investment Income Tax

January 1, 2013

- 3.8% Net Investment Income Tax
- Unearned Income of:
  - High-Income Individuals
  - \$250,000 MFJ/ \$125,000 MFS
  - \$200,000 Single and H of H
  - Estates
  - Trusts

Unearned Income:

- interest
- dividends
- annuities
- royalties
- rents (other than those derived from a trade or business)
- capital gains (other than those derived from a trade or business)
- trade or business income that is a passive activity with respect to the taxpayer, and
- trade or business income with respect to the trading of financial instruments or commodities.

## Foreign Earned Income

Foreign Earned Income Exclusion

- 2012     \$95,100
- 2013     \$97,600

## **Foreign Account Reporting**

### **Foreign Accounts**

- Form TD F 90-22.1
- Required if account balance \$10,000 or greater
- Completed, mailed, and received by the United States Treasury in Detroit, Michigan by June 30<sup>th</sup>

### **Foreign Asset Reporting**

- New Form 8938

### **2012 Voluntary Offshore Compliance Program**

- Provides taxpayers opportunity to get compliant
- Avoid substantial civil penalties
- Generally eliminates the risk of criminal prosecution

## **Marriage Penalty**

- Standard deduction double of that of single person
- Lower tax bracket cut-offs double that of single person
- ATRA permanently preserves portions of this tax relief
  - Permanently increases standard deduction
  - Increases the size of the 15% tax bracket

## **Standard Deduction**

### **Exemptions and Itemized Deductions**

- No phase-out for high income earners in 2010 – 2012
- Phase-outs return in 2013

### **Exemptions**

- 2012 personal exemption is \$3,800
- 2013 personal exemption is \$3,900

### **Exemptions and Itemized Deductions**

- No phase-out for high income earners in 2010 – 2012
- Phase-outs return in 2013

## **Itemized Deductions subject to limitation**

- taxes
- interest (except investment interest)
- charitable contributions
- employee job expenses and
- other miscellaneous itemized deductions (excluding gambling and casualty or theft losses).

## **Medical Expenses**

### **Flex Spending Account**

- Employer-sponsored Cafeteria Plan
- Medical Expenses
- \$2,500

### **Health Savings Account**

- Tax-advantage Account
- High-deductible Health Plan
- Medical Expenses
- Roll Over Accumulated Funds
- Penalty for Non-qualified Distributions

### **Eligibility**

- Covered under a high deductible health plan (HDHP) on the first day of the month.
- No other health coverage except what is permitted.
- Not enrolled in Medicare.
- Not claimed as a dependent on someone else's tax return

### **High Deductible Health Plan**

- High Annual Deductible
- Maximum limit on the sum of the annual deductible and out-of-pocket medical expenses

### **Contributions to an HSA**

- Who may contribute?

## **Long-Term Care**

- Individual
- Self-Employed

## **Payroll Taxes**

### **Reduction**

- Payroll tax holiday past two years
- Payroll FICA return to 6.2%
- Self-Employed tax returns to 12.4%

### **Medicare Portion**

- Hospital Insurance portion increases for high-wage employees—additional 0.9%
- Income threshold \$250,000 Married filing joint, \$125,000 single, and \$200,000 all others

## **Debt Forgiveness**

- Up to \$2 million on indebtedness on the acquisition, construction, or substantial improvement of the principal residence
- Excluded from income through December 31, 2013

## **Alternative Minimum Tax**

- Implemented by Congress
- Exemptions permanently patched by the American Taxpayer Relief Act (ATRA)
  - 2012: \$78,750 MFJ/ \$39,375 MFS/\$50,600 all others
  - 2013 (projected): \$80,750 MFJ/ \$40,375 MFS/\$51,900 all others
- Non-refundable Credits Allowed
- Child Tax Credit
- Adoption Credit
- Saver's Credit
- American Opportunity Credit
- Allowable credits can be carried forward

## **Education**

### **Student Loan Interest**

- \$2,500 interest deduction
- Interest is deductible over the life of the loan
- Phase-out ranges apply

### **Tuition and Fees Deduction**

- \$4,000 deduction for Tuition and Fees
- Extended through December 31, 2013

### **Educator Deduction**

- Qualified out-of-pocket expenses for books & classroom supplies
- Elementary or secondary school teachers working at least 900 hrs
- Extended through December 31, 2013

### **American Opportunity Tax Credit**

- 100% first \$2,000 + 25% of next \$2,000 = \$2,500
- Available for first four years of college
- 40% of credit may be refundable
- Extended through December 31, 2017

### **Coverdell Education Accounts**

- ATRA permanently extended the annual contribution limit of \$2,000
- Distributions are tax-free only if the American Opportunity or Lifetime Learning Credits are not claimed in the same tax year
- The modified AGI phase-out range for the annual contribution limit for joint filers will no longer be twice the amount for single filers

### **Coverdell Education Accounts**

- Contributions for special needs students age 18 or over no longer allowed
- Contributions for the tax year must be made by December 31
- Contributions to a Coverdell account and a Sec 529 Qualified Tuition Program not allowed in the same year.
- Education credits cannot be taken in a year in which a Coverdell withdrawal is made.
- The full impact of the ATRA legislation has not been disclosed at this time.

## **Employer-provided Educational Assistance**

- ATRA permanently extends the \$5,250 exclusion from income

## **State Sponsored 529 Plan (QTP)**

- Some states allow tax deduction
- No Federal deduction or credit for contribution

## **Children**

### **Child Tax Credit**

- \$1,000 per qualified child made permanent
- Expanded provisions made permanent
- Additional child tax credit provisions extended through 2017

### **Dependent Care Credit**

- Maximum expense \$3,000/child, \$6,000 maximum
- Maximum percentage 35%
- Subject to phase-outs, phase-out stops at 20%

### **Earned Income Tax Credit**

- Maximum credit reverts back to calculation on two children
- Phase-outs for joint filers will be same as single

### **Adoption Tax Credit**

- 2012 Credit is no longer refundable
- Phase-out ranges apply
- The full impact of the ATRA legislation has not been disclosed at this time.

## **Retirement Plans**

### **IRA Contributions**

#### **IRA (Traditional) Deduction**

- MAGI Limits for Traditional IRA Deductions 2012
- MAGI Limits for Traditional IRA Deductions 2013

## **Roth IRA**

- MAGI Limits for Roth IRA Contributions 2012
- MAGI Limits for Roth IRA Contributions 2013

## **Retirement Plans**

### **Employer-Sponsored Retirement Plans**

- Contribution Limits on Employer-Sponsored Plans
- The American Taxpayer Relief Act lifts restrictions on Roth conversions from a 401(k) plan.

## **Gift and Estate Tax**

### **Gift Tax Exemption & Estate Tax Exclusion**

- For 2012, the exemption/exclusion amount is \$5,120,000
- Effective January 1, 2013, tax rate increases to 40% on high incomes
- The “portability” election has been made permanent
- ATRA legislation extends the deduction for state estate taxes paid

### **Annual Gift Tax Exclusion**

- An individual can make as many gifts to as many individuals as he or she chooses without incurring the tax, as long as each gift is below the annual exclusion amount.

### **Tax Rates**

- The top estate and gift tax rate is 35% in 2012.
- After 2012, the maximum estate and gift tax rate increases to 40%, with a \$5 million (*indexed for inflation*) applicable exclusion amount.

## **1099K**

### **Do not over report**

- Form 1099-K reports:
  - The gross amount of the transactions made throughout 2012.
  - Does not take into account any returns, allowances, fees, or other adjustments to transactions.
  - Reduce gross receipts to account for adjustments so that income is not over-reported.

### **Watch for duplicate reporting**

- Issuers may be confused by the change in reporting requirements.
- The 1099-MISC is to be issued only for the payment of services in cash or by check.
- The 1099-K is to be used for payments by credit card, electronic transfer, etc.
- Contact the issuer for correction if you receive both Form 1099-MISC & Form 1099-K for the same services.

## **Standard Mileage Rates**

### **Depreciation**

#### **Bonus Depreciation**

- Qualifying business equipment and machinery must be placed in service on or before December 31, 2013.
- A depreciation deduction equal to 50% of the cost of qualified business equipment and machinery in the first year it is placed in service.
- No taxable income limitation or investment limitation to claim bonus depreciation.
- No limit on the overall amount of bonus depreciation that can be claimed for qualifying property.

#### **Qualifying Property**

- New
- Depreciable under MACRS with a recovery period of 20 years or less.
- Property may include water utility property, certain computer software, or a qualified leasehold improvement.
- The original use of the property must begin with the taxpayer.

#### **Section 179 Election**

- Maximum deduction/Investment: \$500,000/\$2,000,000
- *Note: Software is included in the definition of "assets" for section 179 in 2013*



## Office in Home

- 2013 Simplified Home Office Deduction
- Multiply the office square feet by \$5
- Maximum of \$1500
- No deduction for depreciation
- Mortgage Interest and Real Estate Taxes are deducted on Schedule A Itemized Deductions
- Typically this will result in a lower deduction for most taxpayers
- All the other rules for use and qualifying are the same

## Expanded Work Opportunity Tax Credit for Hiring Qualified Veterans

- VOW to Hire Heroes added two new categories to the existing qualified veteran group.
- Available to certain tax-exempt employers as a credit against the employer's share of social security tax.
- *The credit may not exceed the organization's employer social security tax for the period for which the credit is claimed.*
- Employers may claim the WOTC for veterans certified as qualified veterans and who begin work before January 1, 2013.
- To qualify, employers must obtain certification and approval from their state workforce agency within 28 days after the eligible veteran begins work.
- Maximum Credit:
  - \$9,600 per qualified veteran for for-profit employers
  - \$6,240 for qualified tax-exempt organizations
- The amount of the credit depends on a number of factors, including:
  - The length of the veteran's unemployment before hire
  - The number of hours the veteran works
  - The veteran's first-year wages
- American Taxpayer Relief Act
  - Extends WOTC through 2013, retroactive through 2012
  - Revives previously expired WOTC provisions to include a range of disadvantaged groups
  - Full extent of legislation has not been disclosed

## **Small Employer Health Insurance Credit**

- Small employers may be eligible for a credit of up to 35% of qualifying health insurance premiums (25% for eligible non-profit employers).
- Employers must pay at least 50% or more of their employees' health insurance premiums.
- The credit may be reduced by certain limitations:
  - The employer's full-time equivalent employees
  - The employer's average annual wages
  - The state's average insurance premiums
- For small employers with:
  - Up to 25 full-time equivalent employees
  - Average annual wages of \$25,000 to \$50,000
- The credit increases in 2014 to 50% of qualifying health insurance premiums (35% for eligible non-profit employers).

## **American Taxpayer Relief Act**

Summary of permanent extensions:

- Marriage Penalty Relief
  - Increased standard deduction and enlarged 15% tax bracket
- \$1,000 child tax credit and certain enhanced provisions made permanent
  - Some provisions extended through 2017
- Enhanced child and dependent care credit rules
  - \$3,000 per child/\$6,000 max
- Employer-provided educational assistance exclusion
- Student loan interest deduction
  - Repeal of the 60-month limitation
- Coverdell Education Savings Accounts
  - Retains higher contribution amounts and other enhancements
- The employer-provided child care credit

## **Summary of Tax Provisions Expiring December 2011 Extended through 2013**

Tax Provisions Affecting Individuals:

(Some of these have been discussed previously)

- Educator's deduction

- Debt Forgiveness exclusion for a personal residence
- Mortgage insurance premiums (treatment as qualified residence interest)
- State and local general sales taxes deduction
- Special rules for capital gain real property contributions made for conservation purposes
- Above-the-line tuition and related expenses deduction
- Tax-free distributions from individual retirement plans made for charitable purposes
- Certain energy-efficient credits for new and existing homes
- Energy-efficient appliance credit
- Unemployment emergency benefits

### **Tax Provisions Affecting Business**

(Some previously discussed)

- New markets credit
- Wage credit for employers of uniformed active duty service personnel
- Work opportunity tax credit
- Fifteen-year straight-line cost recovery for qualified leasehold improvements, qualified restaurant buildings and improvements, and qualified retail improvements
- Enhanced charitable deduction for contributions of food inventory
- Certain energy-efficient credits for new and existing homes
- Incentives for biodiesel and renewable diesel
- Alternative fuels excise credit

### **Hurricane Sandy Relief**

- 401Ks can make hardship distributions
- Deadlines extended for tax payments due in October
- Waiving deposit penalties for federal payroll and excise taxes
- Disaster relief payments excluded from income
- Employer-sponsored private foundations may provide disaster relief without affecting tax-exempt status
- No tax penalty for affected areas for use of dyed diesel fuels
- Low-income housing credit rules
- Expedited review and approval process for organizations seeking tax-exempt status for relief victims

- Employees can forgo leave in exchange for employer cash payments to qualified charities. The employer gets a tax deduction for a business expense

### **Federally Declared Disaster Area**

- Deductible Casualty Loss
- Current year or previous year
- Quicker refund
- Net Operating Loss
- Carryback 3 years instead of the usual 2 years

### **Watch for Scams**

#### **Hurricane Relief Charities**

- Donate to recognized
- Do not give personal information to anyone that solicits a contribution
- Do not donate

#### **Phishing**

- Unsolicited email or website
- Do not reply or open attachment
- Report

#### **Identity Theft**

- IRS stepped up efforts
- Contact IRS Identity Specialized Unit

### **Conclusion**

- Consult with your Tax Professional
- Plan for tax liabilities
- Reduce stress and potentially reduce future taxes
- Tax Laws change continuously
- Remember to contact your tax professional if you:
- Change your address, or other contact information
- Experience life events that could affect your tax situation
- Need advice on any decisions that could affect your tax situation