Tax Update & Planning Speaker Outline

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 30th

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

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**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
  o ATRA permanently extends the $5,250 exclusion from income

State Sponsored 529 Plan (QTP)
  o Some states allow tax deduction
  o No Federal deduction or credit for contribution

Children
  Child Tax Credit
    o $1,000 per qualified child made permanent
    o Expanded provisions made permanent
    o Additional child tax credit provisions extended through 2017

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

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

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

Retirement Plans
  IRA Contributions

  IRA (Traditional) Deduction
    o MAGI Limits for Traditional IRA Deductions 2012
    o 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 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