Tax Update & Planning

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Tax Update & Planning

Tax planning for 2013 has been difficult with many tax provisions expiring and new provisions taking effect. On January 2, 2013, the American Taxpayer Relief Act (ATRA) was enacted. Many tax provisions expired on December 31, 2013 without any adjustments made for 2014 and beyond.

Tax Rates

As many people use the tax brackets to determine if they will want to shift income to the following year, ATRA's creation of an additional 39.6% tax bracket has left high-income taxpayers speculating how best to plan for their 2013 tax liability. This new bracket affects high-income taxpayers with taxable incomes exceeding $400,000 ($450,000 MFJ).

Tax rate tables for 2013 & 2014 are below:

2013 Tax Rates

Unmarried Filers	Married Filing Separate Filers	Married Joint Filers	Head of Household	Marginal Rate 2013
Up to 8,925	Up to 8,925	Up to 17,850	Up to 12,750	10%
8,926 – 36,250	8,926 – 36,250	17,851 – 72,500	12,751 – 48,600	15%
36,251 – 87,850	36,251 – 73,200	72,501 – 146,400	48,601 – 125,450	25%
87,851 – 183,250	73,201 – 111,525	146,401 – 223,050	125,451 – 203,150	28%
183,251 – 398,350	111,526 – 199,175	223,051 – 398,350	203,151 – 398,350	33%
398,351 – 400,000	199,175 – 225,000	398,351 – 450,000	398,351 – 425,000	35%
400,000 - or more	225,000 or more	450,000 or more	425,000 or more	39.6%

Example: *Thomas expects to have taxable income of $83,850 in 2013. He is a single taxpayer. His marginal tax rate is 25%. If he earns an additional $6,000, he'll jump into the 28% bracket. The 25% tax rate will apply to $4,000 of those additional earnings and the remaining $2,000 will be taxed at the higher 28% rate. Deferring taxes on the $2,000 — perhaps by contributing the earnings pretax to a 401(k) plan — or finding an additional $2,000 of deductible expenses would save Thomas $560 of income tax ($2,000 x 28%).*

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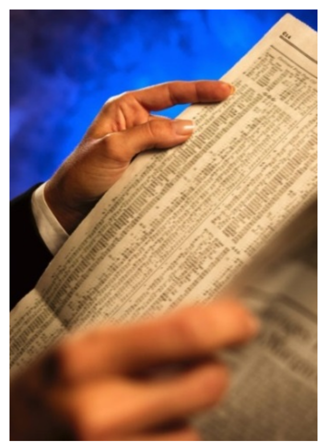
2014 Tax Rates

Unmarried Filers	Married Filing Separate Filers	Married Joint Filers	Head of Household	Marginal Rate 2014
Up to 9,075	Up to 9,075	Up to 18,150	Up to 12,950	10%
9,076 – 36,900	9,076 – 36,900	18,151 – 73,800	12,951 – 49,400	15%
36,901 – 89,350	36,901 – 74,425	73,801 – 148,850	49,401 – 127,550	25%
89,351 – 186,350	74,426 – 113,425	148,851 – 226,850	127,551 – 206,600	28%
186,351 – 405,100	113,426 – 202,550	226,851 – 405,100	206,601 – 405,100	33%
405,101 – 406,750	202,551 – 228,880	405,100 – 457,600	405,101 – 432,200	35%
406,751 - or more	228,801 or more	457,601 or more	432,201 or more	39.6%

Long Term Capital Gains Rates

The American Taxpayer Relief Act changes Long Term Capital Gains Rates effective January 1, 2013. The 0% rate has been preserved for taxpayers in the 10% and 15% tax brackets. Taxpayers in the middle income brackets (25%, 28%, 33% and 35%) will continue to be assessed for long term capital gains at a 15% rate. A new maximum capital gains tax rate of 20% has been added for filers in the highest tax bracket. This treatment applies for purposes of regular tax and alternative minimum tax.

Qualified Dividends that previously received long term capital gain treatment will continue to be taxed at the Long Term Capital Gains Rates.



In order to be taxed at the qualified dividend rate, the dividend must:

1. be paid by a U.S. corporation, by a corporation incorporated in a U.S. possession, by a foreign corporation located in a country that is eligible for benefits under a U.S. tax treaty that meets certain criteria, or on a foreign corporation's stock that can be readily traded on an established U.S. stock market (e.g., an American Depositary Receipt or ADR), **and**

2. meet holding period requirements: the stock must have been held for more than 60 days during the 121-day period that begins 60 days before the ex-dividend date. The ex-dividend date is the first date following the declaration of a dividend on which the buyer of a stock is not entitled to receive the next dividend payment. When counting the number of days you held the stock, include the day you disposed of the stock, but not the day you acquired it.

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Maximum Possible Capital Gains Rates (High Income Tax Payers)

Maximum Rates (Capital Gains Rates)	2013 & 2014	2013 & 2014 (including Net Investment Income Tax)
Long-Term Capital Gain	20%	23.8%
Short Term Capital Gain	39.6%	43.4%

Highest Possible Rates for Qualified Dividends (High Income Tax Payers)

Maximum Rates (Dividends)	2013 & 2014	2013 & 2014 (including Net Investment Income Tax)
Qualified Dividend Income	20%	23.8%
Ordinary Dividend Income	39.6%	43.4%

New Net Investment Income Tax

Beginning January 1, 2013, a new 3.8% Net Investment Income Tax was imposed on the unearned income of high-income individuals, as well as trusts and estates. For individual taxpayers, the net investment income tax is 3.8% of the **lesser** of

1. The taxpayer's **net** investment income, or
2. The excess of modified adjusted gross income over the threshold amount ($250,000 for a joint return or surviving spouse, $125,000 for a married individual filing a separate return, and $200,000 for all others)

For the purposes of this tax, "Net" investment income is investment income reduced by allowable investment expenses. Investment income includes:

- 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.

Modified adjusted gross income does not include excluded items such as interest on tax-exempt bonds, veterans' benefits, and excluded gains from the sale of a principal residence. However, it does include the income excluded for purposes of the Foreign Earned Income Exclusion and Housing Exclusion.

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Foreign Earned Income

Individuals can claim the foreign earned income exclusion and the foreign housing exclusion/deduction using Form 2555, Foreign Earned Income. The maximum foreign earned income exclusion for 2013 is $97,600 and $99,200 for 2014.

A taxpayer can deduct or exclude from gross income foreign housing expenses that exceed the taxpayer's base housing amount. For calendar year 2013, the base housing amount is $15,616 (16% x $97,600). The housing exclusion for 2014 is $15,872.

Foreign Bank and Financial Account Reporting (FBAR)

As in the past, taxpayers are required to report a foreign financial account if the account balances, at any time throughout the year, reaches $10,000, even if for one day. FinCEN Form 114 (formerly Form TD F 90-22.1) is required to be electronically filed starting July 1, 2013. The due date for filing the FBAR is June 30th.

Schedule B, Part III must also be completed if a taxpayer has a financial interest or signature authority over a financial account in a foreign country.

New provisions require the reporting of Foreign Assets in excess of $50,000 aggregate total during the year. These assets are reported on Form 8938 as part of the tax return.

2012 Voluntary Offshore Compliance Program

Voluntary disclosure of offshore accounts provides the taxpayer the opportunity to get compliant with tax obligations, avoid substantial civil penalties and generally eliminates the risk of criminal prosecution.

Making a voluntary disclosure also provides the opportunity to calculate, with a reasonable degree of certainty, the total cost of resolving all offshore tax issues. Taxpayers who do not submit a voluntary disclosure run the risk of detection by the IRS and the imposition of substantial penalties, including the fraud penalty and foreign information return penalties, and an increased risk of criminal prosecution.

The IRS remains actively engaged in flushing out the identities of those with undisclosed foreign accounts. Moreover, this information is increasingly available to the IRS:

- under tax treaties
- through submissions by whistleblowers, and
- under the Foreign Account Tax Compliance Act (FATCA,) and
- under the new Foreign Financial Asset Reporting.

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Marriage Penalty

For several years the standard deduction and the lower (10% and 15%) tax bracket cut-offs for married filing joint have been double that of a single person. These had been scheduled to revert back in 2013, which typically would result in married couples paying more in tax than two single taxpayers with the same total income. However, the American Taxpayer Relief Act contains provisions to preserve some (but not all) tax relief from the marriage penalty. ATRA permanently increases the standard deduction for joint filers and also increases the size of the 15% tax bracket.

Standard Deduction

The standard deduction is increasing by the usual inflation adjustment.

Standard Deduction

Filing Status	2013	Blind/Elderly	2014	Blind/Elderly
Single/MFS*	$6,100	+$1,500	$6,200	+$1,550
Head of Household	$8,950	+$1,500	$9,100	+$1,550
Married/QW	$12,200	+$1,200	$12,400	+$1,200
Standard Deduction for Dependents	$1,000 (or earned income + $350)		$1,000 (or earned income + $350)	

*MFS – if one spouse itemizes, both must itemize

Exemptions and Itemized Deductions:

For tax years 2010- 2012, exemptions and itemized deductions for high income taxpayers were fully deductible—there were no phase-outs. These phase-outs return in 2013.

Per the American Taxpayer Relief Act, thresholds have been re-established on taxable income over:

Filing Status	2013	2014
Single	$250,000	$254,200
Head of Household	$275,000	$279,650
Married Filing Joint	$300,000	$305,050
Married Filing Separate	$150,000	$152,525

The dollar amounts for the phase-outs are adjusted for inflation.

Exemptions

An individual is entitled to a personal exemption for themselves unless they can be claimed on someone else's tax return as a dependent. The taxpayer can also claim a personal exemption for a dependent or a spouse on their tax return. The exemption amount for 2013 is $3,900 per individual, and $3,950 for 2014.

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Starting in 2013, the otherwise allowable exemption amounts will be reduced by 2% for each $2,500 or part of $2,500 ($1,250 for married filing separately) that the taxpayer's adjusted gross income exceeds the AGI threshold for the year based on the taxpayer's filing status as outlined above. Personal exemptions are phased out completely for single taxpayers with AGI of $376,700 and Married taxpayers filing a joint return at $427,550.

Itemized Deductions

If the taxpayer's itemized deductions are subject to limitation, the total of all itemized deductions is reduced by the **smaller** of:

1) 3% of the amount by which the AGI exceeds the annual limit, or
2) 80% of the itemized deductions that are affected by the limit.

Not all itemized deductions are subject to this high income phase-out. The following itemized deductions are subject to phase-out:

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

For 2013, ATRA had reinstated the rules for deducting State and Local Sales Tax and Mortgage Insurance Premiums. The State and Local Sales Tax deduction on Schedule A, Itemized Deductions has expired as of December 31, 2013 and will not be allowed for 2014 unless Congress makes a change.

The deduction for Mortgage Insurance Premiums has also expired for 2014.

Medical Expenses

Previously, any portion of unreimbursed medical expenses over 7.5% of adjusted gross income was allowable as an itemized deduction on Schedule A of Form 1040. In 2013 the "threshold" for claiming unreimbursed medical expenses increased from 7.5% to 10% of adjusted gross income—this is the same threshold percentage for alternative minimum tax purposes. Individuals (and their spouses) age 65 and older will continue to use the 7.5% rate through 2016. *(Only one taxpayer needs to be age 65 to qualify.)*

Flex Spending Account

An employer sponsored health FLEX-Spending Account (FSA) will be limited starting 2013. An FSA is one of a number of tax-advantaged financial accounts that can be set up through a cafeteria plan of an employer. It is used to reimburse medical expenses from funds the employee contributes from their paycheck pre-tax. Previously, there was no limit set (legally) on a FLEX-Spending Account. A large portion of employers set their maximum at $5,000. Under the health care reform, starting January 1, 2013, the maximum an employee can have withheld from their paycheck for their FLEX-Spending account is $2,500.

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Note: The "use it or lose it" provision within the Flex Spending Account has been modified. Taxpayers are now allowed to carryover up to $500 from one year to the next within their FSA to pay for medical expenses. If the funds are not used to pay for medical expenses during the carryover period, the funds are forfeited as before. The company plan has the option to reduce this amount, restrict the carryover, or not offer the carryover provision at all.

Health Savings Account

A health savings account (HSA) is a tax-advantaged medical savings account available to taxpayers in the United States who are enrolled in a qualified high-deductible health plan (HDHP). The funds contributed to an account are not subject to federal income tax at the time of deposit.

Unlike a flexible spending account (FSA), funds roll over and accumulate year to year if not spent. HSAs are owned by the individual, which differentiates them from company-owned Health Reimbursement Arrangements (HRA) that are an alternate tax-deductible source of funds paired with either HDHPs or standard health plans.

HSA funds may be used to pay for qualified medical expenses at any time without federal tax liability or penalty. However, over the counter (OTC) medications can no longer be paid with HSA dollars without a doctor's prescription. Withdrawals for non-medical expenses or non-qualified expenses are subject to a 20% penalty. Once the taxpayer reaches age 65, the non-qualified withdrawals are no longer subject to the penalty and are treated similarly to an IRA distribution.

Eligibility

For an individual to qualify and be eligible for an HSA, the following requirements must be met:

- Covered under a qualified 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.

Qualified High Deductible Health Plan

A qualified high deductible health plan (HDHP) has:

- A higher annual deductible than typical health plans, and
- A maximum limit on the sum of the annual deductible and out-of-pocket medical expenses that must be paid for covered expenses. Out-of-pocket expenses include copayments and other amounts, but do not include premiums.

High Deductible Health Plan

Year	Type of Coverage	Annual Deductible Not Less Than	Annual Deductible and Other Out-of Pocket Expenses do not Exceed
2013	Self-Only	$1,250	$6,250
	Family	$2,500	$12,500
2014	Self-Only	$1,250	$6,350
	Family	$2,500	$12,700

Contributions to an HSA

Any eligible individual can contribute to a Heath Savings Account. For an employee's HSA, the employee, the employee's employer, or both may contribute to the employee's HSA in the same year. For an HSA established by a self-employed (or unemployed) individual, the individual can contribute. Family members or any other person may also make contributions on behalf of an eligible individual.

Contributions to a Health Savings Account must be made in cash. Contributions of stock or property are not allowed.

Employer Provided Contributions

Employers can make tax-free contributions to the employee's HSA. An employee's pre-tax contributions to his or her own HSA through a cafeteria plan are also treated as employer contributions. The amount contributed by the employer (including employee contributions through a cafeteria plan) is reported on the employee's W-2 in Box 12 with a Code W. If the employee made pre-tax contributions through a cafeteria plan, these amounts are treated as employer contributions and reported on the W-2 in the same manner.

Alert! *Regardless of who makes the contribution, the annual contribution limit remains the same and the combined total contributions cannot exceed those limits. HSA contributions made pretax through a cafeteria plan do not provide an employee with an above the line deduction, but it does reduce taxable wages.*

Maximum Annual Contribution Deductible for Health Savings Account

Year	Type of Coverage	Annual Contribution Limit
2013	Self-Only	$3,250
	Family	$6,450
2014	Self-Only	$3,300
	Family	$6,550

Amounts are increased $1,000 for HSA account beneficiaries age 55 or older

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Long Term Care

Long-term care premiums paid during the year may be deductible as a medical expense on Schedule A, Itemized Deductions, or as self-employed health insurance subtraction on the front of Form 1040.

Individual

Individual taxpayers can treat premiums paid for tax-qualified long-term care insurance for themselves, their spouse or any tax dependents (such as parents) as a personal medical expense. The yearly maximum deductible amount for each individual depends on the insured's age at the close of the tax year. These deductible maximums are indexed and increase each year for inflation.

Self-Employed

A self-employed individual can deduct 100% of his/her out-of-pocket long-term care insurance premiums, up to the Eligible Premium amounts. The portion of LTC premiums that exceeds the Eligible Premium amount is not deductible as a medical expense. The deductible amount includes eligible premiums paid for spouses and dependents. It is not necessary for self-employed individuals to meet a 10% AGI threshold in order to take this deduction as the expense is taken as a subtraction on page 1 of the 1040, not on Schedule A.

However, a self-employed individual may not deduct LTC premiums during any calendar month in which he/she or his/her spouse is eligible to participate in a subsidized LTC plan (where the employer pays all or part of the premiums for LTC).

Deductible Limits

Taxpayer's Age At End of Tax Year	Deductible Limit - 2013	Deductible Limit - 2014
40 or less	$ 360	$ 370
More than 40 but not more than 50	$ 680	$ 700
More than 50 but not more than 60	$1,360	$1,400
More than 60 but not more than 70	$3,640	$3,720
More than 70	$4,550	$4,660

Payroll Taxes

Social Security

The Social Security Wage Base is the maximum earned gross income on which a taxpayer's Social Security tax may be imposed. The Social Security tax is one component of the Federal Insurance Contributions Act tax (FICA). This wage base does not apply to the Medicare portion of the taxpayer's income.

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Social Security Wage Base

Year	Wage Base	Maximum Social Security
2013	$113,700	$7,049.40
2014	$117,000	$7,254.00

Medicare Portion

Beginning January 1, 2013, the hospital insurance (HI) portion of the payroll tax—commonly referred to as the Medicare portion—increases by 0.9% for high-wage individuals (currently at 1.45%). As a result, the wage withholding HI rate will be 1.45% up to the income threshold and 2.35% (1.45 + 0.9) on amounts in excess of the income thresholds. The hospital insurance portion of the Self Employed (SE) tax rate will be 2.9% up to the income threshold and 3.8% (2.9 + 0.9) on amounts in excess of income thresholds.

The threshold amounts are $250,000 for married filing joint, $125,000 for married taxpayers filing separate, and $200,000 for all other taxpayers.

Debt Forgiveness

Income from cancellation of debt on a principal residence mortgage may be excluded from income through December 31, 2013. This provision began in 2007 and was for indebtedness on the acquisition, construction, or substantial improvement of the principal residence of the individual and secured by the residence, up to $2,000,000. This provision expires December 31, 2013.

Alternative Minimum Tax

The alternative minimum tax (AMT) was originally implemented by Congress to impose a minimum tax on higher-income taxpayers who were avoiding taxes through tax shelters and other legal means. The alternative minimum tax (AMT) attempts to ensure that an individual who benefits from certain exclusions, deductions, or credits pays at least a minimum amount of tax.

The AMT is a separately figured tax that eliminates or reduces many exclusions and deductions. In addition, certain credits (generally, business-related credits) cannot be used to offset the AMT. Thus the AMT increases the tax liability of an individual who would otherwise pay less tax.

The AMT tax rates on ordinary income are percentages set by law. For capital gains and certain dividends, the rates in effect for the regular tax are used.

With the passage of the American Taxpayer Relief Act, Congress permanently patches the Alternative Minimum Tax law. This recently passed legislation amends the original tax code and consists of two elements:

1) *Increased AMT exemptions*. These exemption amounts are permanently indexed for inflation by ATRA. Going forward, this is good news as the legislation adds some much needed stability to AMT, allowing for more accuracy in tax planning and forecasting. The exemption amounts for 2013 & 2014 are as follows:

AMT Exemption

Filing status	2013	2014
MFJ and QW filers	$80,800	$82,100
MFS filers	$40,400	$41,050
Single/Head of Household	$51,900	$52,800
Estates and Trusts	$23,100	$23,500

2) *Nonrefundable credits allowed.* Ordinarily, nonrefundable personal credits are not allowed to reduce an AMT liability. Remember that AMT is calculated separately from "regular" tax. If tentative AMT is more than regular tax, the taxpayer pays the difference. If tentative AMT is less than regular tax, the taxpayer does not have an AMT liability. However, the credit cannot reduce tax liability below tentative AMT.

The following credits are allowed against AMT: the Child Tax Credit, Adoption Credit, the Saver's Credit, the Alternative Motor Vehicle Credit, the Foreign Tax Credit, the Earned Income Credit, and the American Opportunity Credit. The Lifetime Learning Credit is not allowed against AMT.

The American Taxpayer Relief Act preserves the AMT relief for nonrefundable credits.

The example below is a good example of how the credits are limited because of AMT—although the dollar amounts are now incorrect due to ATRA.

Example: In 2013, Lawrence and Janet have one dependent, a 23 year old son in graduate school. Their earnings are $65,000. They paid $6,000 tuition for their son's graduate school expense and they are potentially eligible for a lifetime learning credit of $1,200 ($6,000 × 20%). Their regular tax is $5,385 and their tentative AMT is $5,200. Because tentative AMT is less than regular tax, they do not pay AMT.

They may not use nonrefundable credits to reduce their overall tax liability below $5,200. Although they do not pay AMT, they are not able to claim the full $1,200 lifetime learning credit. Thus, they are limited to a credit of $185 ($5,385 - $5,200) to bring their tax liability to, but not below, tentative AMT.

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Education

Educator Expense Deduction

The American Taxpayers Relief Act extended the Educator expense deduction of $250 for supplies and expenses of teachers grades K-12 through December 2013.

Student Loan Interest

A deduction of up to $2,500 is allowed for interest paid on loans for higher education. Recent ATRA legislation permanently repealed any limitation on number of years in which the deduction can be taken and increased the modified adjusted gross income (MAGI) phase-out.

The MAGI phase-out ranges for 2013 are as follows:

2013 Student Loan Interest - MAGI Phase-out Ranges		
	Deduction limited when MAGI reaches:	No deduction allowed when MAGI is above:
Single	$60,000	$75,000
MFJ	$125,000	$155,000

The MAGI phase-out ranges for 2014 are as follows:

2014 Student Loan Interest - MAGI Phase-out Ranges		
	Deduction limited when MAGI reaches:	No deduction allowed when MAGI is above:
Single	$65,000	$80,000
MFJ	$130,000	$160,000

Tuition and Fees Deduction

Taxpayers have the option to deduct up to $4,000 of qualified tuition and related educational expenses as an adjustment to income through December 31, 2013. The MAGI phase-out ranges for 2013 are as follows:

2013 Tuition and Fees Deduction - MAGI Phase-out Ranges		
	Deduction limited when MAGI reaches:	No deduction allowed when MAGI is above:
Single	$65,000	$80,000
MFJ	$130,000	$160,000

This deduction has not been extended for 2014, as of this printing.

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American Opportunity Tax Credit

The American Opportunity Tax Credit took the place of the Hope Education credit beginning in 2009. The American Opportunity Credit provides a credit of up to $2,500 (the Hope credit provided only

$1,800), and where the Hope credit could be used only to offset a taxpayer's tax liability, up to 40% of the American Opportunity Credit is refundable in many instances. This credit also provides four years of credit, while the Hope credit only applied for two years.

ATRA extends the American Opportunity Credit through 2017. This credit is also subject to phase-out limitations.

For 2013 & 2014, the MAGI phase-out ranges are:

2013 & 2014 American Opportunity Tax Credit - MAGI Phase-out Ranges		
	Credit limited when MAGI reaches:	No credit allowed when MAGI is above:
Single	$80,000	$90,000
MFJ	$160,000	$180,000

Lifetime Learning Credit

This education credit is available to taxpayers who have incurred education expenses for students attending school on at least a part-time basis. The credit can be claimed for education expenses incurred by the taxpayer, the taxpayer's spouse, or the taxpayer's dependent.

This credit allows for a 20% tax credit for first $10,000 of qualified tuition and expenses. The maximum amount of the credit is $2000 per household. This is not a refundable credit.

For 2013, the MAGI phase-out ranges are:

2013 Lifetime Learning Credit - MAGI Phase-out Ranges		
	Credit limited when MAGI reaches:	No credit allowed when MAGI is above:
Single	$53,000	63,000
MFJ	$107,000	$127,000

For 2014, the MAGI phase-out ranges are:

2014 Lifetime Learning Credit - MAGI Phase-out Ranges		
	Credit limited when MAGI reaches:	No credit allowed when MAGI is above:
Single	$54,000	$64,000
MFJ	$108,000	$128,000

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Coverdell Education Savings Accounts

In 2002, the tax benefits related to Coverdell Education Savings Accounts (ESA) were liberalized and made more beneficial to taxpayers.

The American Taxpayer Relief Act permanently extended the annual contribution amount of $2,000 and the modified AGI limitations, as well as the ability to use Coverdell funds for qualified education expenses for K-12. The Coverdell Education accounts are subject to the following criteria:

- Contributions must be for a student under age 18 or for a special needs student.
- Contributions can be made by separate individuals or organizations to one or more ESAs for the benefit of the same student, but the total annual contribution for any one student may not exceed $2,000.
- Contributions for the preceding tax year must be made by April 15 of the following year.
- Contributions to a Coverdell account and a Sec 529 Qualified Tuition Program (QTP) are allowed in the same year for the same student.
- Distributions are tax-free when the student's qualified educational expenses are equal to or greater than the ESA distribution.
- Education credits can be taken in a year in which a Coverdell withdrawal is made as long as the same expenses are not used for both benefits. In some cases, the entire Coverdell distribution may not be tax free.

The MAGI phase-out ranges for 2013 & 2014 are as follows:

2013 & 2014 Coverdell Education Savings Account - MAGI Phase-out Ranges		
	Contribution limited when MAGI reaches:	No contribution allowed when MAGI is above:
Single	$95,000	$110,000
MFJ	$190,000	$220,000

Employer-provided Educational Assistance

The exclusion allowing an employee to exclude from income up to $5,250 of employer-provided tuition assistance for graduate, undergraduate, or certificate-level education and training has been permanently extended by the ATRA legislation.

State Sponsored 529 Plan (QTP)

Some states with income tax allow a deduction on the state tax return for contributing to the State-sponsored 529 plan. *(There is no federal deduction for a contribution to a 529 plan.)*

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Children

Child Tax Credit

Since 2003, the child tax credit has been $1,000 for each qualified child of a taxpayer who is under the age of 17 at the end of the year.

The American Taxpayer Relief Act made the credit of $1,000 permanent as well as many enhanced provisions of the credit. Certain parts of the enhanced provisions of the refundable portion of the child tax credit have only been extended through 2017. This includes attributes of the Additional Child Tax Credit.

Dependent Care credit

The maximum expense on which the credit is calculated has been permanently fixed at $3,000 per child, up to $6,000 for more than one child, beginning January 1, 2013. The credit is equal to a minimum 20% of qualified dependent care expenses up to 35% of qualifying expenses—depending upon MAGI.

The expanded provisions of this credit have been made permanent by the passage of ATRA legislation.

Earned Income Tax Credit

The earned income credit is a refundable tax credit designed for lower income working families and individuals. The amount of the credit varies depending on the level of income and how many dependents that are supported. For the years 2009 through 2017, the Earned Income Credit has been temporarily expanded for working families with three or more dependents. Prior to 2009, taxpayers with two dependents received the maximum for the Earned Income Credit.

Adoption Tax Credit

ATRA legislation extended provisions related to the adoption credit and adoption assistance program exclusion.

Under the permanent enhancements included in ATRA legislation, the adoption credit remains non-refundable; however, any unused credit may be carried forward to future tax years.

Adoption Credit - MAGI Phase-out Ranges			
	Maximum Credit Allowed	Credit limited when MAGI reaches:	No credit allowed when MAGI is above:
2013	$12,970	$194,580	$234,580
2014	$13,190	$197,880	$237,880

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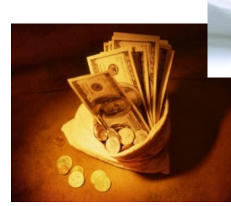
Retirement Plans

The tax law allows a tax reduction on a limited amount of saving for retirement. Taxpayers may be able to reduce their taxable income by contributing to a retirement plan.

Employer-Sponsored Retirement Plans

An employer-sponsored retirement plan is beneficial for taxpayers to contribute to a retirement plan. Contributions are deducted before income taxes, which lowers taxable income. The employee determines their contribution amount and it is withheld from their paycheck and then deposited in the retirement plan. Many times, the employer will match the employee's deferral up to a certain percentage. No taxes are paid on earnings until money is withdrawn from the plan.



Contribution Limits on Employer-Sponsored Plans

Provision	2013	2014
Contribution Limits		
Defined contribution plan	$51,000	$52,000
Defined benefit plan	$205,000	$210,000
Salary Deferral Limits		
§401(k), §403(b), SARSEP, §501(c)(18)(D)	$17,500	$17,500
SIMPLE plans	$12,000	$12,000
State and local government plans	$17,500	$17,500
Catch-up Contributions—age 50 & above		
§401(k), SARSEP, §403(b), §457	$5,500	$5,500
SIMPLE IRA, SIMPLE §401(k)	$2,500	$2,500
Compensation Limits		
Qualified plans	$255,000	$260,000
SEP mandatory participation	$550	$550
Key employee in a top heavy plan	$165,000	$170,000
Highly compensated employee	$115,000	$115,000

New: *The American Taxpayer Relief Act lifts restrictions on Roth conversions from a 401(k) plan. ATRA now allows participants in 401(k) plans with in-plan Roth conversion features to make transfers to a Roth account at any time—subject to the rules of the plan. The Legislature created this change due to the fact that a taxable event occurs and will increase revenue.*

IRA Contributions

A Traditional IRA (Individual Retirement Arrangement) is a retirement account in which contributions made may be deductible on the tax return and any earnings potentially grow tax-deferred until they are withdrawn in retirement.

A taxpayer cannot contribute to a traditional IRA in the year he or she turns age 70½ or later. Once an individual reaches age 70½, they are required to take a minimum distribution every year (RMD).

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IRA contributions must be made by the due date of the return, not including extensions, i.e., April 15, 2014, for 2013 calendar-year taxpayers.

Traditional and Roth IRA Contribution Limits

Contribution Limits	2013	2014
Under Age 50	$5,500	$5,500
Age 50 & Over	$6,500	$6,500

IRA (Traditional) Deduction

Each year the deduction for contributions to a traditional IRA is phased-out if the taxpayer is an active participant in an employer-sponsored retirement plan or the spouse of an active participant. The phase-out begins when modified adjusted gross income (MAGI) exceeds a specific amount and is reduced to zero at a maximum MAGI level.

MAGI Limits for Traditional IRA Deductions 2013

Taxpayer Covered by Employer Plan		Spouse of Covered Employee	
S, HH	$59,000 - $69,000		
MFJ, QW	$95,000 - $115,000	MFJ	$178,000 - $188,000
MFS	$0 - $10,000	MFS	$0

MAGI Limits for Traditional IRA Deductions 2014

Taxpayer Covered by Employer Plan		Spouse of Covered Employee	
S, HH	$60,000 - $70,000		
MFJ, QW	$96,000 - $116,000	MFJ	$181,000 - $191,000
MFS	$0 - $10,000	MFS	$0

Roth IRA

A Roth IRA is a special type of retirement plan that is generally not taxed, provided certain conditions are met. The Roth IRA's principal difference from most other tax advantaged retirement plans is that, rather than granting a tax break for money placed into the plan, the tax break is granted on the money withdrawn from the plan during retirement.

A Roth IRA does not have the same requirements once a taxpayer reaches age 70½. Taxpayers may still contribute to the Roth, so long as they meet the earned income requirement; and there is no required minimum distribution rule.

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MAGI Limits for Roth IRA Contributions 2013

Filing Status	Phase-out Begins When MAGI Exceeds	Phased-out When MAGI Reaches
MFJ	$178,000	$188,000
MFS (lived with spouse)	$0	$10,000
S, HH, QW, or MFS if did not live with spouse at any time during the year	$112,000	$127,000

MAGI Limits for Roth IRA Contributions 2014

Filing Status	Phase-out Begins When MAGI Exceeds	Phased-out When MAGI Reaches
MFJ	$181,000	$191,000
MFS (lived with spouse)	$0	$10,000
S, HH, QW, or MFS if did not live with spouse at any time during the year	$114,000	$129,000

Gift and Estate Tax

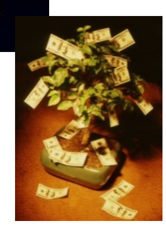
Gift Tax Exemption & Estate Tax Exclusion

The gift tax exemption and the estate tax exclusion amount for 2013 is $5,250,000, and is $5,340,000 for 2014. The "portability" election, which increases the surviving spouse's exclusion by the deceased spouse's unused exclusion amount, has been made permanent.

Annual Gift Tax Exclusion

The main rules for gifts between individuals are fairly simple. These gifts do not produce deductions for the donor or income for the recipient. 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. The annual exclusion amount is the gift amount that can be made without incurring federal gift tax liability. Gifts may be made directly to an individual, or to a trust if preferred.

When a gift exceeds the annual exclusion amount in any single instance, the excess triggers a requirement to file a gift tax return. The individual's remaining lifetime gift and estate tax exemption amount (permanently fixed at $5 million, indexed for inflation) will be applied to the excess amount of the gift (i.e., the amount over the annual exclusion for the applicable year). For 2013 & 2014, the annual gift limit is $14,000 per person.



Tax Rates

The maximum estate and gift tax rate for estates of decedents dying, and gifts made after 2013 increases to 40%, with a $5,250,000 *(indexed for inflation--$5,340,00 for 2014)* applicable exclusion amount.

Business Income & Expenses

1099K

Companies that process credit and debit cards as well as third-party network payments such as PayPal, Amazon.com and Google are required to report to business owners and to the IRS the gross amount of the transactions they have processed. If the small business exception (which is fewer than 200 transactions totaling less than $20,000) does not apply to the business and they receive Forms 1099-K, the information must be reported accordingly.

Do not over report

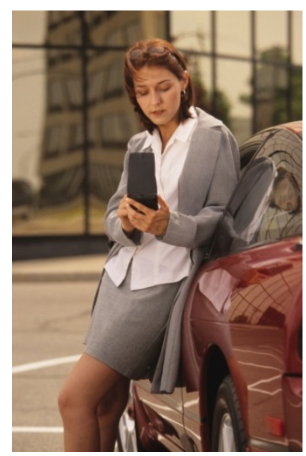
The amounts reported on the 1099-Ks are the gross amount of the transactions made throughout 2013. The forms do not take into account any returns, allowances, fees, or other adjustments to transactions. Be sure to take these reductions to gross receipts into account on the tax return so the income is not over-reported.

Watch for duplicate reporting

If the business provides personal services in addition to selling goods, a Form 1099-MISC to report the payment of services over $600 in the year may also be received. The 1099-MISC is to be issued only for the payment of services in cash or by check; 1099-K is to be used for payments by credit card, electronic transfer, etc. However, the business may also receive a 1099-MISC for the payment of services by credit card; issuers may be confused by the change in reporting requirements.

What to do if 1099s are received for the same services: Contact the issuer of the 1099-MISC immediately. Have the issuer of the 1099-MISC reissue a corrected form to eliminate any payments that were made to the business by a payment means reported on 1099-K.

Income from the 1099K is to be reported on the appropriate tax form for the business. The requirement to report the information separately from cash receipts no longer applies.



Standard Mileage Rates

A taxpayer is able to either deduct actual expenses by claiming depreciation, fuel, maintenance, etc., based on the business use percentage, or take the standard mileage rate. The standard mileage rates are listed below:

Standard Mileage Rates	2013	2014
Business mileage	56.5¢	56¢
Medical and Moving mileage	24¢	23.5¢
Charity	14¢	14¢

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Depreciation

Bonus depreciation

Bonus depreciation essentially allows a 50% depreciation deduction of the cost of qualified business equipment and machinery in the first year it is placed in service. This tax benefit applies to new equipment and machinery placed in service on December 31, 2013 or before.

There is no taxable income limitation or investment limitation to claim bonus depreciation. There is also no limit on the overall amount of bonus depreciation claimed for qualifying property.

The provisions for Bonus depreciation expired on December 31, 2013—at the time of this printing, this method of depreciation has not been extended.

Qualifying Property

The depreciable property must be new, depreciable under MACRS and have 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 in order to qualify for bonus depreciation.

Section 179 Election

The section 179 election provides businesses with the ability to substantially accelerate depreciation on qualified purchases during the tax period. This election allows businesses to deduct or expense the purchase price of equipment and machinery, as well as certain vehicles and software in the year of purchase, as opposed to depreciating the equipment over the life of the asset.

There are certain limitations that apply to the Section 179 deduction including a cap on total equipment purchases, and the amount allowed as a deduction. Additionally, the Section 179 deduction may not exceed net taxable income for the year in which it is taken.

A taxpayer may elect to take the section 179 deduction on a portion of the purchase and depreciate the remaining balance over the life of the property.   Any portion of the section 179 deduction that is not allowed in a particular year can be carried forward to future years.

Section 179 Expense Election Limitations	2013	2013
Maximum Deduction	$500,000*	$25,000*
Maximum deduction for an SUV w/a GVWR over 6,000lbs.	$25,000	$25,000
Maximum Investment (phase-out begins)	$2,000,000*	$200,000*

** ATRA enhanced Code Section 179 through 2013; Congress has not made adjustments for 2014.*

Note: *Software continues to be included in the definition of "assets" for section 179 in 2013.*

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Office in Home

New for 2013 is a simplified home office deduction. You may multiply the office square feet by $5 up to a maximum of $1,500. There is no deduction for depreciation. Mortgage Interest and Real Estate Taxes are deducted on *Schedule A Itemized Deductions*. All the other qualifying and use rules remain the same.

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) if they pay at least 50% or more of their employees' health insurance premiums. However, the credit may be reduced by certain limitations such as the employer's full-time equivalent employees, average annual wages and the state's average insurance premiums.

Note: Premiums for owner/employees or related employees are disqualified for this credit.

The credit is aimed at small businesses with fewer than 10 full-time equivalent employees and average wages of $25,000 or less. It currently phases out for businesses which employ 25 full-time equivalent employees and have average wages of $50,000 or more annually. The credit increases in 2014 to 50% of qualifying health insurance premiums (35% for eligible non-profit employers); however, the insurance must be purchased through a health care exchange.

American Taxpayer Relief Act

Summary of Permanent Extensions

Tax provisions that have been extended permanently by passage of the American Taxpayer Relief Act include: *(some previously discussed)*

- Marriage Penalty Relief (increased standard deduction and enlarged 15% tax bracket)
- $1,000 credit for children under the age of 17 as well as some enhanced provisions
- 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 31, 2013

Tax Provisions Affecting Individuals

(Some of these have been discussed previously)

- The deduction for mortgage insurance premiums.
- A provision allowing persons over age 70-1/2 to make tax-free withdrawals from their Individual Retirement Accounts (IRAs) to make charitable contributions.
- Debt Forgiveness exclusion for a personal residence
- The educator expense deduction-adjustment to income of up to $250 for grade K-12 educators.
- Tuition and fees deduction-adjustment to income up to $4,000.
- Deduction for state and local general sales tax as an itemized deduction (Schedule A) for sales tax in lieu of state income tax.
- Nonbusiness energy property credit-up to $500 maximum lifetime credit for qualified energy efficient home improvements (windows, furnaces, etc.).
- Electric drive vehicle credits-the credit for two-and three-wheeled vehicles has been extended. (The provisions for low-speed electric vehicles expired.)
- The credit for plug-in electric drive motor vehicles, such as the Nissan Leaf or Chevy Volt, is still available.
- Energy-efficient appliance credit

Tax Provisions Affecting Business

(Some previously discussed)

- New markets tax 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
- Incentives for biodiesel and renewable diesel
- Alternative fuels excise credit

Expanded Work Opportunity Tax Credit for Hiring Qualified Veterans

The VOW to Hire Heroes Act of 2011 made changes to the Work Opportunity Tax Credit (WOTC). The Act added two new categories to the existing qualified veteran group and made the WOTC available to certain tax-exempt employers as a credit against the employer's share of social security tax.

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The Act allows employers to claim the WOTC for veterans certified as qualified veterans and who begin work before January 1, 2014. Generally, to qualify for this credit, employers must obtain certification and approval from their state workforce agency within 28 days after the eligible veteran begins work.

The credit can be as high as $9,600 per qualified veteran for for-profit employers or up to $6,240 for qualified tax-exempt organizations, but the amount of the credit will also depend on a number of factors, including:

- the length of the veteran's unemployment before hire
- the number of hours the veteran works, and
- the veteran's first-year wages

The amount of the credit for qualified tax-exempt organizations may not exceed the organization's employer social security tax for the period for which the credit is claimed.

ATRA legislation extended the WOTC credit through 2013. The legislation revives the previously expired provisions of the WOTC to include a range economically disadvantaged groups.

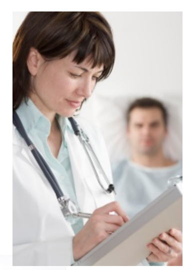
Patient Protection and Affordable Care Act

The Patient Protection and Affordable Care Act, also called "Obamacare", or "The Healthcare Act", is a bill signed into law by President Obama on March 23, 2010. Many provisions have already been enacted. The rest of the program starts in 2013/14 and continues to roll out until 2022. The official website for the Affordable Care Act is www.healthcare.gov.

Individual Mandate

Most Americans must obtain qualifying health insurance coverage by January 1, 2014, get an exemption, or pay a fee for every month they are without health insurance. The fee is paid on the federal tax return and commonly referred to as the "Individual Mandate".

Starting in 2014, individual penalties for failure to obtain health insurance start at $95 per year or up to 1% of income, whichever is greater, and rise to $695, or 2.5% of income by 2016.



Health Insurance Exchanges

Health Insurance Exchanges are state or federally run on-line marketplaces where uninsured low and middle income individuals can shop for health insurance. Open Enrollment in the federal or state Health Insurance Exchanges was scheduled to begin on October 1, 2013 and close on March 31, 2014. Refer to the state or federal websites for additional information.

Americans earning below 400% of the federal poverty level may be eligible for cost assistance through the marketplace (currently $45,960 for an individual and $94,200 for a family of four). Small businesses may also use the exchanges to purchase insurance for their employees.

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Employer Mandate

Companies with more than 50 full time employees and average annual wages over $250,000 will be required to either provide health insurance to their full time employees or pay a penalty. This is sometimes called the "Employer Mandate". The penalty is $2,000 per employee and $3,000 if the employee uses tax credits to purchase insurance on the exchange. The Employer Mandate has been delayed until 2015.

Federally Declared Disaster Area

If a taxpayer has loss in a disaster area attributable to a federally declared disaster, the taxpayer can elect to deduct the loss in the immediately preceding taxable year or in the current year. The casualty resulting in the loss will be treated as occurring in the year of the deduction. The taxpayer may receive a quicker refund if the election is made to claim the casualty loss on the preceding year by filing an amended tax return.

No matter what year the taxpayer takes the casualty loss deduction, the taxpayer may or may not have a Net Operating Loss (NOL) for that year. If there is an NOL and a portion of the NOL is an eligible loss, the carryback period for that portion of the NOL is 3 years, instead of the usual 2 years.

Watch for Scams

Hurricane Relief Charities

It is common for scam artists to impersonate charities to get money or private information from well-intentioned taxpayers following major disasters, from hurricanes to tornadoes. These fraudulent schemes may involve contact by telephone, social media, and email or in-person solicitations. Hurricane victims and those taxpayers wishing to make disaster-related donations can avoid scam artists by following some basic tips:

- Only donate to recognized charities. Be wary of those that sound similar to familiar organizations or have a similar website. Legitimate charities can be found on the FEMA website www.fema.gov, or on the IRS website www.irs.gov/charities, and then search for charities.
- Do not give out personal information to anyone that solicits a contribution from you.
- Do not donate cash—use a check or credit card for security and record keeping purposes.

Phishing

Phishing is a scam usually carried out by an unsolicited email and/or fake website that poses as a legitimate site to lure in potential victims and prompt them to provide valuable personal and financial information. A criminal can commit identity or financial theft with the information provided by the unsuspecting individual.

If an unsolicited email that appears to be from either the IRS or an organization closely linked to the IRS is received, such as the Electronic Federal Tax Payment System (EFTPS)

- Do not reply
- Do not open any attachments or click on any links
- Report it by forwarding it to phishing@irs.gov. Forward the entire email as is—do not send a scanned copy of the printed email.
- Delete the original email after forwarding

The IRS does not initiate contact with taxpayers by email to request personal or financial information. This includes any type of electronic communication, such as text messages and social media channels.

Identity Theft

With growing identity theft concerns, the IRS has embarked on a comprehensive strategy that is focused on preventing, detecting and resolving identity theft cases as soon as possible. The IRS has stepped up its internal reviews to spot false tax returns before tax refunds are issued. They are also working to help victims of the identity theft refund schemes, and law enforcement has cracked down on identity thieves.

If an individual feels they are a victim of identity theft, they need to contact the IRS Identity Protection Specialized Unit as soon as possible for assistance.

Conclusion

With ongoing tax law changes every year, it is important to review your situation with your Tax Professional. Taking the time to plan for tax liabilities can help reduce stress levels and potentially reduce any future taxes. Tax cuts, tax increases and tax provisions are being passed back and forth in Washington, D. C. almost constantly. Knowing the changes for both the current year and the following year allows for deferral of income and possibly reduction of tax. Tax advisors have the experience to assist in planning for various tax situations.

Remember, contact your Tax Professional if you have a question or experience a change in life events that could affect your tax situation.

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