

Tax Update & Planning

Presented by: *Linda de Marlor, President*
Tax-Masters, Inc.
(301) 230-0200
tax@tax-masters.com
www.tax-masters.com

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Tax Rates

2013 Tax Rates—Additional tax bracket for high-income taxpayers

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%

Tax Rates

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.

Tip: *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 ($\$2,000 \times 28\%$).*



Tax Rates

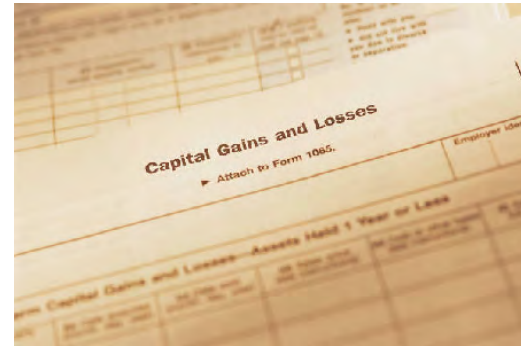
2014 Tax Rates—Additional tax bracket for high-income taxpayers

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%

Tax Rates

- **Capital Gains Rates**

- 2013 Rates: 0% - 20%
 - New 20% rate for high income filers
(Single filers, \$400,000, Joint filers, \$450,000)
- 2014 Rates: 0% - 20%
- Dividends that previously received capital gain treatment will continue to receive long-term capital gains rates



Tax Rates

- **Capital Gains Rates**

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%

- **Dividends**

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%

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



Net Investment Income Tax

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

- 2013 \$97,600
- 2014 \$99,200



- Foreign Housing Allowance

- 2013 \$15,616
- 2014 \$15,872

Foreign Account Reporting

- **Foreign Accounts**

- Required if account balance \$10,000 or greater
- Form TD F 90-22.1 prior to July 1, 2013
- Beginning July 1, 2013—Form FinCen 114 required to be electronically filed by June 30th
- Filed separately of tax return



Foreign Account Reporting

- **Foreign Assets**

- in excess of \$50,000 aggregate total during the year, beginning in 2012.
- Filed with the tax return on 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



Standard Deduction

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

Exemptions and Itemized Deductions

Phase-outs return in 2013; adjusted for inflation each year

Phase-out thresholds

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

• Exemptions

- 2013 personal exemption is \$3,900
- 2014 is \$3,950



Exemptions and Itemized Deductions

•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).

The American Taxpayer Relief Act reinstated deductions for state and local sales tax & mortgage insurance premiums through December 31, 2013. At the time of this presentation, Congress has not made changes for 2014.

Medical Expenses

Threshold for unreimbursed medical expenses increases to 10% in 2013



**Seniors:
Threshold remains at 7.5%
through 2016**

- Only one taxpayer needs to be 65 or older to qualify

Medical Expenses

Flex Spending Account

- Employer-sponsored Cafeteria Plan
- Medical Expenses
- \$2,500
- New Carryover provisions starting January 2014

Health Savings Account

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



Medical Expenses



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

Medical Expenses

- **Contributions to an HSA**
 - Who may contribute?

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

Long-Term Care

- Individual
- Self-Employed

Payroll Taxes

- **Social Security**

- Social Security wage base—maximum earned income in which the social security tax may be imposed.

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



- **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

Cancellation of Debt income on a personal residence

- For indebtedness on the acquisition, construction, or substantial improvement of the principal residence
- Excluded from income through December 31, 2013
- This provision expires December 31, 2013



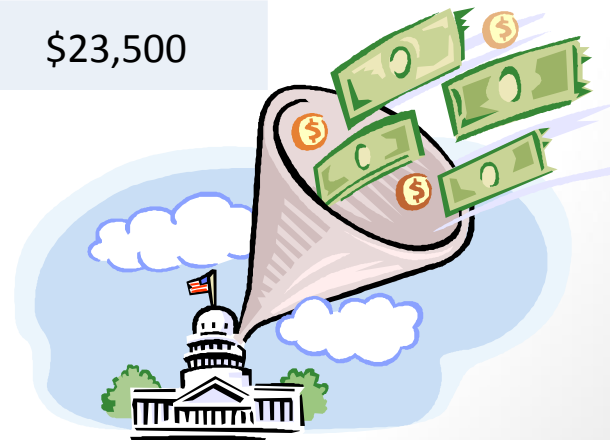
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Alternative Minimum Tax

Implemented by Congress

- Exemptions permanently patched by the American Taxpayer Relief Act (ATRA)

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



Alternative Minimum Tax

Non-refundable Credits Allowed

- Child Tax Credit
- Adoption Credit
- Saver's Credit
- American Opportunity Credit

Education



- **Educator Deduction**

- Qualified out-of-pocket expenses for books & classroom supplies up to \$250
- Elementary or secondary school teachers working at least 900 hrs
- Extended through December 31, 2013

- **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
- Phase-out ranges apply



Education

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
- Phase-out ranges apply

Lifetime Learning Credit

- 20% first \$10,000
- Maximum credit is \$2,000
- Not a refundable credit
- Student must be at least part-time
- Phase-out ranges apply



Education



- **Coverdell Education Savings Accounts**

- ATRA permanently extended the annual contribution limit of \$2,000
- Can be used for K-12 expenses
- Contributions must be for a student under age 18 or for a special needs student
- Contributions for a student can be made:
 - By separate individuals or organizations
 - To one or more ESAs for the benefit of the same student
 - Total annual contribution for any one student may not exceed \$2,000

Education

- **Coverdell Education Savings Accounts**

- Contributions must be made by April 15
- 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 & Coverdell distributions can be taken in the same year
 - The same expenses cannot be used to qualify for both benefits
 - The entire Coverdell distribution may not be tax free



Education

- **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 also 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-out, phase-out stops at 20%

- **Earned Income Tax Credit**

- Enhancements extended through 2017

- **Adoption Tax Credit**

- Credit is no longer refundable
- Phase-out ranges apply



Retirement Plans

- **Employer-Sponsored Retirement Plans**

- 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

- The American Taxpayer Relief Act lifts restrictions on Roth conversions from a 401(k) plan.

Retirement Plans

•IRA (Traditional) Deduction

- 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

Retirement Plans

- **Roth IRA**

- 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

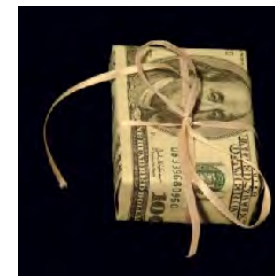
Gift and Estate Tax

- **Gift Tax Exemption & Estate Tax Exclusion**

- For 2013, the exemption/exclusion amount is \$5,250,000, and \$5,340,000 for 2014
- 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.
- Annual gift limit for 2013 & 2014 is \$14,000



- **Tax Rates**

- 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 the year.
 - 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.



1099K

- **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.

[] VOID [] CORRECTED

FILER'S name, street address, city or town, province or state, country, ZIP or foreign postal code, and telephone no.		FILER'S federal identification no.	OMB No. 1545-0045	2013 Form 1099-K	Payment Card and Third Party Network Transactions
		PAYEE'S taxpayer identification no.			
Check to indicate if FILER is a (an): Payment settlement entity (PSE) <input type="checkbox"/> Electronic Payment Facilitator (EPF)/Other third party <input type="checkbox"/>		Check to indicate transactions reported are: Payment card <input type="checkbox"/> Third party network <input type="checkbox"/>		Copy 1 For State Tax Department	
PAYEE'S name		1 Gross amount of payment card/third party network transactions	2 Merchant category code		
		5a January		5b February	

PAYER'S name, street address, city or town, province or state, country, ZIP or foreign postal code, and telephone no.

1 Rents	OMB No. 1545-0116	2013 Form 1099-MISC	Miscellaneous Income
2 Royalties			
3 Other income	4 Federal income tax withheld	Copy 1 For State Tax Department	
5 Payer made direct sales of \$5,000 or more of consumer products to a buyer (recipient) for resale	6 Medical and health care payments		
7 Nonemployee compensation	8 Substitute payments in lieu of dividends or interest		
9 Foreign tax paid	10 Crop insurance proceeds		
11 Foreign country/IR possession	12 Foreign country/IR possession		
13 Foreign country/IR possession	14 Gross proceeds paid to an		

Standard Mileage Rates

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



Depreciation

- **Bonus Depreciation**

- Qualifying new 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.



This provision expires December 31, 2013 and has not been reinstated for 2014 and beyond.

Depreciation

- **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.



Depreciation

- Section 179 Election

Section 179 Expense Election Limitations	2013	2014
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

- Can deduct a portion as a section 179 expense and depreciate remainder
- Unused deduction can be carried forward

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
- Result in a lower deduction for most taxpayers
- 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).
- 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
- 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

American Taxpayer Relief Act

Summary of Tax Provisions Expiring December 31, 2013

- Tax Provisions Affecting Individuals
 - 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

American Taxpayer Relief Act

Summary of Tax Provisions Expiring December 31, 2013

- Tax Provisions Affecting Business
 - 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

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.



Expanded Work Opportunity Tax Credit for Hiring Qualified Veterans

- 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
 - Revives previously expired WOTC provisions to include a range economically disadvantaged groups



Affordable Care Act—Obamacare

- *Patient Protection and Affordable Care Act—a bill signed into law by the President on March 23, 2010.*
- Individual Mandate—requires individuals to:
 - Obtain health insurance by January 1, 2014 **or**
 - Get an exemption **or**
 - Pay a penalty for every month without health insurance (paid on the tax return)
- Health Insurance Exchange
 - State or Federally run on-line marketplaces for affordable health insurance
 - Open Enrollment begins October 1, 2013
 - Cost assistance available
 - Small businesses may use the exchange



Affordable Care Act--Obamacare

- Employer Mandate
 - Postponed to 2015
 - 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
 - Penalty is \$2000 per employee
 - If the employee uses tax credits to purchase insurance on the exchange, then the penalty increases to \$3000

- Official website for the Affordable Care Act is:

www.healthcare.gov



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 and the Federal Trade Commission

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

Contact Information

Linda de Marlor, President

Tax-Masters, Inc.

6127 Executive Blvd.

Rockville, MD 20852

(301) 230-0200

tax@tax-masters.com

www.tax-masters.com

Thank you for attending this Tax Update and Planning Seminar. I appreciate your time and look forward to assisting you in the future.