

Tax Update & Planning Speaker Outline

Tax Rates

- New high-income tax bracket: 39.6%
(\$400,000 Single/\$450,000 MFJ)
- Example
- Capital Gains Rates
 - 2013 - 20% rate for high-income individuals
(\$400,000 Single/\$450,000 MFJ)
 - 2014
- 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

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

Foreign Account Reporting

Foreign Accounts

- Form TD F 90-22.1
- Required if account balance \$10,000 or greater
- Beginning July 1, 2013—Form FinCen 114 required to be e-filed

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

- 2013 Numbers
- Single: \$6,100 Blind/Elderly: \$1,500
- HOH: \$8,950 Blind/Elderly: \$1,500
- MFJ: \$12,200 Blind/Elderly: \$1,200
- Dependents: \$1,000 or earned income + \$350
- 2014 Numbers
- Single: \$6,200 Blind/Elderly: \$1,550
- HOH: \$9,100 Blind/Elderly: \$1,550

- MFJ: \$12,400 Blind/Elderly: \$1,200
- Dependents: \$1,000 or earned income + \$350

Exemptions and Itemized Deductions

- Phase-outs return in 2013

Exemptions

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

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

- 2013 Threshold: 10%
- Seniors: threshold remains at 7.5% through 2016

Flex Spending Account

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

Health Savings Account

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

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

Contributions to an HSA

- Both employer & employee may contribute.
- Contributions must be in cash, no stock or property

Employer Provided Contributions

- Employers can make tax-free contributions to the employee's HAS
- Employee's pre-tax contributions through a cafeteria plan are treated as employer contributions

Long-Term Care

- Individual
 - Premiums paid (up to limits) are personal medical expense
 - For taxpayer, spouse and tax dependents (includes parents)
- Self-Employed
 - Premiums are deductible (up to limits) as an adjustment to income on Form 1040

Payroll Taxes

Social Security

- Social Security wage base—maximum earned income in which the social security tax may be imposed
- 2013 Wage Base \$113,700 SS Tax \$7,049
- 2014 Wage Base \$117,000 SS Tax \$7,254

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)
 - 2013: \$80,800 MFJ/ \$40,400 MFS/\$51,900 S&HH/\$23,100 Est-Tr
 - 2014: \$82,100 MFJ/\$41,050 MFS/\$52,800 S&HH/\$23,500 Est-Tr
- Non-refundable Credits Allowed
- Child Tax Credit
- Adoption Credit
- Saver's Credit
- Earned Income Credit
- American Opportunity Credit

Education

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

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

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

Coverdell Education 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
 - 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 & 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

Employer-provided Educational Assistance

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

State Sponsored 529 Plan (QTP)

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

Children

Child Tax Credit

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

Dependent Care Credit

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

Earned Income Tax Credit

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

Adoption Tax Credit

- Credit is no longer refundable
- Maximum credit:
 - 2013: \$12,970
 - 2014: \$13,190

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.
- Catch-up contributions

IRA Contributions

- Can contribute until age 70½
- RMD required after taxpayer reaches 70½

IRA (Traditional) Deduction

- MAGI Limits for Traditional IRA Deductions 2013

Roth IRA

- MAGI Limits for Roth IRA Contributions 2013

Gift and Estate Tax

Gift Tax Exemption & Estate Tax Exclusion

- For 2013, the exemption/exclusion amount is \$5,250,000
- For 2013, the exemption/exclusion amount is \$5,340,000
- The “portability” election has been made permanent
- ATRA legislation extends the deduction for state estate taxes paid

Annual Gift Tax Exclusion

- If gift is below the annual exclusion amount:
 - Gift is not deductible to donor
 - Gift is not income to recipient
- \$14,000

Tax Rates

- 2013 tax rate: 40%
- Exclusion amount: \$5,250,000 (indexed for inflation)

1099K

Do not over report

- Form 1099-K reports:
 - The gross amount of the transactions made
 - 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

- Business mileage: 2013--56.5 cents per mile; 2014--56 cents
- Medical & moving mileage: 2013--24 cents per mile; 2014--23.5 cents
- Charity mileage: 14 cents per mile

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.

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.
- This provision has expired for 2014

Section 179 Election

- Maximum deduction/Investment: \$500,000/\$2,000,000 for 2013
- \$25,000/\$200,000 for 2014
- Can deduct a portion as a section 179 expense and depreciate remainder
- Unused deduction can be carried forward
- *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 \$1,500
- 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 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 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 Dec. 2011 Extended through 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
- 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
- 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
 - Credit may not exceed the employer social security tax for the credit period
- For qualified veterans and who begin work before January 1, 2014.
 - Employers must obtain certification and approval from their state
 - Approval must be obtained 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

Obama Care

Individual Mandate

- Effective January 1, 2014, most Americans must:
 - Obtain qualifying health insurance coverage
 - Get an exemption
 - Pay a penalty for every month they are without health insurance
- Penalty is paid on federal tax return
- 2014 Individual penalties is begin at the greater of:
 - \$95/year or 1% of income
- By 2016, penalties rise to:
 - \$695, or 2.5% of income

Health Insurance Exchanges

- State or federally run, on-line marketplaces for low and middle income families and small businesses
- Open enrollment begins October 1, 2013/closes March 31, 2014
- Cost assistance:
 - Below 400% of federal poverty level
(\$45,960/individual; \$94,200/family of four)

Employer Mandate

- Companies must provide health insurance or pay a penalty if the company:
 - Employs more than 50 full-time employees
 - Pays average annual wages over \$250,000
- **Penalty**
 - \$2000 per employee
 - \$3,000 if the employee uses tax credits to purchase insurance on the exchange
 - Delayed until 2015

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