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
  o 2013 $97,600
  o 2014 $99,200

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

Foreign Asset Reporting
  o New Form 8938

2012 Voluntary Offshore Compliance Program
  o Provides taxpayers opportunity to get compliant
  o Avoid substantial civil penalties
  o Generally eliminates the risk of criminal prosecution

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

Standard Deduction
  o 2013 Numbers
    o Single: $6,100 Blind/Elderly: $1,500
    o HOH: $8,950 Blind/Elderly: $1,500
    o MFJ: $12,200 Blind/Elderly: $1,200
    o Dependents: $1,000 or earned income + $350
  o 2014 Numbers
    o Single: $6,200 Blind/Elderly: $1,550
    o HOH: $9,100 Blind/Elderly: $1,550
Exemptions and Itemized Deductions

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

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

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

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

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

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

Adoption Tax Credit
  o Credit is no longer refundable
  o Maximum credit:
    • 2013: $12,970
    • 2014: $13,190

Retirement Plans
Employer-Sponsored Retirement Plans
  o Contribution Limits on Employer-Sponsored Plans
  o The American Taxpayer Relief Act lifts restrictions on Roth conversions from a 401(k) plan.
  o Catch-up contributions
IRA Contributions
  o Can contribute until age 70½
  o RMD required after taxpayer reaches 70½

IRA (Traditional) Deduction
  o MAGI Limits for Traditional IRA Deductions 2013

Roth IRA
  o MAGI Limits for Roth IRA Contributions 2013

Gift and Estate Tax
Gift Tax Exemption & Estate Tax Exclusion
  o For 2013, the exemption/exclusion amount is $5,250,000
  o For 2013, the exemption/exclusion amount is $5,340,000
  o The “portability” election has been made permanent
  o ATRA legislation extends the deduction for state estate taxes paid

Annual Gift Tax Exclusion
  o If gift is below the annual exclusion amount:
    • Gift is not deductible to donor
    • Gift is not income to recipient
  o $14,000

Tax Rates
  o 2013 tax rate: 40%
  o Exclusion amount: $5,250,000 (indexed for inflation)

1099K
Do not over report
  o 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


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
  o 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
  o 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
  o Penalty is paid on federal tax return
  o 2014 Individual penalties is begin at the greater of:
    • $95/year or 1% of income
  o By 2016, penalties rise to:
    • $695, or 2.5% of income

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

Employer Mandate
  o 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
  o 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