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2013

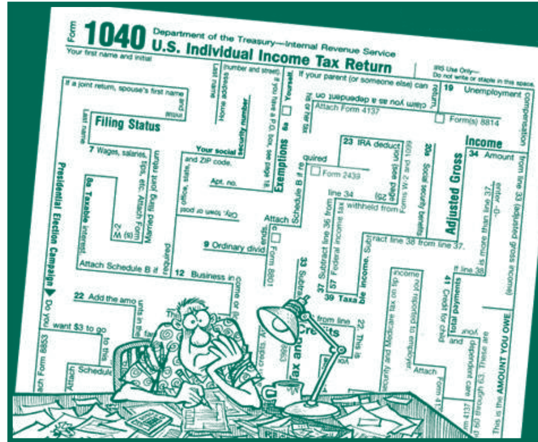
OH, OH OBAMACARE

It's really ugly...Sure the top rates increased from 35% to 39.6% and we are losing deductions and personal exemptions. It really doesn't sound terrible...but, when the new regulations convert to dollars, you will be in for sticker shock. It is astounding the impact these regulations have on the high income earners and the increase in the amount of federal taxes to be paid for 2013. Taxpayers are angry and upset!

In 2013, tax rates on capital gains and dividends for taxpayers with income at or below $400,000 ($450,000 Married filing jointly) remains at 2012 rates. For these taxpayers, the rate is 15%. For taxpayers whose income is at $400,000 ($450,000 for Married filing jointly), the rate for both long term capital gains and dividends is 20%. Added to the increase of the capital gain tax and dividends is something totally new... NET INVESTMENT INCOME TAX (NIIT). This tax took affect on January 1, 2013.

It's a Medicare surtax of 3.8%. This 3.8% is an additional tax on interest, dividends, and capital gains provided this income is not derived in the ordinary course of an active trade or business. In addition, this tax (3.8%) applies to income from a trade or business that is a PASSIVE ACTIVITY for the taxpayer.

Individuals are subject to the



3.8% NIIT if their Modified Adjusted Gross Income exceeds the following thresholds:

- $250,000-for married filing jointly and qualified widower with a dependent child
- $125,000-for married taxpayers filing separately
- $200,000-for single filers and those filing as head of household

And if the above is not enough... higher income individuals are subject to an additional 0.9% Medicare tax now known as Hospital Insurance (HI), not to be confused with the 3.8% Medicare surtax on investment income. The 0.9% is usually a payroll deduction on compensation in excess of $200,000.

ALSO....

In addition to the two new surtaxes for high income individuals, 2013 also brings the following changes:

- The threshold for deducting medical expenses will increase to 10% for those under age 65.
- Annual FSA contributions will be capped at $2,500.
- Beginning on October 1, 2013, taxpayers will be able to purchase health insurance through online exchanges. Coverage on this insurance begins in 2014.
- In 2014, individuals not having health insurance will face a penalty. Lower income taxpayers will qualify for assistance.
- In 2015, large employers not offering health insurance will have to pay a penalty.

YEAR-END TAX SAVING TIPS

1. GIVE TO CHARITY. Short of Cash? You can still make a last minute gift. Charge your charitable giving on a credit card and pay later. You can privately give to thousands of rated charities with a credit card. Your donation goes directly to the charity, and they will send you a confirmation and a year-end summary to satisfy documentation requirements. Or, you don't even have to spend money to take a charitable deduction. Clear out your closets of unwanted items to make a noncash gift. Keep in mind, the items must be in at least good condition. Be sure to thoroughly document the donation. If you are planning on donating a vehicle before year-end, beware of the rules. Select a charity that will either use or improve the vehicle, and you will be able to deduct fair market value.

Otherwise, your deduction will be limited to the price the charity got when they sold the vehicle. The charity will give you a 1098C form to document the contribution. If you have a stock or piece of property that has increased in value and you held it for more than one year, you can deduct the full value and avoid paying capital gains tax by donating it to charity. If you want to give stock that has fallen in value, sell the stock, take the loss, and give the money to charity. Proof of payment is needed for donations of any size. Proper documentation is essential.

2. The IRS will charge a penalty if your tax for 2013 is less than 90% prepaid unless your payments are at least equal to last year's tax. (110% of last year's tax if your income exceeds $150,000). Higher income taxpayers may want to check out the impact of this year's new rates and surtaxes. You can boost your itemized deductions and possibly save yourself from a penalty by sending your last State estimated tax payment on or before December 31st or by increasing your state withholding. If prepaying the State, be sure to consult with your accountant to be certain you are not in AMT. Taxpayers in AMT should pay their 4th quarter State estimate in January 2014.

3. For self-employed individuals, you can shelter up to 20% of your net income in a SEP retirement plan. Besides current tax savings, money grows tax-deferred on the investments. A SEP contribution can be made up to the due date of your 2013 tax return, including extensions. If you do not have a SEP account, you may open one up until the time you are ready to file your 2013 tax returns.

4. Pay all bills already received for operating expenses rather than deferring payment until 2014. If you need new equipment, save tax dollars now by purchasing before year-end. Remember that you can charge on a credit card and receive a current deduction. The date of the charge dictates the purchase date even if you pay your credit card bill in 2014.

5. To channel your income into next year for a cash basis business, you must be certain it is not constructively received. You can delay your billing to next year to defer income to 2014.

6. If you are planning on deducting worthless stock, remember that it's not deductible until it is COMPLETELY worthless.

7. In buying mutual fund shares, avoid the year-end tax trap. Year-end dividends may include a year's worth of capital gain in the large taxable payout. The value of your shares declines by the amount of the payout, so you end up paying tax on profits that reduce your share value.

DOMA

We have received dozens of phone calls relating to the Same-Sex Marriage Ruling. Many couples are shocked that the Federal acceptance of their marriage will now cost them additional taxes.

The same-sex marriage ruling states that same-sex couples who are legally married in a state that recognized their marriage are considered married for federal tax purposes regardless of whether their state recognizes same-sex marriage. This ruling became effective September 16, 2013. It is applied retroactively for 2013. As a result, in 2013 and all future years, legally married same-sex couples must file their federal income tax returns JOINTLY, or MARRIED FILING SEPARATELY...NOT SINGLE!

This ruling also allows same-sex couples to enjoy all of the federal tax related benefits previously available only to opposite-sex married couples. These benefits include (but are not limited to):

1. Estate tax benefits
2. Gift tax benefits
3. Married filing jointly or married filing separately status
4. Taxpayer friendly employee benefits
5. Spousal IRA

IRS recognition of same-sex marriage does not apply to registered domestic partners, individuals in a civil union or similar relationships. Taxpayers in these types of relationships must continue to file their federal income tax returns as single individuals, even if they are able to file state returns jointly. Registered domestic partners may not file as married filing jointly or married filing separately, because the individuals are not considered married for federal tax purposes.

CONVERT YOUR IRA TO A ROTH IRA?

You may want to convert your traditional IRA to a ROTH IRA this year. This decision should be driven by your specific situation and your future needs. We have come across several situations this year where some taxpayers for different reasons have a Net Operating Loss. If this NOL is offset by your regular income and your end result is you have a zero tax bill for 2013, you might want to take advantage of this opportunity to roll over a part of your IRA to a Roth IRA and pay zero taxes.

Many taxpayers are using the IRA conversion as a tool to reduce their estates by rolling over their IRAs to a Roth IRA and paying the taxes currently. This would reduce your assets for estate purposes, you would not be required to take a distribution when you reach age 70½...and best of all, you can leave the Roth IRA to your heirs income tax free. This conversion is not for everyone, but it is something to consider if you meet any of the above criteria. Please call your accountant to discuss before December 31, 2013 if you think you are interested and would receive any benefit from the rollover.

YEAR-END 2013 BRINGS NEW OPPORTUNITIES AND NEW CHALLENGES

Year-end 2013 brings many new planning opportunities along with the traditional year-end tax planning strategies. It also brings challenges for both individual and businesses. There is much for taxpayers to consider in taking action before 2013 comes to an end...including the important changes made by the American Taxpayer Relief Act of 2012 which was signed into law on January 2, 2013, the provisions in the Patient Protection and Affordable Care Act of 2010 (Affordable Care Act), the Supreme Court's decision on same-sex marriage and the release of significant new IRS rules on many pressing issues. There is also the prospect of comprehensive tax reform in 2014, which will require some magical forecasting of what Congress may or may not do in the coming year. Got a crystal Ball? In addition to everything else, the IRS shutdown this past October could possibly delay the start of the 2014 filing season, oy!.

2013 IS THE LAST YEAR FOR THE FOLLOWING DEDUCTIONS:

1. The deduction for mortgage insurance premiums for qualifying taxpayers has been extended thru 2013 when it will end.
2. The exclusion from income of principal residence cancelled debt has been extended through the end of this year. This break will not exist in 2014.
3. 2013 is your last chance to get an ENERGY CREDIT for new windows or insulation.
4. Attention Teachers: this is the last year teachers will get a $250 deduction for classroom supplies.
5. Sales tax deduction disappears at the end of 2013.
6. The deduction for student loan interest (up to $2,500) is scheduled to end after 2013.

ESTATE AND GIFT TAXES

The recent overhaul of Estate and Gift taxes mean that there is an exemption of $5.25 million per individual for Estate, Gift and Generation Skipping Taxes. The top rate is 40%; the annual exclusion for gifts is $14,000 per person. The above applies to Federal taxes only. Each state has its own exemption which is significantly different from the Federal exemption. Please consult your advisor for the information on your home state.

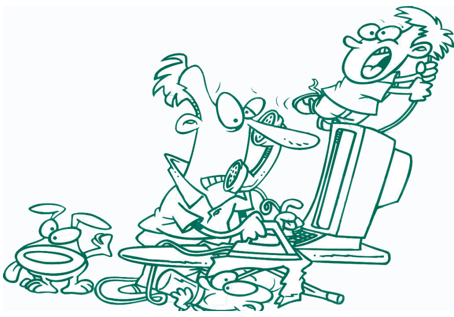
FLEXIBLE SPENDING

Beginning in 2013, The Affordable Care Act caps annual contributions to health flexible spending arrangements (health FSAs) at $2,500. Any salary reductions in excess of $2,500 will subject an employee to tax on distributions from the health FSA. The $2,500 maximum amount is indexed for inflation after 2013. For 2014, the cap is projected to be $2,500, the same as in 2013. So...we strongly suggest you pay attention to the balance in your flex account. Buy sunglasses, eye glasses, reorder prescriptions.

RETIREMENT CONTRIBUTIONS 2013/2014

For 2013, the elective deferral (contribution) limit for employees who participate in 401(k), 403(b), most 457 plans, and the federal government's Thrift Savings Plan is $17,500. For persons age 50 or older in 2013, the limit is $23,000 ($5,500 is the catch-up contribution).

In 2014, the deduction for taxpayers making contributions to a traditional IRA is phased out for singles and heads of household who are covered by a workplace retirement plan and have modified adjusted gross incomes (AGI) between $60,000 and $70,000, up from $59,000 and $69,000 in 2013. For married couples filing jointly, in which the spouse who makes the IRA contribution is covered by a workplace retirement plan, the income phase out range is $96,000 to $116,000, up from $95,000 to $115,000. For an IRA contributor who is not covered by a workplace retirement plan and is married to someone who is covered, the deduction is phased out if the couple's income is between $181,000 and $191,000, up from $178,000 and $188,000. For a married individual filing a separate return who is covered by a workplace retirement plan, the phase-out range is not subject to an annual cost-of-living adjustment and remains $0 to $10,000.



DO YOU WORK AT HOME?

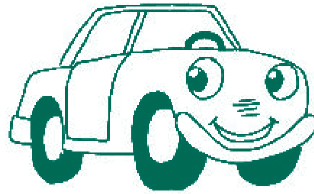
If you are self-employed, you may qualify for the home office deduction if you use a portion of your home exclusively as your principal place of business, to store inventory, or to conduct substantial management or administrative activities. There can be no other fixed location where the above activities can be done.

If you are an employee, your home office must be required by your employer; the expenses are an itemized deduction.

Regardless, the office space still needs to be used regularly and exclusively for business. You cannot have any other usage of the area for any other activity. Using your office for personal or investment reasons eliminates the deduction as far as the IRS is concerned, so be careful to keep your office space and computer usage all business.

Having a deductible home office means you can deduct all of your local business travel, and you will not have to keep a log of computer usage because your computer will be used exclusively for business.

If your office qualifies, you will need additional information: measure the business space and the total space. You will also need your mortgage interest, real estate taxes, insurance, association fees, repairs, maintenance, utilities, garbage, security, and rent paid.



MILEAGE DEDUCTION

Did you drive for charity? If so, you can deduct 14 cents for every mile you drove.

If your medical expenses are substantial, you may want to calculate the mileage deduction. Medical miles for 2013 are calculated at 24 cents per mile.

If you drove for business purposes, the situation is a bit more complicated: first decide which miles qualify.

Use the following scenarios to determine how many miles you can deduct:

Keep in mind...commuting is not deductible.

If you have an office or regular place of business outside your home, you may not deduct miles commuting to and from work or to your first or from your last stop, but you may deduct mileage to drive to a temporary work place (less than one year's duration) and mileage to and from different work locations during the day.

If you have an office in your home that qualifies for a home office deduction, all of your business-related mileage is deductible.

Once you have determined which miles to count, you need to decide whether to use the standard mileage rate or actual expenses.

The standard mileage rate for qualified business use for 2013 is 56.5 cents per mile.

Which method is best? In general, the standard method works best if your business miles are high or your vehicle is economical to run.

The actual expense method works best if your vehicle weighs over 6,000 pounds, is costly to run, or you do not have that many miles in total.

LIFE CYCLE CHANGES

Change in filing status: marriage, divorce, death or head of household changes, Birth of a child, Child no longer young enough for child credit, Child who has outgrown the "kiddie" tax, Casualty losses, Changes in medical expenses, Moving/relocation, College and other tuition expenses, Employment changes, Retirement, Business successes or failures. Now is the time to reflect on the above.

You may need a will...or an updated will.

You may need to increase or decrease your life insurance.

You may now need a financial planner.

You may want to make a substantial gift.

If you find yourself in any of the above circumstances and would like our guidance, please feel free to contact us.

As always, we will be happy to give you guidance.

Happy Holiday

To All Of Our Valued Clients And Friends

TLA has always protected your right to privacy with professional standards more stringent than those required by law.We retain records required and as we see fit, with your professional and personal needs in mind. We have electronic and procedural safeguards in place to protect these records. Non-public personal information is never collected without your authorization. We do not disclose this information except as required by law or authorized by you. Your privacy is important to us.
Please call us if you have any questions about this statement.