2013 - Year of Transition

Tax year 2013 is an interesting mix of expiring and extended laws due to the *American Taxpayer Relief Act of 2012* and new tax provisions due to the *Patient Protection and Affordable Care Act* (ObamaCare). The basic provisions of these two Congressional Acts affecting 2013 are summarized below.

The American Taxpayer Relief Act of 2012 (saved millions of taxpayers from a large tax hike)

- Beginning in 2013, itemized deductions and exemptions are phased out at incomes over $250,000 (single), $275,000 (head of household), and $300,000 (married/joint).
- The Alternative Minimum Tax was permanently patched and indexed for inflation going into the future.
- Revived through 2013 were Energy Credits, the $250 teachers classroom supply deduction, the mortgage insurance premium deduction, the sales tax deduction, the tuition deduction, tax-free distributions from IRAs for charity, exclusion from income of principal residence cancelled debt, and a slew of small business items.
- Extended through 2017 are the American Opportunity Tax Credit, the $1,000 Child Tax Credit, and the enhanced Earned Income Credit.
- Permanently extended are marriage penalty relief, liberalized Child Care Credit rules, and the exclusion for employer-provided educational assistance.
- The Bush-era individual and capital gains tax rates were extended to all taxpayers with income under $400,000 (single). $425,000 (head of household), and $450,000 (married/joint).

The Patient Protection and Affordable Care Act (ObamaCare) (Expected to raise about 800 billion)

- Certain high earning workers will pay an additional Hospital insurance tax of .9%.
- Certain high income individuals will pay a 3.8% surtax on investment income.
- The threshold for deducting medical expenses will increase to 10% for those under age 65..
- Annual FSA contributions will be capped at $2,500.
- Health plans will pay an annual fee.
- Retiree drug coverage will be eliminated.

How will you be affected? Read inside.

ARE YOU A WORKER?

You most likely noticed a cut in your take home pay beginning on January 1, 2013.

Instead of extracting 4.2% from your paycheck for Social Security taxes, 6.2% will be taken this year. You have 2% less in every paycheck than you did in 2012.

For example, if you earn $50,000 per year, you will get $1,000 less to spend on the needs of life than you did in 2012.

Self employed workers will also pay 2% more on self-employment tax.

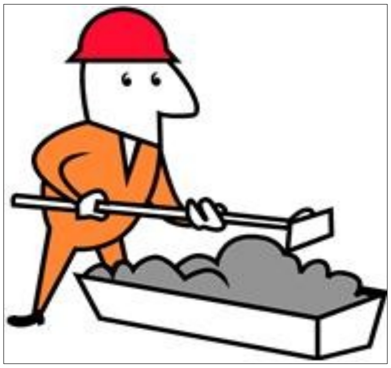
On a more positive note, the American Taxpayer Relief Act of 2012 reinstated the exclusion from income of employer-provided educational assistance.

The bill also granted an extension of the exclusion of employer-provided mass transit and parking benefits at the same dollar amount..

The following two ObamaCare initiatives will affect your tax situation in 2013:

Do you participate in a medical FSA account at work? Your contributions are capped at $2500 in 2013.

If your earned income (income from working) exceeds $200,000 (single) or $250,000 (married filing joint), ObamaCare is imposing a Medicare surtax of .9% on earned income above these levels beginning in 2013.



ARE YOU A HIGH INCOME TAXPAYER?

Is your income over $400,000?

Taxpayers with incomes over $400,000 (single), $425,000 (head of household), and $450,000 (married/joint) will be paying tax at a new 39.6% tax rate.

You will also be paying 20% tax on qualifying dividends and long term capital gains.

Is your income over $250,000?

Taxpayers with incomes over $250,000 (single), $275,000 (head of household), and $300,000 (married filing joint) will begin to lose itemized deductions and exemptions with the new 2013 phase out rules.

Is your income over $200,000?

In addition to the .9% Medicare surtax on earned income mentioned above, the ObamaCare legislation will impose a tax on your investment income:

Taxpayers with incomes of over $200,000 (single) and $250,000 (married filing joint) will pay an extra 3.8% in tax to the extent of their investment income over the above thresholds.

It appears that the high income taxpayer is going to foot the bill for a lot of the tax benefits extended to lower income taxpayers.

It also appears that single high income taxpayers have a distinct advantage over those taxpayers who are married.

DID YOU MISS OUT ON THE ENERGY CREDITS IN 2012 OR BEFORE?

2013 is your last chance.

If you have not used all of your lifetime $500 Energy Credit, you may qualify for a 10% credit for qualifying energy improvements to your home.

The credit for windows is capped at $200, advanced main air circulating fans are $50, qualified boilers are $150, energy efficient building property is capped at $300, and Energy Star windows and doors are 10%.

Energy Credits taken in previous years reduce the amount of credit available.

ARE YOU MARRIED?

The American Taxpayer Relief Act of 2012 granted **permanent** relief from the marriage penalty. In other words, your standard deduction and tax brackets are exactly twice those of single.

ObamaCare, on the other hand, as previously mentioned has put a distinctive disadvantage to marriage at high incomes.

DO YOU HAVE YOUNG CHILDREN?

Thanks to Congress, American families will be saved from the following 3 tax hikes:

- The Child Tax Credit for taxpayers with children under age 17 remains at $1,000 per child for taxpayers with incomes under $110,000 (married filing jointly) and $75,000 (singles). This credit was scheduled to be reduced to $500 but it has been extended through 2017.

Taxpayers who owe no tax (over 40% of us) will still be able to benefit from the refundability of this credit.

- For lower income families, the Earned Income Tax Credit was extended for families of three or more children until 2017, and married taxpayers will still get the same breaks as the unmarried.
- Expenses qualifying for the Dependent Care Credit were scheduled to be reduced from $3,000 per child to $2,400. The $3,000 limit was permanently extended.

ARE YOU PAYING FOR HIGHER EDUCATION?

If you paid for postsecondary tuition, fees, and required course materials for a student in the first 4 years of a degree program, you are still in luck until 2017.

The American Opportunity Tax Credit of up to $2,500 per student is really a jewel for taxpayers with incomes under$180,000 (married/joint) and $90,000 (single).

Even if your tax is 0, the credit is 40% refundable for most taxpayers.

For those students not qualifying for the American Opportunity Credit, the above the line deduction for tuition has been extended only through this year, 2013.

ARE YOU A HOMEOWNER?

Many taxpayers are concerned about the possible loss of their coveted mortgage interest deduction. You will be glad to know that this bill did not address that issue. In fact, the Act extended the following tax breaks:

- The deduction for mortgage insurance premiums for qualifying taxpayers was revived through this year, 2013.
- The exclusion from income of principal residence cancelled debt was also extended through 2013.

DO YOU OWN A BUSINESS?

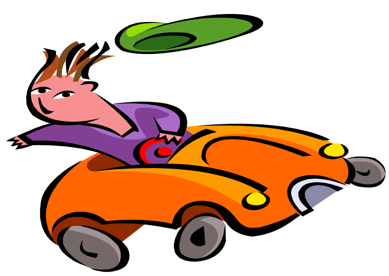
Congress passed a slew of provisions extending business breaks through 2013. The most common of which are listed below:

- $500,000 Sec 179 expensing
- The Research Tax Credit
- The Work Opportunity Tax Credit
- 15 year recovery on qualified leasehold improvements

Congress also extended the 50% bonus depreciation deduction for one more year. This provision is helpful to small businesses who want to invest in new equipment.

DO YOU ITEMIZE YOUR DEDUCTIONS?

The good news: The Tax Act extended the deduction for sales tax instead of income tax on Schedule A for two more years including sales tax paid on vehicles, boats, and aircraft.



The bad news: The ObamaCare legislation limited the medical deduction for many taxpayers. The threshold for deducting medical expenses increases to 10% of Adjusted gross income for 2013 for those under age 65.

ARE YOU A SCHOOL TEACHER?

Your $250 deduction for classroom supplies was extended through this year, 2013.

ARE YOU PAYING ON STUDENT LOANS?

The student loan interest deduction on older loans had expired, but Congress extended it through 2013.

DO YOU USUALLY PAY AMT? (ALTERNATIVE MINIMUM TAX)

You probably will still pay AMT.

The AMT is still with us. This is just a patch.

Congress **permanently** patched the AMT by increasing the exemption amount and allowing personal nonrefundable credits to the full amount of tax.

Without the patch, 60 million additional households would pay AMT.