



What You Do Today Shapes Your Future Taxes & Finances
[10 Reasons to Start Planning Now](#)

At 2am on New Year's Day, Congress passed the American Taxpayer Relief Act of 2012 (ATRA), thus avoiding the fiscal cliff — a point at which taxpayers would have faced numerous tax increases combined with steep federal budget cuts.

The last-minute legislation made sweeping changes, some that may significantly affect your taxes in 2014 which, in turn, might affect some of the decisions you make this year. For example, the new law increased tax rates and curtailed deductions for many high-income taxpayers, so now is the time to explore tax-deferred vehicles. The law also extended tax benefits for many middle-income taxpayers, so there may be steps you need to take to ensure that you stay eligible for those breaks. Regardless of how this law affects you, planning now is paramount to saving later.

Top 10 Tax & Financial Issues for Individuals Today provides an overview of the key tax law provisions and changes that may affect you, and offers practical strategies for minimizing your tax bill. Information is current as of May 15, 2013.

As you evaluate your financial and tax situation, a CPA can help by reviewing your overall financial position and providing you with the expert tax planning advice you need. By combining unrivaled education, training and experience with adherence to the most rigorous ethical standards in the industry, a CPA can provide trusted advice during the tax season and throughout the year.

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AVOID HEALTH INSURANCE PENALTIES

Starting in 2014, the Patient Protection and Affordable Care Act of 2010 may require you to purchase or otherwise obtain health insurance coverage. Taxpayers without adequate coverage will be assessed a penalty for each adult and child without coverage. Your CPA can help determine if you are exempt from the requirements and if your current health insurance is sufficient to avoid the penalties.

1. NEW TAX RATES ON ORDINARY INCOME AND CAPITAL GAINS

The ATRA increased the highest income tax rate to 39.6% for individuals starting in 2013. Taxpayers subject to the new 39.6% rate also will see an increase in their dividend income and long-term capital gains tax rate from 15% to 20% (23.8% if the Medicare surtax on net investment income applies). Other taxpayers will continue to be taxed on dividends and long-term capital gains at lower rates ranging from 0 to 15%. Before you sell stocks or other investment assets, talk to your CPA about the tax implications in order to minimize the tax bite.

2. NEW 3.8% SURTAX ON NET INVESTMENT INCOME

The new 3.8% Medicare Contribution Tax went into effect in 2013 as a result of the passage of the Patient Protection and Affordable Care Act of 2010. The 3.8% tax applies to individuals with net investment income whose modified adjusted gross income exceeds certain threshold amounts (\$250,000 for married couples filing joint returns and \$200,000 for single taxpayers). Net investment income includes capital gains, interest and dividend income received from investment assets such as stocks, bonds, certificates of deposit and mutual funds and may include rental income and royalties. Planning is critical in order to minimize the tax — your CPA can provide suggestions to minimize its effect.

LATER
NOW



3. ALTERNATIVE MINIMUM TAX

The Alternative Minimum Tax (AMT) was designed to ensure that high-income taxpayers who benefit from certain exemptions, deductions and credits will still pay a minimum amount of tax. Over time, the AMT affected more and more middle-income individuals as well. When the AMT is triggered, the taxpayer pays a higher tax than their normal federal income tax.

While the ATRA permanently increased the AMT exemption (keeping more middle-income taxpayers from being subject to the tax) and indexed it for inflation, it did not increase the income levels at which those exemptions phase out. Accordingly, taxpayers may find themselves unexpectedly subject to the AMT in certain situations — for example, when they recognize large capital gains (even though the capital gains income itself is not subject to the AMT).

Although traditional tax planning aims to minimize your tax liability, claiming tax breaks without also planning for their impact on the AMT could backfire and result in a significantly higher tax bill. Before you enter into financial transactions during the year, speak to your CPA about the potential tax consequences.



4. PERSONAL EXEMPTIONS PHASE-OUTS AND ITEMIZED DEDUCTION LIMITATIONS

The ATRA revives both the phase out of personal exemptions and the limitation on itemized deduction for high-income taxpayers. Under the phase out for personal exemptions, the total amount of personal exemptions for taxpayers and dependents is reduced if the taxpayer's adjusted gross income is more than \$300,000 for married couples and \$250,000 for single taxpayers. In a similar fashion, certain itemized deductions of high-income taxpayers are reduced if their adjusted gross income exceeds certain thresholds. The rules are complex and your CPA can help determine if these limitations apply to you.

5. EXTENSION OF TAX BENEFITS

The ATRA extends many deductions and credits that otherwise were scheduled to expire after 2012. Among the most popular is the deduction for state and local sales taxes in lieu of a deduction for state and local income taxes. This provision is particularly important for taxpayers living in states without income taxes and for retirees who may not pay significant state income taxes.

Child-related tax credits and benefits that were extended include the \$1,000 child tax credit, the tax credit for qualified adoption expenses (\$12,770 in 2013), the exclusion for qualified adoption-assistance programs offered by employers and a permanent extension of the child and dependent care credit.

For homeowners, the law extends the provision to shield taxpayers from being taxed on income for cancellation of debt on a principal residence. The law also extends the deduction for mortgage insurance premiums as interest expense. Tax credits for individuals who make qualified energy-saving improvements (e.g., high-efficiency furnaces and air conditioners) to their personal residence are also extended. Check with your CPA before making these investments to see which ones will qualify.



6. RETIREMENT PLANNING

Participating in an employer-sponsored retirement plan such as a 401(k), SIMPLE or SEP is a great way to save for your retirement and may reduce your current taxes. In 2013, you can contribute up to \$17,500 into your 401(k) (\$23,000 if you are age 50 or older). You may also qualify for an employer match of some or all of your contributions.

The ATRA allows all assets in non-Roth retirement accounts to be converted to a Roth IRA or Roth 401(k). Assets and earnings in Roth retirement accounts grow tax-free and are not taxed when they are distributed under IRS-approved circumstances. However, income taxes will be due on the assets rolled over into a Roth from a non-Roth retirement account.

The decision to convert traditional retirement accounts to Roth accounts is complex and includes a consideration of factors such as your age, years to retirement and current and projected tax rates. Your CPA can help you determine if conversions are right for you.



7. HIGHER EDUCATION INCENTIVES

The ATRA extended several education-related incentives for taxpayers who are in college or have children in college. The American Opportunity Tax Credit was extended through 2017 and allows eligible taxpayers to claim a tax credit for qualified post-secondary education expenses. The Lifetime Learning Credit remains available as does the above-the-line deduction for qualified tuition and related post-secondary education expenses. There are many different higher education incentives.

Other education-related incentives include permanent extension of the \$5,250 exclusion for employer-provided educational assistance, a permanent extension of the \$2,500 deduction for student loan interest (without a 5-year limitation) and a permanent extension of the \$2,000 maximum contribution for education savings accounts, which allow expenditures for elementary, secondary and post-secondary education.

Planning for college is critical as tuition costs continue to rise. Your CPA can develop a plan to help you save for your children's tuition or, if they are in college now, make sure you maximize the tax benefits available.



8. CHARITABLE CONTRIBUTIONS

Charitable contributions may provide generous tax benefits for taxpayers. However, the law requires significant documentation in order to claim those benefits, especially in the case of donated property. Deductible contributions also are subject to limits based on the type of property donated, the type of charity and your adjusted gross income. Before you make large charitable contributions, talk to your CPA to ensure that you will get the maximum tax benefit from your donations.

In addition, the ATRA reinstated the provision allowing taxpayers age 70½ and older to make up to \$100,000 of tax-free distributions from individual retirement accounts (IRAs) directly to qualified charities. While the charitable contributions are not deductible, the distributions are not included in gross income. However, they are counted in determining the minimum required distributions for the year and may also reduce the amount of Social Security benefits subject to taxation.

PROTECT YOUR IDENTITY

Tax-related identity theft is on the rise. In addition to other fraudulent activities, criminals are using stolen Social Security numbers and other information to file fake returns requesting fraudulent tax refunds. While the IRS is taking aggressive steps to combat the problem, the best defense is to safeguard your personal information at all times. Your CPA can provide you with tips so that you do not become a victim.



TAX REFORM MAY BE ON ITS WAY

Momentum for comprehensive tax reform continues to grow. President Obama has called for Congress to approve a bipartisan comprehensive tax reform plan. Tax reform discussions are ongoing in both the House and Senate. While there is much uncertainty concerning the direction of future tax legislation, simplifying the tax system for individuals and families is likely to be part of any tax reform package signed into law.

To stay in the loop with news and analysis about proposed legislation as proposals are fleshed out in Congress, visit aicpa.org/taxreform. In addition, talk to your CPA about what tax reform might mean to you.

9. ESTATE AND GIFT TAX

Congress made several estate and gift tax provisions permanent. For decedents in 2013, the estate tax exclusion (the amount that a decedent can leave to heirs without owing estate tax) increased to more than \$5 million and will be indexed for inflation in future years. Among the taxpayer-friendly provisions, Congress made permanent the portability of a deceased spouse's unused exclusion to a surviving spouse. However, it also increased the estate tax rate to 40%. Effective estate tax planning must include a consideration of income tax as well as estate and gift tax consequences and must start before a taxpayer's death. Even if your estate does not reach the \$5 million threshold today, talk to your CPA about ways to ensure that your estate passes to your heirs without being subject to estate tax.

10. REPORTING OF FOREIGN BANK AND FINANCIAL ASSETS

If you own a bank account or other financial assets located in a foreign country, you may have a responsibility under the Foreign Account Tax Compliance Act (FATCA) or the Bank Secrecy Act to disclose your ownership to the IRS. In recent years, government enforcement of these requirements has increased significantly. Failure to report foreign financial assets may result in substantial penalties starting at \$10,000. A CPA can tell you if you are subject to the reporting requirements and will help ensure your compliance with the law.



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