

The Fiscal Cliff and Other 2013 Tax Updates

Presented to CFMA of Colorado

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KEY PERSONAL TAX PROVISIONS FOR 2013



CEMENTS BUSH LOWER TIERED TAX RATES BRACKETS ADDS 39.6% HIGHER EARNERS

- **Lower Tax Rates Remain In Effect and Adjusted for Inflation**
- **39.6% on the taxpayer's taxable income that's in excess of:**
 - **\$450,000 Married Filing Jointly**
 - **\$400,000 Single**
 - **\$425,000 Head of Household**
 - **\$225,000 Married Filing Separately**
- **Maintains 15% rate for joint filers (providing some relief from the "marriage penalty" within the rate structure)**



PAYROLL TAX HOLIDAY EXPIRES

- **2% Increase to Employee's Portion of Social Security Contribution**
- **Increases from 4.2% to 6.2%**
- **2013 Base \$113,700**

DON'T FORGET ADDITIONAL OBAMA CARE TAXES

- Unearned Income Medicare Contribution Tax
- 3.8% surtax is imposed on net investment income:
 - Interest, dividends, royalties, rents, capital gains, nonqualified annuities, passive income from a trade or business or income from the business of trading in commodities or financial instruments
- Excluded items:
 - Wages, unemployment compensation , interest on tax-exempt bonds, Social Security, alimony , non-taxable gain on the sale of a principal residence, non -passive trade or business income , S/E income
- Top tax bracket for Unearned Income will be :
 $39.6\% + 3.8\% = 43.4\%$ (Combined with State 48%)
- The NIIT applies to taxpayers whose modified adjusted gross income (MAGI) exceeds \$250,000 MFJ/SS, \$125,000 MFS, and \$200,000 in all other cases(Single....)
- Income Derived From Self Rental Is Not Passive.



DON'T FORGET ADDITIONAL OBAMA CARE TAXES –PHASE II

- Additional Medicare tax on High Income Workers
- .9% Increase for those earning over \$250,000 Joint/\$200,000 Single
- Employer is required to withhold on wages over \$200,000



TIERED CAPITAL GAIN RATE

- 0% and 15% capital gain rates are made permanent; 20% rate is added for high-income taxpayers after 2012
- the 20% capital gain rate applies to taxpayers whose income exceeds the Threshold which Begins the 39.6% rate.
- Taxpayers who are subject to a greater than 25% but less than 39.6% rate threshold, will continue to be subject to a 15% capital gain rate.
- For taxpayers whose ordinary income is taxed at a rate below 25%, capital gains will permanently be subject to a 0% rate.
- Obama Care Provision Starting in 2013
 - 3.8% net investment income tax (NIIT) applies to most capital gains starting in 2013, the overall capital gain rate for some high-income taxpayers will be 23.8% (20% + 3.8%).



QUALIFIED DIVIDENDS ARE TAXED AT 0%, 15%, AND 20% RATES AFTER 2012

- Qualified dividends will be taxed at the same 0%, 15%, and 20% rates that apply to capital gain.
- Obama Care Starting in 2013
 - Because the 3.8% net investment income tax (NIIT) applies to dividends, the overall tax rate on qualified dividends for some high-income taxpayers will be 23.8% (20% + 3.8%).



PERSONAL EXEMPTION PHASEOUT (PEP)

- Personal exemption phaseout (PEP) applies when AGI exceeds \$300,000 (joint returns) and \$250,000 (single filers) for tax years beginning after Dec. 31, 2012
- For 2013, the personal exemption amount is \$3,900.
- A taxpayer has all personal exemptions completely phased out at incomes of: \$372,501 (singles); \$397,501 (heads of household); \$422,501 (joint filers); and \$211,251 (marrieds filing separately)



LIMITATION ON ITEMIZED DEDUCTIONS

- Starting in 2013
- The total amount of itemized deductions allowed is reduced by 3 cents for each dollar of AGI in excess of \$250,000 (S), \$275,000 (HH), \$300,000 (MFJ) and \$150,000 (MFS).
- But a taxpayer can't lose more than 80% of his deductions as a result of the limitation



AMT PATCHED PERMANENTLY!!!!

Married?	2011 Exemption	2012 Exemption	The Cliff
Single	\$48,450	\$50,600	\$33,750
Married Filing Jointly	\$74,450	\$78,750	\$45,000

Exemptions begin phase-out \$150,000 (MFJ) \$112,500 (S)



EXAMPLE OF EFFECT

Married with 3 Children	2012	2013	The Cliff
Wage	700,000.00	700,000.00	700,000.00
Capital Gain	50,000.00	50,000.00	50,000.00
Net Rental Income(Passive)	25,000.00	25,000.00	25,000.00
Ordinary Dividend(Qualified Dividends)	25,000.00	25,000.00	25,000.00
	<u>800,000.00</u>	<u>800,000.00</u>	<u>800,000.00</u>
Mortgage	30,000.00	30,000.00	30,000.00
State Taxes	32,000.00	32,000.00	32,000.00
Property Taxes	8,000.00	8,000.00	8,000.00
Contributions	5,000.00	5,000.00	5,000.00
Total Itemized	<u>75,000.00</u>	<u>75,000.00</u>	<u>75,000.00</u>
Exemptions	<u>19,000.00</u>	<u>-</u>	<u>-</u>
Allowed Itemized Deductions	<u>75,000.00</u>	<u>60,000.00</u>	<u>56,345.00</u>
Taxable Income	<u>706,000.00</u>	<u>740,000.00</u>	<u>743,655.00</u>
Net Federal Income Tax	<u>201,200.00</u>	<u>226,000.00</u>	<u>246,900.00</u>
Payroll Tax/Medicare Tax	<u>14,800.00</u>	<u>25,000.00</u>	<u>25,000.00</u>
State Tax	<u>34,200.00</u>	<u>35,700.00</u>	<u>35,900.00</u>
Total Personal Taxes	<u>250,200.00</u>	<u>286,700.00</u>	<u>307,800.00</u>
Employer Payroll Tax	<u>17,000.00</u>	<u>17,000.00</u>	<u>17,000.00</u>
Total Taxes	<u>267,200.00</u>	<u>303,700.00</u>	<u>324,800.00</u>
Total Combined Rate	<u>33.4%</u>	<u>38.0%</u>	<u>40.6%</u>
Tax Increase	<u>-</u>	<u>36,500.00</u>	<u>57,600.00</u>

WHAT CAUSED THE INCREASE

Tax Rate Increase from 35% to 39.6%	7,700
Capital Gain/Dividend Increase 15%-20%	3,750
Obama Care Tax On Inv/Passive Income-3.8%	3,800
Additional Obama Care Tax on Wage- (.9%)	4,050
Additional FICA Tax-(2%)	2,200
Effect of Limitation of Personal Exemption	7,500
Effect of Limitation of Itemized Deduction	6,000
Increase in State Tax	1,500
TOTAL INCREASE IN TAXES	36,500



ALLOWED ROTH CONVERSIONS

- Allows any Amount in a Non-Roth Account to be Converted to a Roth Account.
- Congress thinks this is a good Deal?



KEY BUSINESS TAX INCENTIVES

SECTION 179

- Restores for 2012 and 2013 limits to 2011 Threshold
- \$500,000 Limit
- \$2,000,000 Phase-out Begins
- \$250,000 for Qualified Leasehold Properties/Restaurants/Retail



BONUS DEPRECIATION

- Allows 50% Bonus Depreciation for Qualified Property
- Eligible for Qualified Property Placed in Service by 1/1/2014;
- First-year depreciation on Luxury Vehicles for 2013 of no more than \$11,160.
- The property's original use generally must begin with the taxpayer after Dec. 31, 2007. (NEW)
- Disregard of certain bonus depreciation in applying the percentage of completion method is allowed for an additional time period



RESTAURANT AND BUILDING IMPROVEMENT DEPRECIATION

- 15-year MACRS depreciation for certain building improvements and restaurants is extended to apply to property placed in service before Jan. 1, 2014



ESTATE TAX PROVISIONS

KEY ESTATE TAX PROVISIONS

- Increased and indexed estate, gift and GST tax exemption of \$5 million (\$5,250,000 in 2013, as indexed for inflation),
- Allows for the portability rules.
- Using the exemption amount, a married couple may transfer a total of \$10.5 million in 2013 without incurring any transfer tax.

TOP ESTATE TAX RATE INCREASED

- Top Rate Increased From 35% to 40%

Taxable Estate	Estate Tax Rate
First \$500,000	31%
Next \$250,000	37%
Next \$250,000	39%
In Excess of \$1,000,000	40%

