Personal Income Tax Update

AGA Winter Seminar 2013

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The Easy Stuff

Inflation Adjustments

Standard Deduction

Single	$ 5,950
Age 65 or older or blind (each)	+1,450
Married filing jointly	11,900
Age 65 or older or blind (each)	+1,150
Married filing separately	5,950
Age 65 or older or blind (each)	+1,150
Head of household	8,700
Age 65 or older or blind (each)	+1,450
Qualifying widow(er)	11,900
Age 65 or older or blind (each)	+1,150
Dependents—greater of earned income + $300 or $950	

Inflation Adjustments

Filing Requirement (Nondependents)	
Single	$ 9,750
Age 65 or older	11,200
Married filing jointly	19,500
One spouse age 65 or older	20,650
Both spouses age 65 or older	21,800
Married filing separately	3,800
Head of household	12,500
Age 65 or older	13,950
Qualifying widow(er)	15,700
Age 65 or older	16,850
All self-employed individuals	400

Inflation Adjustments

Retirement Plans

Maximum contribution:

401(k), 403(b), 457, SEP	$17,000
Catch-up (Age 50+)	additional $ 5,500
SIMPLE	$11,500
Catch-up (Age 50+)	additional $ 2,500

Inflation Adjustments

Social Security

- Maximum earnings subject to SS $110,100
- Maximum employee pays is $4,624.20
- Retire before Full retirement age max amount $14,640 before paying back benefits
- In the year full retirement age $38,880

Income Tax Update

- Fiscal Cliff Extenders
- Bush Tax Cuts Expiration
- Health Care Tax Effects

TAX Year 2011

- AMT
- State Sales Tax Deductions
- Tuition & Fees Deductions
- Qualified Education Expense Deduction
- Mortgage Insurance Premium Deduction
- Qualified Charitable IRA Distribution

AMT

- Alternative Minimum Tax [AMT]
- AMT Patch

AMT

- AMT exemption amounts for 2011 will revert to pre-2001 levels of $33,750 for single, $45,000 for MFJ, and $22,500 for MFS

- Without the patch, the government estimates that as many as 80% of taxpayers with incomes between $100,000 and $200,000 would have owed the AMT on their 2010 returns

Itemize Deductions

- State Sales tax deductions
- Mortgage insurance premium deduction [PMI]
- Qualified charitable IRA distributions

Education Deductions

- Tuition and fees deduction
- Qualified education expense deduction

Tax Year 2013

- Tax rate hike
- Phase-out of itemized deductions
- Earned income credit
- Child tax credit
- American opportunity credit
- Adoption assistance income exclusion
- Marriage penalty
- Capital Gains
- Payroll tax holiday

Bush Tax Cuts

2012 Tax Rates

- 10%
- 15%
- 28%
- 33%
- 35%

2013 Tax Rates

- 15%
- 28%
- 31%
- 36%
- 39.5%

Itemize Deductions

- Phase-out of itemized deductions and personal exemptions

Earned Income Credit

The EIC benefit will decrease for many taxpayers. First, the overall calculation reverts to pre-2001 law. Also, the maximum benefit available will be for families with two children instead of three.

Child Tax Credit

Starting in 2013, the child tax credit amount will be $500 per child (reduced from the current $1,000 per child) and refundability will be limited to families with three or more children and who meet other qualifications

Education Credit

The American opportunity credit enhancement to the Hope credit is set to expire at the end of 2012. Beginning in 2013, this credit will revert to the “regular” Hope credit rules, including a two-year availability limitation and a maximum credit of $1,800. The credit is also **nonrefundable**.

Adoption

Under current law, employees may exclude employer provided adoption assistance payments from income. This exclusion will expire at the end of 2012 making the benefit subject to both income and payroll taxes. Because the exclusion cannot be claimed on the tax return until the adoption is finalized, individuals that received payments in a year before 2012 may be unable to exclude those assistance payments if the adoption is not finalized until 2013.

Marriage Penalty

The break for the MFJ 15% tax bracket will be 167% of the single tax bracket, rather than 200% as under current law. Likewise, the standard deduction will be 167% rather than 200% of the standard deduction for singles

Capital Gains

2012 Long-Term Rates

- 0%
- 15%

2013 Long Term Rates

- 10%
- 20%

All dividends will be taxed at ordinary income tax rates rather than favorable capital gain rates.

Payroll Tax

The 2% reduction in the social security tax that we have all enjoyed for the past two years

ATRA

The Senate and House have passed HR 8, the American Taxpayer Relief Act of 2012 (ATRA)

- AMT relief (the AMT patch) has been made permanent

ATRA
2 Year Extenders

- Deduction for state and local general sales tax §170(b)(1)(E)—an itemized deduction (Schedule A) for sales tax in lieu of state income tax.
- Qualified charitable contributions §408(d)(8)(F)—tax-free rollovers of up to $100,000 from IRAs to qualified charitable organizations
- Qualified mortgage insurance premiums deductible as home mortgage interest

ATRA
2 Year Extenders

- Tax-exempt employer-provided transit benefits §132(f)—qualified employer-provided mass transit passes are excluded from employees’ gross income.
- Nonbusiness energy property credit §25C—up to $500 maximum lifetime credit for qualified energy efficient home improvements (windows, furnaces, etc.).
- Electric drive vehicle credits §30D—up to $2,500 credit for two-and three-wheeled plug-in electric vehicles.
- Expanded section 179 deduction—The maximum deduction was scheduled to decrease to $139,000 (phaseout starting at $560,000).

EXTENDED FOR ONE YEAR: 2013

- Qualified principal residence indebtedness exclusion §108(a)(1)—cancellation of debt of up to $2 million on a qualified principal residence is excluded from gross income.
- Bonus depreciation—50% bonus depreciation expired remains in effect for property placed in service during 2013.

PERMANENT EXTENSION OF BUSH TAX CUTS

- Tax rate and bracket system §1—the current rates of 10%, 15%, 25%, 28%, 33%, and 35% have been made permanent. The pre-2001 rate of 39.6% applies to taxable incomes over $400,000 ($425,000 HOH, $450,000 MFJ, $225,000 MFS). These thresholds will be inflation adjusted after 2013
- Marriage penalty relief §1—the standard deduction and the lower (10% and 15%) tax bracket cut-offs for joint filers remain at 200% of the single filer amounts

PERMANENT EXTENSION OF BUSH TAX CUTS

- Capital gains and dividends §1—the current rates for net long-term capital gains and qualified dividends of 0% and 15% have been made permanent. The pre-2001 rate of 20% applies to taxpayers with taxable incomes over $400,000 ($425,000 HOH, $450,000 MFJ, $225,000 MFS). These thresholds will be inflation adjusted after 2013
- Phase out of personal exemptions and itemized deductions (PEP and PEASE) §§68 and 151(d)—the phaseouts (reductions) of personal exemptions and itemized deductions are permanently repealed for taxpayers with AGI over $250,000 ($275,000 HOH, $300,000 MFJ, $150,000 MFS). These thresholds will be inflation adjusted after 2013

PERMANENT EXTENSION OF BUSH TAX CUTS

- Adoption credit §23—the expanded credit under the 2001 Tax Act has been made permanent. The expanded credit is $10,000 (to be adjusted for inflation; the maximum 2012 credit is $12,650) and expenses are deemed paid for children with special needs. The provisions for employer-provided adoption assistance are made permanent as well. *Note:* the refundability feature of ACA expired after 2011 and has not been extended.
- Child tax credit §24—the maximum $1,000 child tax credit and additional child tax credit per child have been made permanent. Also see the section on Temporary Extension of 2009 Tax Breaks (below) for other child tax credit relief.

PERMANENT EXTENSION OF BUSH TAX CUTS

- Dependent care credit §21—the maximum expense on which the credit is calculated will remain permanently at $3,000 for one child ($6,000 for two children) and the maximum percentage will remain at 35%. Thus the maximum credit will be $1,050 ($2,100 for two children)
- Earned income credit §32—the higher phaseout range for joint filers and other 2001 Tax Act modifications are permanently extended. Also see the section on Temporary Extension of 2009 Tax Breaks for other EITC relief.

PERMANENT EXTENSION OF BUSH TAX CUTS

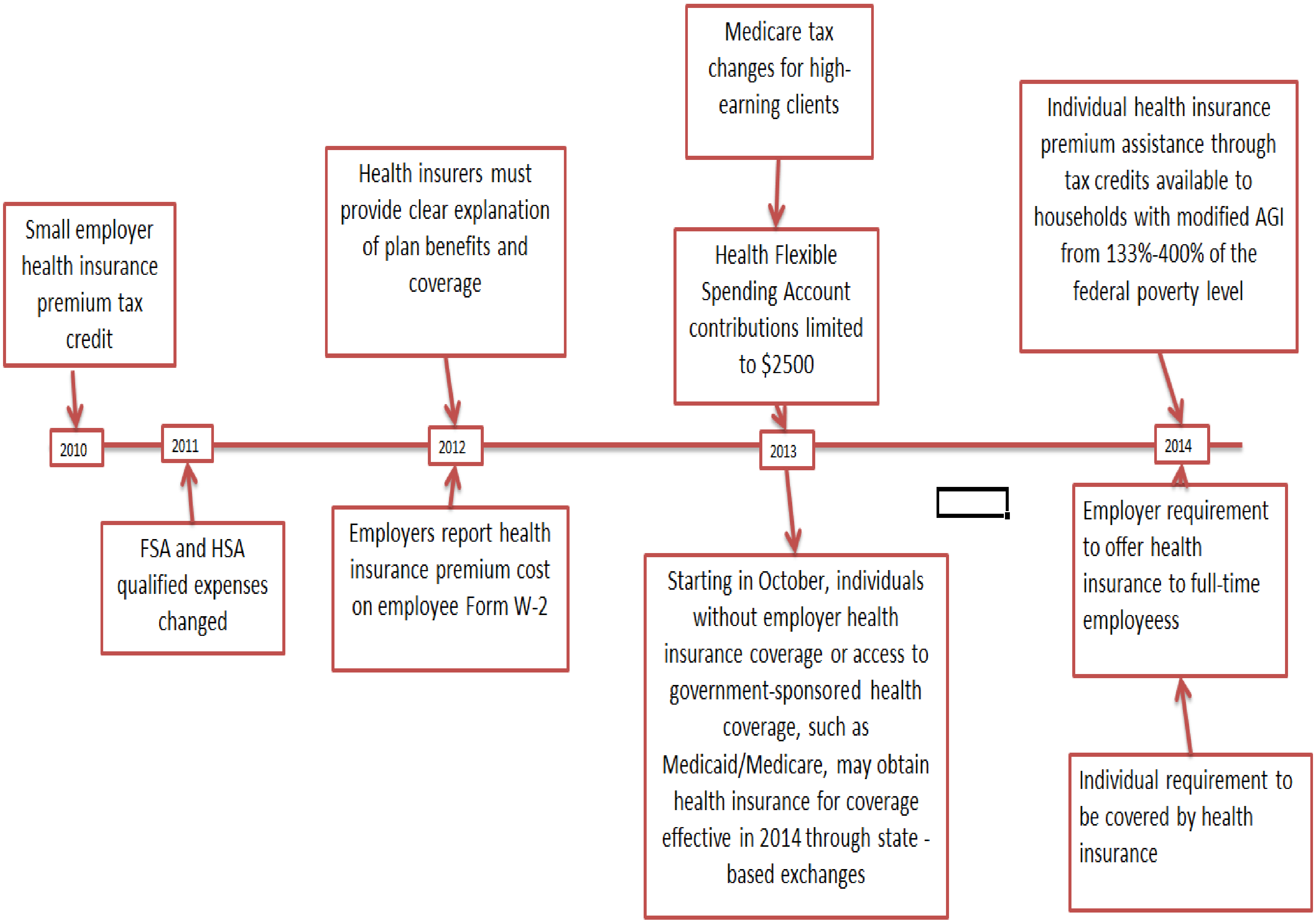
- Coverdell ESAs §530—expanded education savings account provisions allowing a $2,000 annual contribution per student for qualified elementary, secondary, and higher education expenses has been made permanent.
- Student loan interest deduction §221—expanded provisions of the 2001 Tax Act, including the availability of the deduction for an unlimited number of years and deductibility of interest on voluntary payments have been made permanent.

TEMPORARY TAX CUTS

- American opportunity credit (AOC) §25A(i)—the expanded Hope credit up to $2,500, partially refundable, and available for the first four years of higher education is extended through 2017
- Child tax credit §24—in addition to the permanent extension of the 2001/2003 features, the lower refundability threshold of $3,000 will be available through 2017
- Earned income credit §32—in addition to the permanent extension of the 2001/2003 provisions, expanded phaseout for joint filers and a higher credit for families with three or more children remain available through 2017

Health Care Law

In 2010, President Obama signed the Patient Protection and Affordable Care Act (PPACA) and the Health Care and Education Reconciliation Act of 2010 into law


Small employer health insurance premium tax credit
2010
2011
FSA and HSA qualified expenses changed
Health insurers must provide clear explanation of plan benefits and coverage
2012
Employers report health insurance premium cost on employee Form W-2
Medicare tax changes for high-earning clients
Health Flexible Spending Account contributions limited to $2500
2013
Starting in October, individuals without employer health insurance coverage or access to government-sponsored health coverage, such as Medicaid/Medicare, may obtain health insurance for coverage effective in 2014 through state -based exchanges
Individual health insurance premium assistance through tax credits available to households with modified AGI from 133%-400% of the federal poverty level
2014
Employer requirement to offer health insurance to full-time employeess
Individual requirement to be covered by health insurance

Tax Year 2010

Small Employer Insurance Credit

- Credit is up to 35% of health cost small business

* Currently about 4.4 million small businesses that provide employee health insurance are eligible for the credit [per Kaiser health]

Tax Year 2011

FSA & HSA

- Flexible Spending Account
  - Limited to prescription drugs
- Health Savings Account
- Penalty on nonqualified HSA distributions
  - 10% to 20%

Medical Expense Deduction

For clients less than age 65, the threshold for deduction of qualified medical expenses on form 1040, Schedule A is raised to 10% of federal AGI

Medical Loss Ratio

Beginning in 2011, insurance companies are required to spend a specified percentage of policyholders' premiums on medical care and quality improvement activities, meeting a medical los ratio (MLR) standard. Insurance companies that do not meet the MLR standard are required to provide rebates to their individual policyholders and premium reductions to their group policyholders in July, 2012.

Tax Year 2012

W-2

Employees who issued more than 250 forms for 2011 must report their employee health insurance premium costs in box 12 using code DD

YOU ARE NOT TAXED ON THIS AMOUNT. This is for informational purpose only for **NOW**

Open Enrollment

Health insurers must provide employees with a uniform Summary of Benefits and coverage during their open enrollment

Tax Year 2013

Investment Tax

A new tax of 3.8% applies to net investment income for clients with modified AGI in excess of $200,000. Net investment income includes interest, dividends, and capital gains. This only applies to taxable gain.

Medicare Tax

The Medicare tax increases by .9% to 2.35% on earned income exceeding $200,000, the tax remains at 1.45% on earned income below these thresholds

FSA & HSA

- Flexible Spending Account
  - Maximum contribution $2500
- Health Savings Account
  - Maximum contribution $2500

Tax Year 2014

Health Insurance Plans

- Plans must provide coverage for certain types of preventive care
- Plans may no longer include an annual or life-time maximum cap on paid expenses
- Clients may continue to cover adult children under age 27
- Clients who have Medicare prescription drug coverage (Medicare Part D) received a $250 rebate in 2010.

Individual Requirement

- Beginning in January 2014, the health care law requires U.S. citizens and lawful residents to be covered by minimum essential health insurance for themselves and their dependents or pay a penalty tax

Exceptions to Requirement

Coverage may be obtained through:

- ❑An employer
- ❑A government-sponsored health plan, such as Medicaid/Medicare
- ❑A state-based health insurance exchange
- ❑Private health insurance purchased in the open market

Individual Requirement

Qualified employer coverage must meet 3 key standards:

- **Minimum essential coverage**

  -That standard has not yet been defined

- **Affordable**

  - Premiums may not exceed 9.5% of wages

- **Adequate**

  -The plan must pay for a minimum of 60% of covered medical expenses

Government Plans

Qualified sponsored health plans:

- ✓Medicaid and expanded Medicaid
- ✓Medicare
- ✓Children's Health Insurance Program (CHIP)
- ✓TRICARE and TRICARE for life
- ✓Veterans Affairs healthcare program
- ✓Health care plan for members of the Peace Corps

Health Insurance Exchange

- Cannot be denied for pre-existing condition
- Four benefit levels:
  - Bronze – 60% payment
  - Silver – 70% payment
  - Gold – 80% payment
  - Platinum – 90% payment
- Annual out-of-pocket payment
  - $5,950 Individual; $11,900 family

Tax Penalty

For 2014 the larger of either:

1% of household income

$95 /$47.50/$285

For 2015:

2% of household income

$325 /$162.50/$975 max

For 2016

2.5% of household income

$695 / $347.50/ $2,085 max

Exemptions to penalty

- Income below the filing requirement
- Less than three months of noncoverage

*Determination of coverage is made month-to-month on the last day of each month.

FTE

- Employers with 50 or more FTE employees must offer insurance
- Determining FTE:
  - Safe harbor – Number of employees with a minimum of 120 hours in the month

Calculating FTE Example.

FTE calculation roadmap:

Step 1. How many companies does the taxpayer own (legal entity aggregation rules apply)?

Step 2. What is the total number of year-round full-time employees in these companies?

Step 3. What is the total number of hours worked by seasonal or variable-time employees?

Step 4. Divide the total hours in Step 3 by 1,440. Round down for any result that is not a whole number.

Step 5. Add Step 2 and Step 4. The result equals the number of FTE employees for the taxpayer's business(es).

Step 6. If Step 5 is greater than 50, the taxpayer is required to offer health care to full-time employees and their dependents.

Example 1

ABC Industries LLC has 80 FTE employees and is thus required to offer health insurance coverage to its 31 full-time employees. The business leadership decides to pay the penalty rather than offer coverage. Because the penalty only applies to the number of full-time employees over 30, their penalty is $2,000. ($2,000 X 1 Full-time employee = $2,000)

Example 2

XYZ Distribution LLP has 100 FTE employees and is required to offer health insurance coverage to its 35 full-time employees. However, the coverage the company offers does not meet the key standards and XYZ must pay a penalty as a result. To calculate the fine, you need to know how many of the full-time employees purchased coverage through the exchange and received premium assistance. Assuming that 10 did so (the rest may have coverage through the employer's plan even though it doesn't meet the standards, a spouses plan, purchased through the exchange but did not receive premium assistance, or opted to go without coverage) the penalty is $30,000 ($3,000 X 10 Employees who purchased insurance = $30,000)

However, the penalty may not exceed $10,000. ($2,000 X 5 full-time employees over 30 threshold = $10,000)