INDIVIDUAL TAX TIPS

0.9% ADDITIONAL MEDICARE TAX ON EARNED INCOME

Starting in 2013 there is a new individual tax on wages in excess of $200,000 ($250,000 for joint filers). The additional Medicare tax also applies to self-employment income above these thresholds.

3.8% NET INVESTMENT INCOME TAX ON UNEARNED INCOME

Starting in 2013 there is a net investment income tax (also called the Medicare contribution tax) is imposed on individuals. The surtax is 3.8% of the lesser of:

1) Net investment income, e.g., interest, dividends, capital gains, rents, ect. OR
2) The excess of modified adjusted gross income (AGI) over the threshold amount ($250,000 for joint filers, $200,000 for single filers).

HIGHER THRESHOLD FOR DEDUCTING MEDICAL EXPENSES

Starting in 2013, unreimbursed medical expenses are deductible only to the extent they exceed 10% of adjusted gross income for the year. For 2013 to 2016, if a taxpayer or spouse has reached age 65 before year-end, the old 7.5% floor applies.

CAP ON HEALTH FLEXIBLE SPENDING ACCOUNT (FSA) CONTRIBUTIONS

Starting in 2013, employee salary reduction contributions to health FSAs maintained under a cafeteria plan are limited to $2,500 per year. The amount will be inflation-adjusted beginning in 2014.

CAPITAL GAINS TAX RATE STILL RELATIVELY LOW

For most taxpayers the maximum capital gains tax rate is 15%. For taxpayers with taxable income over $400,000 for single filers and $450,000 for joint filers, the maximum capital gains tax rate increases to 20%.

ENERGY CREDITS STILL AVAILABLE IN 2013

The residential energy credit was extended through the end of 2013. The credit can be taken on such expenses as; insulation materials, exterior windows and skylights, exterior doors, water heaters, and furnaces. The credit is equal to 10% of qualified expenses, up to a lifetime maximum of $500.

OHIO DEDUCTION FOR VALUE OF SERVICES RENDERED BY DENTISTS AND DENTAL HYGIENISTS

Starting in 2013, there is an Ohio personal income tax deduction for the value of services rendered by dentists and dental hygienists under the Hope for a Smile Program.

CONTRIBUTE TO A ROTH IRA FOR YOUR CHILD OR GRANDCHILD

Here is a thought if your child or grandchild has a job this summer. Consider contributing to a Roth IRA for him or her this year. You can put in up to $5,500, but not more than what the child earns. However, the contribution counts toward the $14,000 annual gift tax exclusion ($28,000 if your spouse concurs). Keep in mind while there is no deduction for the Roth IRA contribution, the principle in the Roth IRA will grow tax free.

SUMMER DAY CAMP COSTS QUALIFY FOR DEPENDENT CARE CREDIT

If you send your school-age child to math camp or any special day camps this summer, such as those for computers, theatre or soccer, or really any day camp, a tax write-off exists for the cost of camp.

- However, the costs of summer school and tutoring programs aren't eligible for the credit. These costs are treated as education, not care.
- The child must be under 13, and expenses must be incurred so that both parents can work.

WHAT HAPPENS WHEN SOMEONE INHERITS AN INDIVIDUAL RETIREMENT ACCOUNT (IRA)

If a married holder of an IRA dies, the decedent's spouse inherits the account and can keep it separate or roll it over into his or her own IRA. Either way, the money remains "retirement funds" in the same sense as before the original owner's death: the surviving spouse cannot withdraw any of the money before age 59 ½ without paying a penalty tax and must start withdrawals no later than the year in which the survivor reaches 70 ½. Because the money entered the IRA without being subject to the income tax, all withdrawals are taxed at ordinary rates.

Different rules govern inherited IRAs by non-spouses. When a non-spouse inherits an IRA, it remains sheltered from taxation until the money is withdrawn, but many of the account's other attributes changed. For example, no new contributions can be made, and the balance cannot be rolled over or merged with any other account. The non-spouse beneficiary may take distributions spread out over the non-spouse's lifetime, but must begin these distributions by the end of the year following the year of the original owner's death. The non-spouse can also choose to distribute all funds by the end of the five years following the date of death.

SAME SEX COUPLES TAX ISSUES

The Supreme Court struck down a U.S. Statute that defined marriage as between a man and a woman for federal law purposes. The implications of this ruling are clear for those same-sex couples married and domiciled in states where same-sex marriage is legal. Those couples can file jointly and enjoy all the tax benefits that are afforded to married couples.

The implications are a bit less clear for those same-sex couples who move to states that do not recognize their marriages. The IRS has looked in the past at the state of domicile in determining whether two people can file a joint return as a married couple. If IRS continues to follow this practice then those same-sex couples will not be able to file a joint tax return. We are waiting for IRS guidance on this issue.