

INDIVIDUAL TAX TIPS

YOUR NET PAYCHECK WILL LIKELY BE LESS IN 2013

Your social security withholding was reduced two years ago from 6.2% to 4.2%. This reduction caused all employees to receive more in their net pay. This payroll tax reduction expires at December 31, 2012. Your social security withholding will increase to 6.2% of your gross pay and consequently your net pay will be reduced.

MILEAGE RATES INCREASE IN 2013

- The standard business mileage rate increases from 2012's 55.5 cents to 56.5 cents per mile in 2013.
- The mileage rate for medical and moving purposes increases from 2012's 23 cents to 24 cents per mile in 2013.
- The mileage rate for charitable deduction remains unchanged at 14 cents per mile.

DOLLAR LIMITS ON RETIREMENT PLANS INCREASING IN 2013

The maximum 401(K) contribution will increase from 2012's \$16,500 to \$17,500 for 2013. If you were born before 1964 your maximum 401(K) contribution will increase from 2012's \$22,000 to \$23,000.

The ceiling on SIMPLE plans will increase from 2012's \$11,500 to \$12,000 in 2013. If you are age 50 or older in 2013 you can put in an additional \$2,500.

The maximum contribution to IRA's will increase from 2012's \$5,000 to \$5,500 in 2013. If you are age 50 or older in 2013 you can contribute an additional \$1,000.

MOVING INCOME INTO 2012 AND DEFERRING DEDUCTIONS

Seems counter intuitive, but if your income is over \$200,000 this is actually sound tax advice. Because of new taxes in 2013 from Health Care Reform and likely higher income tax rates you will pay less tax on income in 2012 than you will in 2013. Likewise deductions will be worth more to you in 2013 than 2012. If you have the opportunity to accelerate income into 2012 and/or defer deductions to 2013, I suggest you strongly consider it. As always I am here to help you with your tax planning needs.

MEDICAL DEDUCTION THRESHHOLD INCREASED FOR 2013

To deduct medical expenses for you and your dependents, you can only deduct the excess medical expenses over 7.5% of your adjusted gross income (AGI). This is a tough threshold to exceed, but some taxpayers unfortunately do get there. If you happen to be one of those taxpayers coming close to the 7.5% threshold, consider accelerating medical expenses into 2012 by getting and paying for any elective procedures this year. The threshold jumps to 10% of AGI in 2013 for those taxpayers under age 65.

IRA CUSTODIAN NOT LIABLE TO ACCOUNT OWNER FOR OBEYING AN IRS LEVY

A man who had an IRA owed the IRS back taxes. The IRS sent a notice to the IRA custodian, who, after notifying the account owner, forwarded the IRA balance to the IRS over the man's objections. The account owner sued the IRA custodian, but the court found the custodian did nothing wrong, since the IRS can levy an IRA and compliance with a proper levy notice is required. (Green v. Pershing, D.C. Okla)

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COURT FINDS ILLNESS ISN'T SUFFICIENT REASON TO BEAT A LATE FILING PENALTY

A mother made large gifts to her daughters, but filed the gift tax return late. She claimed her myriad health problems, including pneumonia, knee replacement, cataract surgery and heart palpitations, caused her to miss the filing deadline. The court refused to abate the penalty because the illnesses weren't serious enough to incapacitate her for more than a brief period. And the court noted that she was able to attend to her other financial affairs during that period (Stine, Ct. of Fed. Claims)

INTEREST RATES ON UNDERPAYMENTS AND OVERPAYMENTS REMAIN THE SAME

The IRS has announced the interest rate it applies to underpayments and overpayments will remain unchanged for the first quarter of 2013. The interest rate is three (3) percent.

NEW MEDICARE TAXES IN PLACE BEGINNING IN 2013

If you are single and your income is greater than \$200,000 or married and income is greater than \$250,000 you could be subject to new Medicare surtaxes in 2013. There will be a 3.8% surtax on your net investment income and a .9% surtax on your earned income. These surtaxes are in addition to the regular income tax.

IRS GETTING PICKY ON CHARITABLE CONTRIBUTIONS

The IRS recently won a tax court case where they successfully disallowed a taxpayer's charitable contributions because of lack of proper support. The taxpayers had made contributions in excess of \$250 to their church and obtained a letter from their church acknowledging the contributions. Unfortunately the letter did not contain the required statement that no goods or services were received in consideration of these contributions. The taxpayers obtained a second letter from their church with the required statement, but since the letter was obtained after the due date of the tax return the IRS did not accept this letter. The court found for the IRS. Moral to this story is make sure your charities include that statement on any acknowledgment to you.

ANNUAL GIFT TAX EXCLUSION INCREASED FOR 2013

The gift tax annual exclusion will increase from \$13,000 to \$14,000. As a single taxpayer you can gift up to \$14,000 per recipient without having to file a gift tax return. Married individuals can gift up to \$28,000 per recipient.

VARIETY OF TEMPORARY TAX PROVISIONS SCHEDULED TO EXPIRE AT DECEMBER 31, 2012

These include tax credits, deductions and various tax incentives such as:

- The 15% cap on dividends. Dividends in 2013 are scheduled to be tax at ordinary income tax rates.
- Marriage penalty relief
- The \$1,000 child tax credit is scheduled to revert to \$500
- The American opportunity tax credit, which is the generous credit for college tuition
- Exclusion from gross income for discharge of indebtedness on a principal residence
- The exclusion for employer-provided educational assistance

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HAVE YOU HEARD OF ALTERNATIVE MINIMUM TAX (AMT)?

If not, you may be introduced to this tax this year if Congress does not act to “patch” the AMT as it has been doing in recent years. AMT has been around since 1969, but only in recent years has it been threatening to affect a large number of taxpayers. If Congress does not patch the AMT it will affect about 26 million taxpayers.

MANY PROVISIONS EXPIRED AT THE END OF 2011 AND HAVE NOT BEEN REENACTED

Examples of credits and deductions no longer available in 2012 include:

- The nonbusiness energy property credit
- The deduction of up to \$250 for certain elementary and secondary school teacher expenses
- Deductibility of mortgage insurance premiums as itemized interest deduction
- Deductibility of state and local sales tax instead of state income taxes on Schedule A
- The above-the-line deduction of up to \$4,000 for qualified tuition and related expenses

SOCIAL SECURITY ITEMS INCREASE FOR 2013

- The Social Security wage base will increase from 2012’s \$110,100 to \$113,700 in 2013.
- Social Security benefits will go up 1.7% in 2013, which is less than half of 2012’s increase.
- The earnings limit for those individuals between ages 62 and 66 receiving early benefits will increase from 2012’s \$14,640 to \$15,120 in 2013. If you are receiving early social security benefits and your earned income exceeds this limit then Social Security will take back \$1 for every \$2 above the limit.

YOU CAN DEDUCT CONTRIBUTIONS TO PAY DOWN THE FEDERAL DEBT

IRS privately rules that taxpayers making voluntary payments to pay down the federal debt can deduct those payments as charitable contributions. Finally, a serious solution to our nation’s debt problem!

HEALTH SAVINGS ACCOUNT (HSA) CONTRIBUTION LIMITS INCREASE IN 2013

The HAS contribution limits increase for family coverage from 2012’s \$6,250 to \$6,450 in 2013. For single coverage the limit increases from 2012’s \$3,100 to \$3,250 in 2013.

The minimum deductible for family coverage increases from 2012’s \$2,400 to \$2,500 in 2013. The minimum deductible for single coverage increases from 2012’s \$3,100 to \$3,250 in 2013.

ONCE IN A LIFETIME TRANSFER FROM IRA TO HSA

You do have the opportunity to make a once in a lifetime transfer from your IRA to your HSA up to the annual HSA contribution limit with no tax ramification. This would effectively move money from your IRA where it will be taxed someday to the HSA where as long as you use the money for qualified medical expenses it will never be taxed.

Per JP Morgan Investments approximately 30% of Americans have Health Savings Accounts.