

2013 Tax Update



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Major Tax Events of 2012



- Middle Class Tax Relief Act (Payroll Tax Cut Bill)
- Supreme Court Upholds Patient Protection And Affordable Care Act (Health Care Act)
- American Tax Relief Act of 2012 (ATRA)



Health Care Act Tax Provisions



- Medical Expense Deduction Threshold Raised from 7.5% to 10% of AGI
 - Exception if over 65 (thru 2016)
- Health FSAs Capped At \$2,500
- Penalty for Failing to Carry Health Insurance in 2014
- Small Employers Health Insurance Credit
- Additional .9% Medicare Surtax On Earned Income Of Higher-Income Taxpayers
 - \$250k if MFJ, \$200k single & \$125k MFS
 - New withholding rules start at \$200k



Health Care Act

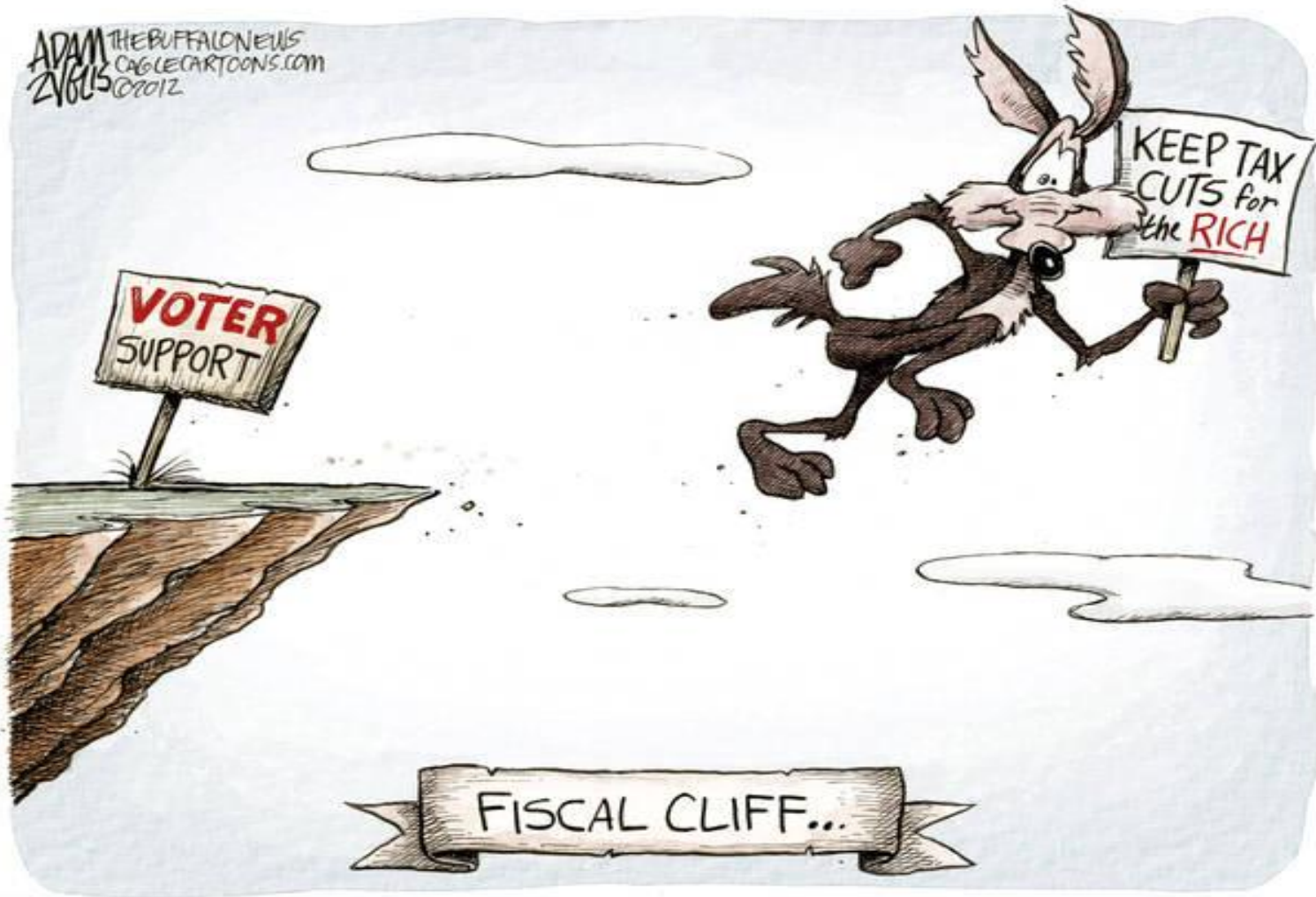
More Tax Provisions



- **New 3.8% Medicare Surtax On Net Investment Income**
 - \$250k if MFJ, \$200k single & \$125k MFS
 - Trusts & estate affected at highest income tax rate
 - Lesser of amount over threshold or net investment income
 - Net Investment Income
 - Interest, dividends, annuities
 - Rents, royalties
 - Gain from sale of property (i.e. short & long term cap gains)
 - Passive income from operating business(material participation)



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2013 Individual Income Tax Rates



- ATRA makes permanent for 2013 and beyond the lower Bush-era income tax rates for everyone, except for taxpayers with taxable income above
 - \$400,000 for single taxpayers
 - \$450,000 for married taxpayers
 - \$425,000 for heads of households
- Income above these levels will be taxed at a 39.6%
- The \$450,000/\$400,000 will be adjusted for inflation after 2013



2013 Projected Tax Rates



PROJECTED* TAX RATES FOR 2013 UNDER AMERICAN TAX RELIEF ACT OF 2012

Single Individuals

If taxable income is:	The tax will be:
Not over \$8,925	10% of taxable income
Over \$8,925 but not over \$36,250	\$892.50 plus 15% of the excess over \$8,925
Over \$36,250 but not over \$87,850	\$4,991.25 plus 25% of excess over \$36,250
Over \$87,850 but not over \$183,250	\$17,891.25 plus 28% of excess over \$87,850
Over \$183,250 to \$398,350	\$44,603.25 plus 33% of excess over \$183,250
Over \$398,350 to \$400,000	\$115,586.25 plus 35% of excess over \$398,350
Over \$400,000	\$116,163.75 plus 39.6% of excess over \$400,000

Married Couples Filing Jointly

If taxable income is:	The tax will be:
Not over \$17,850	10% of taxable income
Over \$17,850 but not over \$72,500	\$1785 plus 15% of the excess over \$17,850
Over \$72,500 but not over \$146,400	\$9,982.50 plus 25% of excess over \$72,500
Over \$146,400 but not over \$223,050	\$28,457.50 plus 28% of excess over \$146,400
Over \$223,050 to \$398,350	\$49,919.50 plus 33% of excess over \$223,050
Over \$398,350 to \$450,000	\$107,768.50 plus 35% of excess over \$398,350
Over \$450,000	\$125,846 plus 39.6% of excess over \$450,000

*The IRS is expected to release official 2013 tax rate tables shortly

Capital Gains/Dividends for 2013



- Top tax rate for capital gains and dividends to 20 percent on amount over \$450k/\$400k threshold
- 15% and 0% capital gains & dividend rates remain in effect
- 3.8% Medicare Surtax in addition to new rates



Other Major Individual Provisions



- AMT Permanently Patched and Indexed for 2012
- Phase-out of Personal Exemptions and Itemized Deductions starting in 2013 if AGI exceeds
 - \$250,000 for single taxpayers
 - \$300,000 for married taxpayers
 - \$275,000 for heads of households
 - Indexed for inflation after 2013
- American Opportunity Tax Credit to 2017
- Long List of other provisions extended
 - Residential Energy Credit, IRA to Charity, MIP, Sales Tax Deduction, Teacher Supplies





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Estate Tax Provisions



- Permanently sets exemption after 2012 at \$5 million indexed (project \$5,250,000 for 2013) for
 - Federal estate tax
 - Gift tax; and
 - Generation Skipping Tax (GST)
- Raises tax rate on excess to 40% starting in 2013
- Makes portability between spouses permanent





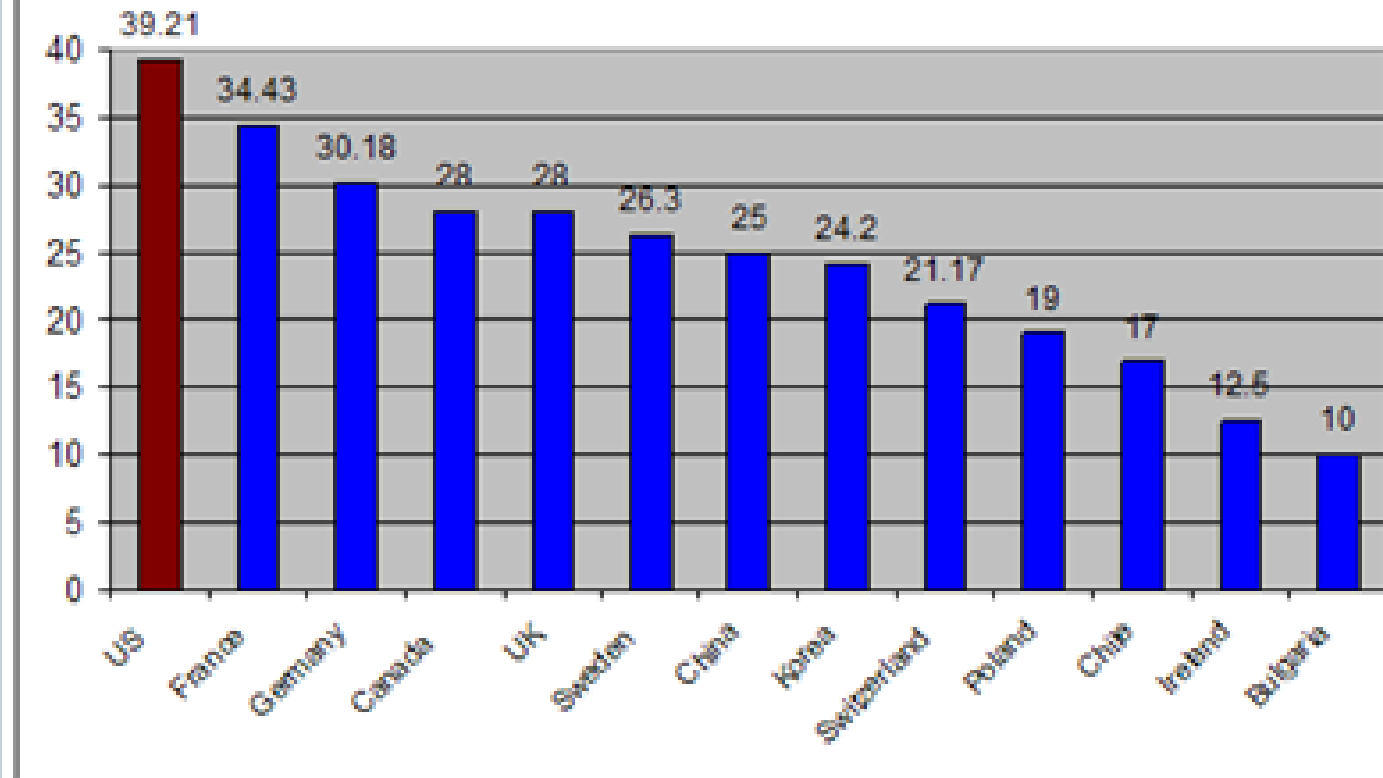
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Corporate Tax Rates No Relief



Corporate Tax Rates (selected countries)



Business Tax Provisions



- 50% First-Year Bonus Depreciation thru 2013
 - 50% Bonus on new asset placed in between January 1, 2012 and December 31, 2013
 - Generally Qualified Property is New Property with a Depreciable Life for Tax Purposes of 20 Years or Less
 - Includes “Qualified Leasehold Improvements”
- Set to expire in 2014



Business Tax Provisions (continued)



- Increase § 179 Deduction for 2012 and 2013
 - Deduction increased to \$500k
 - Phase out starts at \$2 million in acquisitions
 - Can “elect” to treat \$250k of “Qualified Real Property” as §179 Property
 - Any unused portion can not be carried over after 2011
 - Qualified Real Property (QRP) includes:
 - Qualified Leasehold Improvement Property
 - Qualified Retail Improvement Property
 - Qualified Restaurant Property
- After 2013 \$35k/\$200k



Business Tax Provisions Extended Thru 2013



- 15-year depreciation period for qualified leasehold improvements, qualified restaurant property, & qualified retail improvement property
- Research & development credit
- 100% exclusion of the gain from the sale of “qualified small business stock”
- Work opportunity tax credit for qualified employees (except for veterans)
- Temporary reduction in the waiting period for an S corporation to avoid the built-in gains tax after electing “S” status from 10-years to 5-years





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