

2013 Planning: Tax Issues for Higher-Income Individuals

Dear Client:

As you prepare to meet with your tax advisor before 2013 comes to a close, there are a few new items you should be prepared to discuss. We know that you have worked hard for your money and would like to reap the benefits to the greatest extent possible. Your ultimate goal is to sustain a successful wealth-building strategy while avoiding unnecessary and expensive tax consequences. We are interested in helping you achieve these objectives.

For higher-income taxpayers like you, higher tax rates, more limited deductions, and healthcare reform provisions became effective in 2013, including:

- a new tax rate of 39.6 percent for individuals with taxable income exceeding \$450,000 for married taxpayers filing jointly and surviving spouses; \$225,000 for married taxpayers filing separately; \$425,000 for heads of households; and \$400,000 for single filers;
- the **permanent** restoration of personal exemption and itemized deduction phaseouts;
- an increased capital gain and dividend income rate of 20 percent for taxpayers in the 39.6 percent tax bracket;
- an additional 0.9 percent Medicare tax on wages and self-employment income over threshold amounts;
- a new 3.8 percent Medicare contribution tax on unearned income;
- an increase in the threshold for deducting unreimbursed medical expenses from 7.5 percent to 10 percent of AGI; and
- a limitation for salary reduction contributions to health flexible spending arrangements (Health FSAs) of \$2,500.

Although you have to contend with these increases, the following tax benefits were made permanent by the 2012 Taxpayer Relief Act:

- Marriage penalty relief
- Increased AMT exemption amounts and corresponding threshold levels used to calculate the exemption phaseout (both will be indexed for inflation)
- The use of nonrefundable personal tax credits against regular and AMT tax liability
- Numerous education-related incentives

Yet other tax provisions were extended through 2013, including:

- Above-the-line higher education tuition deduction
- Itemized deduction for state and local general sales taxes in lieu of state and local income taxes (if you are considering purchasing a new vehicle, you may want to do so before December 31 if you can benefit from the sales tax deduction)
- Tax-free IRA distributions to charity
- Mortgage insurance premium deduction
- Above-the-line deduction for certain out-of-pocket classroom expenses

You do not want to overlook maximizing your retirement plan contributions. The chart below outlines the maximum amounts for 2012, 2013, and 2014:

	2012	2013	2014
Defined Contribution	\$50,000	\$51,000	\$52,000
Defined Benefit Maximum	\$200,000	\$205,000	\$210,000
Compensation	\$250,000	\$255,000	\$260,000
401(k)/SARSEP/403 (b) Deferrals	\$17,000	\$17,500	\$17,500
Catch-up Contributions	\$5,500	\$5,500	\$5,500
Highly Compensated Employee/Officer	\$115,000	\$115,000	\$115,000
Key Employee/Officer	\$165,000	\$165,000	\$170,000
Social Security Wage Base	\$110,100	\$113,700	\$117,000

If you have global financial interests, you can expect greater scrutiny by the IRS. You may have exposure under the FBAR and/or FATCA provisions of the HIRE Act, which increases disclosure and reporting requirements for foreign accounts, and provides penalties for noncompliance.

As you can see, the more complex issues faced by higher-income individuals create a challenging planning environment for the 2013 tax filing season. We would like to meet with you to discuss the options that are best suited to meet your personal financial goals, while minimizing your tax liability. Please contact our office at your earliest convenience to make an appointment.

Sincerely yours,

VT Williams & Associates, LLP

