

2013 Tax Update & Planning



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Major Tax Events of 2013



- American Tax Relief Act of 2012 (ATRA)
- Patient Protection And Affordable Care Act (Health Care Act) Implementation
- Nothing Better To Do Changes (DOMA, Repair/Capitalization Regs, Mandatory Gratuities)



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2013 Individual Income Tax Rates



- ATRA continues the Bush-era 10% to 35% tax brackets with no sunset and adds an additional 39.6% tax bracket for higher income individuals.
 - Beginning in 2013, the new 39.6% bracket applies to *taxable income* of an individual *in excess of* the following thresholds:
 - **\$450,000** for married couples *filing joint returns* (\$225,000 if married filing separate returns);
 - **\$400,000** for *single filers*; and
 - **\$425,000** for *heads of households*.
 - These thresholds are adjusted for inflation after 2013.
 - Income above these levels will be taxed at a 39.6%



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2013 Tax Rates



Tax rate	Single filers	Married filing jointly or qualifying widow/widower	Married filing separately	Head of household
10%	Up to \$8,925	Up to \$17,850	Up to \$8,925	Up to \$12,750
15%	\$8,926 - \$36,250	\$17,851 - \$72,500	\$8,926 - \$36,250	\$12,751 - \$48,600
25%	\$36,251 - \$87,850	\$72,501 - \$146,400	\$36,251 - \$73,200	\$48,601 - \$125,450
28%	\$87,851 - \$183,250	\$146,401 - \$223,050	\$73,201 - \$111,525	\$125,451 - \$203,150
33%	\$183,251 - \$398,350	\$223,051 - \$398,350	\$111,526 - \$199,175	\$203,151 - \$398,350
35%	\$398,351 - \$400,000	\$398,351 - \$450,000	\$199,176 - \$225,000	\$398,351 - \$425,000
39.6%	\$400,001 or more	\$450,001 or more	\$225,001 or more	\$425,001 or more



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Cordasco Planning Approach



Level 1
Basic Income Tax
Planning Strategies

Level 2
Advanced Income Tax
Planning Strategies

Level 3
Non-Income Tax
Planning Strategies
(i.e. Estate, Succession, etc.)



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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
- Planning Opportunities



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Other Major Individual Provisions



- AMT Permanently Patched and Indexed starting in 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 expired end of 2013
 - Residential Energy Credit, IRA to Charity, MIP, Sales Tax Deduction, Teacher Supplies



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The OBAMA LEGACY



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ObamaCare 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



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ObamaCare 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)
 - Final Regs Issued



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ObamaCare More Tax Provisions



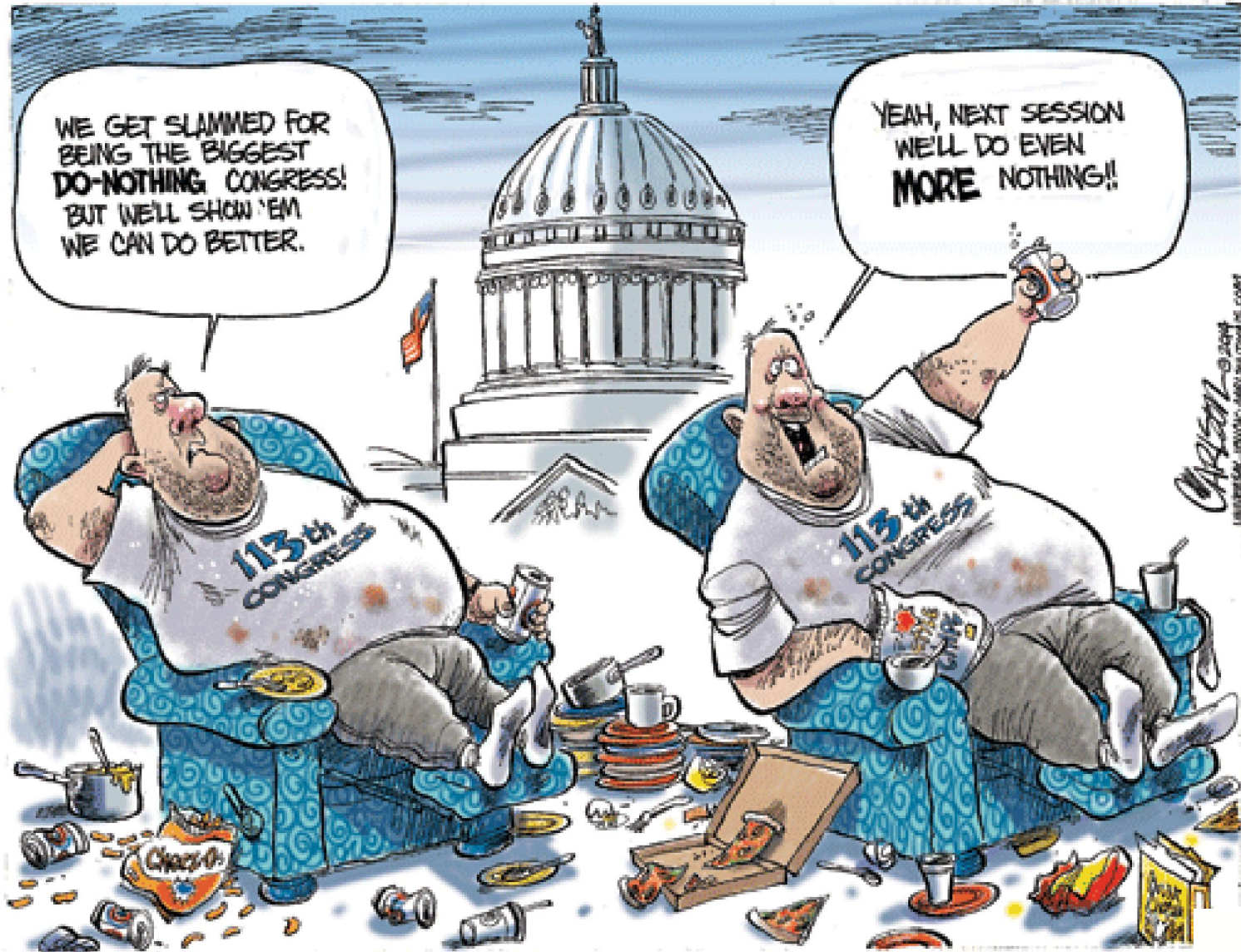
- Planning To Minimize The New 3.8% Net Investment Income Tax (3.8% NIIT):
 - Consider Shifting To Investments That Generate Tax-Exempt Income
 - *Not subject to the 3.8% NIIT:*
 - ***tax-exempt bond interest***; gain on the sale of a principal residence *otherwise excluded* from income under the
 - ***home-sale exclusion*** rules (i.e., up to \$250,000 on a single return, up to \$500,000 on a joint return); and
 - ***distributions from qualified retirement plans*** (e.g., 401(k) plans, IRAs, §403(b) annuities, etc.).
 - Consider Roth IRAs (Including Roth IRA Conversions)
 - Consider “Tax-Deferred” Investments
 - “Passive” Income





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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”
- Expired End Of 2013



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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



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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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