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2013 Year-End Tax Planning for Individuals

After 2013, dozens of temporary tax provisions are scheduled to expire. Most of these expiring provisions were extended through 2013 as part of the American Taxpayer Relief Act (ATRA). In his FY2014 Budget, President Obama proposed to permanently extend (and in a few cases substantially modify) certain provisions that would otherwise expire at the end of 2013. ATRA provided for the permanent extension of the 10%, 15%, 25% and 28% income tax rates and the permanent extension of the 33% and 35% rates, up to the following inflation-adjusted taxable income thresholds.

Single $400,000, Head of Household $425,000, Married filing joint $450,000 and Married filing separate $225,000.

The multiple provisions of the Affordable Care Act, enacted in 2010, are being phased in between 2010 and 2018. The vast majority of the ACA's substantive provisions, with the exception of the employer penalty regime, which comes into effect in 2015, will be phased in by 2014. There is the addition of two Medicare surtaxes, which may increase your tax liability.(See below)

The Internal Revenue Service will not be accepting returns for the tax year 2013 until January 28, 2014. **We still need your tax information as soon as possible.**

ATTENTION ALL SMALL BUSINESS OWNERS

New Mexico Taxation & Revenue has been aggressively comparing gross receipts reported on Form CRS-1 to the amount reported on tax returns. ***If you file your own CRS-1's please send us copies of the reports with your tax information so we can insure you are in compliance.***

SEC. 179 EXPENSING AND BONUS DEPRECIATION FOR 2013

The 2013 Section 179 deduction limitation is $500,000 and the phase-out threshold amount is still $2,000,000. Bonus depreciation is also unchanged from 2012, which is 50%. Bonus depreciation can be taken on new equipment only that is **placed into service in 2013.** If Congress does not act the Section 179 limit for 2014 will drop to $25,000 with a phase out of $200,000 in asset purchases.

BUYERS OF NEW HEAVY SUV'S PUT IN USE IN 2013

Assume your business buys a new $60,000 SUV with a loaded gross weight of over 6,000 pounds and places it in service before year end. First you can expense $25,000. Half of the remaining $35,000 cost ...$17,500... qualifies for 50% bonus depreciation this year. The company can also deduct 20% of the $17,500 balance ...$3,500... as regular depreciation. Assuming the vehicle is used 100% of the time for business, the total write-off in the first year is $46,000. **Business use must be substantiated in writing.**

IRA CONTRIBUTION LIMITS

For 2013, the maximum you can contribute to all of your traditional and ROTH IRAs is the smaller of:

$5500 ($6500 if your age 50 or older), or your taxable compensation for the year. Remember you have until April 15, 2014 to fund 2013 IRAs.

REQUIRED MINIMUM DISTRIBUTIONS IN 2013

Minimum distributions from IRAs are required in 2013, which will be based on your age and your Dec. 31, 2012 balance. If you turn age 70½ in 2013 you have until April 1, 2014 to take the distribution but you must also take your 2014 distribution before December 31, 2014. It is advisable to take your 2013 distribution by December 31,2013. ATRA extended the qualified charitable distribution (QCD), a QCD is an otherwise taxable distribution from an IRA (other than an ongoing SEP or SIMPLE IRA) owned by an individual who is age 70 1/2 or over that is paid directly from the IRA to a qualified charity. An IRA owner can exclude from gross income up to $100,000 of a QCD made for a year and the QCD can be used to satisfy any IRA required minimum distributions.

CONVERTING FROM ANY TRADITIONAL IRA TO A ROTH IRA

Converting your traditional IRA to a Roth is still a good idea in 2013. You can withdraw all or part of the assets from a traditional IRA and reinvest them (within 60 days) in a Roth IRA. The amount that you withdraw and timely contribute (convert) to the Roth IRA is called a conversion contribution. If properly (and timely) rolled over, the 10% additional tax on early distributions will not apply, but the distribution is still subject to Federal and State income tax. You may want to contact us before doing a conversion to ensure your modified adjusted gross income does not exceed the thresholds for the 3.8% medicare tax referenced below.

CAPITAL GAINS AND DIVIDENDS

The long-term capital gain and qualified dividend tax rate for taxpayers below the 25% bracket is equal to 0 %. Taxpayers in the two lowest income tax brackets will pay no capital gains tax when they sell investments they have held for more than one year. The zero capital gains treatment will not be available to children and students affected by the so-called kiddie tax. Retirees and other taxpayers in the 10% and 15% brackets may want to sell long-term investments this year, because they'll qualify for tax-free gains. Qualified dividends are also tax free for those taxpayers in the lower tax brackets. For income in excess of these thresholds, $400,000 (individual), $425,000 (HofH) and $450,000 (MFJ) the rate for both capital gains and qualified dividends is 20%. Higher-income taxpayers may also be subject to the 3.8% Medicare surtax, making the long-term capital gains and qualified dividends subject to a 23.8% federal tax rate.

NEW FOR 2013

3.8% MEDICARE SURTAX ON UNEARNED NET INVESTMENT INCOME

Single taxpayers with an adjusted gross income over $200,000 or $250,000 for married filing jointly could be subject to this tax. Taxpayers may have the 3.8% Medicare surtax on investment income that is calculated on the smaller of the filer's net investment income or the excess of modified AGI over the threshold amounts.

0.9% MEDICARE SURTAX

The additional 0.9% Medicare tax on wages and self-employment income is applicable only to income in excess of the threshold amounts discussed above. The threshold and the amount of income subject to tax is based on the combined income of a husband and wife on a joint return. Thus, even if each is under the threshold amount individually, the couple will be subject to the tax to the extent their combined incomes exceed the threshold. In addition, in the case of wages paid to an employee, the surtax applies only to the employee's share of the employment tax. Employers are required to withhold the additional tax on wages in excess of $200,000, without regard to the employee's filing status. If there is excess withholding it will be treated as federal withholding.

HOME OFFICE SAFE HARBOR

The IRS is now giving taxpayers who have a home office for business purposes a safe harbor option for deducting expenses. Taxpayers who elect this method can deduct an amount determined by multiplying the allowable square footage of the home office by $5. The maximum area for the home office for the safe harbor method is 300 square feet, for a maximum deduction of $1,500. Any expenses related to the home where the office is located (property taxes, utilities, repairs, depreciation, etc.) may not be deducted for business purposes if the safe harbor method is used.

CONTRIBUTE STOCK TO CHARITY

Contribute stock to your church or favorite charity. You get a deduction for the fair market value of the stock, but you pay no tax on the capital gain. Actually, you can contribute any appreciated property and avoid capital gains.

MEDICAL EXPENSES

If you are under the age of 65 you can deduct medical expenses in excess of 10% of your adjusted gross income. If you are over 65 then the threshold remains at 7.5%. If you will itemize this year and you have a large amount of medical expense, consider paying every medical bill you can before the year ends, such as optometrists, dentists, and prescription renewals.

CREDITS FOR COLLEGE COSTS

If you are paying your dependents' tuition on a monthly basis, you will get a larger credit if you pay the balance due by December 31, 2013.

YEAR END PLANNING FOR SELF-EMPLOYED

Employ Minor Children in the Family Business

Wages paid to a child under 18 years of age by a sole proprietorship are not subject to FICA taxes. A child claimed as a dependent is not allowed to claim himself or herself as a dependent. The standard deduction for single taxpayers this year is $6,100. If you pay your child $6,100 or less he/she will not owe any tax. If your child puts $5,500 in a deductible IRA, he/she could earn up to $11,600 and not owe any tax.

Expenses for Self-Employed, S-Corporations, LLCs and Partnerships

Pay every deductible bill you have prior to January 1, 2014. Also, purchase items at the end of December 2013 that you will use in 2014 (i.e. supplies, postage, toner, small tools, etc.). If you don't have a tax problem, do the opposite.

Promise To Pay

A promise to pay or providing a note does not permit you to deduct the expense. But you can take a deduction if you pay with money borrowed from a third party. Hence, if you make a purchase with a credit card in 2013, you can take the deduction even though you won't pay your credit card bill until 2014.

Self-Employed Health Insurance Premiums

Self-employed individuals are allowed to claim 100% of the amount paid during the taxable year for insurance that constitutes medical care for themselves, their spouses and dependents as an above-the-line deduction, without regard to the 10% of AGI floor.

Standard Mileage Allowance

IRS drives up the standard mileage allowance for business vehicle usage. The rate will be 56.5 cents a mile, a 1 cent hike. The mileage rate for medical and moving expenses also increases by .5 cents to 24 cents a mile. But the rate used when driving for charity stays at 14 cents per mile.

This past year the IRS has increased the number of limited scope audits which are focusing on auto, travel and meals. It is very important that you keep an auto log to substantiate your business mileage. Also keep a calendar of your meetings for meals you are deducting, naming who you met with and what was discussed

If you have any questions, please call Charlie, Barbara, or Marshall.

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