2012 Income Tax Change Summary

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2012 Tax Change Summary

In the past, our firm has attempted to provide our clients with the most current and relevant information regarding the newest and latest tax laws that might affect them. Whether you have paid attention to our prior tax change summaries or not, this year could be more important than ever to take time to learn about what's new in the tax world. It might be very worth your while! This is just a summary of what I believe to be the more significant changes for this tax season, as well as the next few years, that we feel may affect our clients.

As most of you are aware, Congress waited until the very last hour to pass tax and estate legislation for 2013 and beyond, thereby diverting us away from the "fiscal cliff", as it was being called by the media. Although they did make some moves to keep the middle class permanently protected from carrying a higher tax burden now and in the future, Congress continued to "kick the can" on many issues, including the two (2) most pressing issues facing us today; spending cuts and debt reduction. Now that the income side to the equation has been settled, the fight over the budget deficit will become the dominant concern in Washington over the next few months. It will be quite interesting to see how it all pans out.

As you may recall, Congress extended our present tax package (the Bush tax cuts), plus or minus a few things, thru year 2012. Along with keeping tax rates fixed at prior levels thru 2012, the Tax Package passed by Congress last year remains quite taxpayer friendly, in my opinion. Many things to both consider and take advantage of before the end of next year.

Alternative Minimum Tax (AMT) laws have been resolved for this year (2012 and beyond), as Congress has permanently installed a "fix" to the AMT exemptions. Even with Congress's extending the increased exemptions for 2012 and beyond, many of our clients will continue to be directly affected by AMT, as has been the case in the past.

Health Saving Account (HSA) plans have continued to grow in popularity, both with the public and our government (see below for more details). The Sales tax deduction option, Educator expense deduction, and the above-the-line College Tuition expense and fee deductions were all allowed to expire for 2012. Many other things were allowed to expire, or were not renewed for 2012 (see below).

Capital Gains rates (15% tax rate on capital gains and qualified dividends) were extended through year 2012; however they are increasing in 2013 and beyond for taxpayers with higher incomes ($400k+). The expanded Roth Conversion rules were continued for 2012 and beyond, which allow anyone the option to convert their IRA into a "tax free" Roth IRA. Estate Tax laws increasing the Death Tax Credit to $5.12 million remain in place for 2012, and increase in future years via CPI. So there do remain a few favorable taxpayer friendly rules for 2012, and beyond. It's the coming years that don't look promising for higher income earners.

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However, within prior legislation there remain many items that do not favor the taxpaying public as a whole. AMT Taxes remain a constant problem for many taxpayers living in an income taxable State. Kiddie tax rules for the 2012 and future tax years subjects children under the age of 18 (formerly 14) and full-time students age 19-23, to their parents tax rates for unearned income greater than $1,900 per year. Higher scrutiny and accountability over information the government does not collect by direct means (ie. charitable donations, cost basis info and business expenses) will continue. Especially in areas like non-cash donations (an area considered abused over the past). Tax returns claiming Earned Income Credits (EIC), Rental property activities (Sch. E), and Schedule "C" (self-employed taxpayers) income and expenses are also being scrutinized more closely than ever. Therefore, your attention to proper record keeping is now more important than ever!

As you may be aware, the IRS is now requiring all individuals that prepare income tax returns or give income tax advice for hire to be licensed with the Internal Revenue Service, as of January 1st, 2011. Licensing for Attorneys, CPA's and Enrolled Agents is automatic. All other tax professionals must pass a licensing exam. I see both good and bad consequences for the general taxpayer coming out of this new licensing requirement. It is likely that the quality of the tax work being done will increase, which favors the general taxpaying public. However, I also believe that the cost of preparing returns will likely increase due to fewer individuals that will actually be licensed to do the work.

In the past I have included a Retirement Worksheet with this information summary package. If you are considering retirement sometime in the near future, please call my office (or visit the ***Popkinandassociates.com*** web-site) and we can forward you a Worksheet and retirement package for your assistance in making the decision to do so!

Of course, the information provided within this material is only a brief overview of the changes made for 2012 and future years. It is for informational purposes only and is not intended for your use without the consultation of a tax professional. If you have further questions or concerns regarding these or any other issues and how they may affect your particular situation, please contact our office at your convenience and we will be happy to assist you further in your quest for understanding and knowledge.

Prepared by Mark J. Popkin
for the firm.

Changes Effective for Tax Year 2012 & 2013

- **Social Security Tax on Base Wages Increases for 2012 & 2013:**

  - Tax rate of 4.2% of employee wages for 2012 (6.2% in 2013).
  - Maximum income subject to taxation for **2012** is **$110,100**.
  - Maximum Social Security tax paid from wages in 2012 is **$4,624.20**.
  - The Employee SS wage base for **2013** is **$113,700.00**.
  - Medicare Tax (1.45%) remains on <u>all</u> wages/se earnings.
  - Beginning in **2013**, a **Medicare Tax Surcharge** of 0.9% will be levied on all wages greater than $200k (Single/MFS), and $250k (MFJ).

- **Alternative Minimum Tax for 2012 and Beyond**:

  - Anticipated adjustment to AMT Exemptions for **2012** and beyond have been permanently fixed as part of the "new" tax package.
  - The "new" exemption amounts will reduce AMT exposure for an estimated 20 million taxpayers.
  - Adjustments for **2013 and beyond** will be indexed to CPI.
  - AMT Credit rules accelerate the use of certain AMT Credits generated from the exercise of Qualified Stock Options (ISO).
  - **Observation**: Congress's permanent fix to this annual problem will protect most middle and a few higher income taxpayers between the $100-245k income levels from incurring AMT.

- **Contributions (Cash) for 2012:**

  - All cash contribution of $250 or more MUST have a written acknowledgement from the charity in order to be eligible for a deduction in 2012.
  - Taxpayers are required to substantiate their deduction and supply appraisals when necessary.

- **Contributions (Non-Cash) for 2012**:

  - Clothing/other goods donated must be in a "**Good or better**" used condition.
  - IRS has the authority to deny deduction for items with minimal value.
  - Donor is required to maintain written records of the donation regardless of the value of the donated property.
  - Donations of $250 or more must have a contemporaneous written acknowledgment by the donee.

- IRS will continue high level of scrutiny regarding non-cash area due to abuse in the area over the recent past.

- **Vehicle Donation Rules**: (Same as prior year)

  - The amount of the deduction will depend on how the donee organization uses the vehicle.
  - If the charity sells the vehicle without using or improving the vehicle in any significant way, the amount of the charitable deduction is limited to the gross proceeds of the sale by the charity.
  - If the charity keeps the vehicle for its own use, the taxpayers must be provided with an acknowledgement from the organization as to the value of the vehicle
  - Stiff penalties will be imposed on charities that don't approach the valuation obligation honestly.
  - Acknowledgement rules begin on contributions made after Dec. 31, 2004.

- **New Cancellation of Debt Rules:**

  - CODI – Cancellation of debt income (1099-C).
  - CODI is generally equal to the difference between the principal balance owed on the debt and the amount accepted in satisfaction to the debt.
  - Includible to gross income in the year occurred.
  - Repossessed property is equal to FMV at the time of repossession.
  - Exceptions to CODI are Bankruptcy and Insolvency.
  - Insolvent taxpayers should not include CODI in gross income.
  - Discharge of an obligation of an interest payment would not be income because the interest would have been deductible either way.

- **Qualified Principal Residence Debt Discharge:**

  - For mortgage debts discharged thru January 1, 2013, CODI is excluded from a homeowner's gross income if the debt is ***qualified principal residence indebtedness*****.**
  - Qualified Principal Residence Indebtedness is acquisition indebtedness (under home mortgage interest deduct. rules, but with a $2 m. limit).
  - Also includes refinanced indebtedness, but <u>excludes</u> amounts borrowed for other purposes.
  - Does not apply to taxpayers in Bankruptcy. Instead, the Bankruptcy exclusion applies.
  - Taxpayer may choose to apply insolvency exclusion, if it applies.
  - Rules apply to foreclosure, abandonment and deed transfers in lieu of foreclosure.

- Other rules may apply.
- Scheduled to expire at the end of 2012.

- **Health Saving Accounts**:

  - Permits eligible individuals to establish a Health Saving Account (HSA) for tax years beginning after Dec. 31, 2003.
  - The account was designed to assist individuals with saving for qualified medical and retiree health expenses on a pre-tax basis.
  - Contributions into an HSA account are tax deductible (above the AGI line like IRA's).
  - Maximum contribution for **2012** is **$3,100** ($3,250/2013) for individuals, and **$6,250** ($6,450) for families.
  - Additional "catch-up" contributions of $1000 available for individuals age 55-65 in 2012.
  - Taxpayers must have a High-Deductible Health Plan (HDHP) with a minimum of $1,200 ($1,250/2013) annual deductible for individuals, and $2,400 ($2,500) for families, in 2012.
  - No earned income required for qualifying contributions.
  - Funds grow <u>tax free</u> and Qualified distributions are <u>tax-free</u>!
  - HDHP annual out-of-pocket expenses paid under the taxpayers' insurance plan must be limited to $6,000 for ind.($6,250/2013), $12,100 ($12,500) for families.
  - HSA funds can only be used to pay or reimburse qualified medical expenses of the account owner, spouse and/or dependents.
  - Qualified expenses include health insurance deductibles, co-payments for medical services, prescription drugs, and many other medically related expenses.
  - Distributions <u>not</u> used for qualified expenses will be taxable to the individual, in addition to incurring a ten (10%) percent penalty.
  - Can withdraw funds like an IRA after age 65, taxed with no penalties.
  - Funds not spent in one year can be <u>rolled over</u> to the next.
  - Employer's can contribute to individual's HSA. Employer contributions are not subject to FICA taxes.
  - An individual ceases to be eligible for contributions starting the month he or she is entitled to receive benefits under Medicare.
  - Contributions for tax year 2012 must be made prior to the earlier of your filing date of your 2012 return or April 15, 2013.
  - One-time transfer from IRA to HSA (limited to annual dep. limits).

- **Capital Gains Rates Extended thru 2012 and Beyond:**

  - 15% Capital gains taxes rates, for both **Qualifying Dividends** and **Long-Term capital** gains rated on the sale of property held greater than one (1) year, has been extended been extended permanently for all taxpayers under $400k AGI (Single) and $450k (MFJ) .

- Tax rates for taxpayers with AGI's greater than above will pay at a rate of Twenty (20%) Percent for both Qual. Div. and LTCG.

- **Zero Percent Capital Gains Rates:**

  - TIPR Act of 2005 extended the reduced capital gains rate to 0% for tax year 2012 for certain taxpayers.
  - Applies to all taxpayers whose total taxable income did not exceed the upper limit of the 15% ordinary income tax bracket for the applicable filing status.
  - Therefore, lower-income taxpayers can realize long-term capital gains (and qualified dividends) in 2012 and pay no income tax on the gains to the extent that their total taxable income does not exceed the upper limit of the applicable 15% bracket.
  - Scheduled to expire after 2012.

- **Child Credits for 2012:**

  - The child tax credit is **$1,000** per child thru year **2012**.
  - Phase-out rules apply; for joint filers (AGI above $110K), single filers (AGI above $75K) and MFS (AGI above $55K).
  - No credit is allow for a child for a year unless the taxpayer includes the child's name and TIN on the return.
  - Child Credits have been extended for **2013** and beyond.

- **Kiddie Taxes**:

  - No change to rules from prior year.
  - Kiddie Taxes apply to **<u>all children under the age of 18</u>**, and **<u>full-time students age 19-23</u>**, applying to all years after December 31, 2007.
  - Unearned income limits remains $1,900.00 for 2012. (Adj. for inflation in future years)
  - Children 18 and older are subject to Kidde Tax only if their earned income does not **exceed ½ of their support** from other sources.
  - Support test calculated under dependency exemption deduction rules.
  - Income amounts over limit taxed a parent's tax rate.
  - Full-time student defined as individual enrolled at a qualified school for any part of 5 calendar months in the year.

- **Dependent Care Credit for 2012:**

  - Credits are the same as allowed in prior years (2011).
  - 35% of Child care Exp. for AGI (0-15k).
  - 21-34% of Child care Exp. for AGI (15-43k).
  - 20% of Child care Exp. For AGI above 43k.
  - Max. credit per child is 1,050/ for multiple children $2,100.
  - Max. credit for AGI over $43k is $600/child, max. $1,200.

- **Qualifying Child (Exemption Status) Redefined:**

  - Beginning with tax year 2005 and thereafter, a child will be considered a qualifying child of a taxpayer for dependency purposes if the child has:
    - The same principle abode as the taxpayer for more than one-half of the taxable year;
    - Has a specific relationship to the taxpayer (close family member), and;
    - Under the age of 19 (under age 24 for a full-time student).
  - No age limit for permanently disabled individuals.
  - Child must be under age 13 for dependent care credit, unless disabled.
  - Child must be under age 17 for child credit, whether disabled or not.
  - The new “qualifying child” rules are very different from the prior rules. Harder to qualify under certain circumstances.

- **Medical Assistance Needs Defined:**

  - 6 basic Activities of Daily Living (ADL).
  - Tasks to accomplish each day to live independently.
  - Eating / Bathing / Toileting / Getting in and out of bed / Getting around the house / Taking required medication
  - Considered disabled if unable to perform 2 of 6 or more tasks.
  - Standard for moving individual to assisted living facility (Insurance).
  - Most, if not all of the cost of assisted living /nursing home facility expenses are tax deductible as medical expenses.
  - Most, if not all of the cost of in home care, including a day-nurse, is deductible as a medical expense, if unable to perform 2 of 6 ADL’s.
  - Long-term Health Care Insurance (LTHC) policies also tax deductible.

- **Accelerated (50% Bonus) Depreciation for 2012:**

  - First year depreciation deduction equal to **50%** of the adjusted cost basis of qualified property purchased after 12/31/11 and before 1/1/13.
  - Was previously 100% for 2011.
  - Must elect out if not desired.
  - No AMT Adjustment for deduction.
  - Deduction not limited by income like Sec. 179 deduction.
  - Can create NOL with election of the deduction.
  - Increased auto deduction limits ($2,960 to $11,060).
  - Increase truck/van deduction limits ($3,160 to 11,160).
  - Final year (2012) for this deduction, unless renewed by Congress.

- **Sec. 179 for Vehicles**:

    - Weight limits for vehicles that qualify for $25K max. Sec. 179 deduction has been changed to 14,000 lbs. gross weight, from 6000 lbs. gross weight.
    - All vehicles weighing greater than 6000 lbs., will qualify for up to $25K deduction allowable.
    - Annual depreciation dollar caps apply to all other vehicles.
    - All other Sec. 179 rules apply.

- **Sec. 179 Limits Increased (other than Vehicles)**:

    - Maximum deduction for **2012** is $139,000.
    - Maximum purchase limitation for 2012 is $560,000 (see below).
    - The total cost of property expensed may not exceed the total taxable income for year. May include officer's salaries in some cases.
    - Maximum deduction is reduced if more than $560km of qualified property is purchased in 2012.
    - Qualifying property must have minimum 50% business usage.
    - Any deduction limited by income test may be carried forward.

- **Deduction for Higher Education Expenses:**

    - New legislation called the "American Opportunity Credit"
    - Replaces the "Hope" Credit from prior years' legislation.
    - Covers the first 4 years of post-secondary education.
    - Taxpayers who claimed the "Hope" credit in the previous 2 years can claim the AOC for 2012, if they meet the other requirements.
    - Max. credit is $2,500 (100% of first $2000, plus 25% of next $2000) in qualified expenses.
    - AGI Phase out range is higher for most taxpayers ($160-180k MFJ, $80-90k Single).
    - Up to $1000 of the AOC is refundable, unless child is subject to Kiddie Tax
    - Eligible expenses include not only tuition and fees, but also course materials (books, supplies, and equip.)
    - AOC Credits have been extended for **2013** and beyond.
    - All other "Hope" credit eligibility rules apply.
    - Lifetime Learned Credits are still available as well.
    - Above-the-line Tuition Deduction will <u>NOT</u> be available for 2012.

- **Increase in Standard Deductions for 2012 & 2013**:

Single:……………..	$5,950 / 2012	$6,100 / 2013
Married Filing Joint:	$11,900 / 2012	$12,200 / 2013
Head of Household:	$8,700 / 2012	$8,950 / 2013
Married Filing Sep.:	$5,950 / 2012	$6,100 / 2013
Dependent:	$ 950 / 2012	$1,000 / 2013

- **Conversion rules for Rental to Principal Residence:**

    - Sec. 121 does not exclude gain from the sale of a principal residence from gross income, for periods of nonqualified use.
    - Gain must be allocated between periods of qualified and nonqualified use by applying a ratio of the aggregate periods.
    - Period of nonqualified use is any period beginning on or after Jan. 1, 2009, when the property is not used as a principal residence.
    - Nonqualified use does not include any part of the 5-year period that is after the last date the taxpayer(s) used it as a principal residence, or any period (not to exceed 2 years) that the taxpayer is temporarily absent by reason of a change in employment, health, or unforeseen circumstances. Actual use of the property during these periods does not matter.
    - Therefore, a taxpayer can no longer turn a rental property into a principal residence for at least 2 years and exclude all of the gain on a subsequent sale.
    - However, a taxpayer can rent a principal residence for up to 3 years and still exclude all gains except the portion allocable to depreciation.

- **Georgia Retirement Exclusion for 2012 and thereafter**:

    - The retirement exclusion allowed by Georgia for taxpayers 62 years of age or permanently disabled, remains at **$35,000** for year **2011**.
    - New Retirement Exclusion for taxpayers **over 65**, starting in **2012**.
    - For Ga. residents 65 and older, credit will increase:
        - **2012…$65k** retirement income exclusion.
        - 2013…$100k retirement income exclusion.
        - 2014…$150k retirement income exclusion.
        - 2015 …$200k retirement income exclusion.
        - **2016…Unlimited** retirement income exclusion.

- **Personal Exemptions for 2012:**

    - The deductible amount per personal exemption has been increased for tax year **2012** to **$3,800**, per dependent claimed on form 1040.
    - The personal exemption amounts are anticipated to be $3,900 for 2013.

- **Standard Mileage Rates for 2012**:

  - Standard mileage rate for business in effect for **2012** is **$ .55 ½** per mile.
  - Standard mileage rate for moving and medical transportation for **2012** is **$ .23** per mile.
  - Standard mileage rate for charitable services for **2012** is **$ .14** per mile**.**
  - Standard mileage rate for business for **2013** is anticipated to be **$ .56 ½** per mile.

- **Self-Employed Health Insurance Deduction:**

  - Income adjustment for Self-Employed Health Insurance deduction remains at **100%** for tax year **2005** and thereafter.
  - For 2010, self-employed taxpayers filing a Schedule "C" may deduct SE Health Insurance as a business expense.

- **Student Loan Interest Deduction**:

  - Individuals with less than $65K AGI, and joint filers with less than $130K AGI will be able to deduct up to **$2,500 per year** in education loan interest payments, for tax years 2011 & 2012.
  - Phase-out of deduction begins for taxpayers with AGI of $60-75k for single filers, and $120-150k for MFJ.
  - No requirement to itemize (above-the-line adjustment to income).

- **Adoption Credits:**

  - Refundable credit for **2012** of up to **$12,650** per child.
  - Phase out of credit begins at $189,710 AGI.
  - No credit for 2012 if income (AGI) over $229,710.
  - Credit will reduce substantially in 2013.
  - Other limitations may apply.

- **Increase in EIC Tax Credits for 2012:**

  - Maximum Earned Income Credits available for 2012:
    - Taxpayer w/ no qual. child - $ 475
    - Taxpayer w/ 1 qual. Child - $ 3,169
    - Taxpayer w/ 2 qual. Children - $ 5,236
    - Taxpayer w/ 3 or more Child - $ 5,751

- ## **Traditional and Roth IRAs:**

  - For tax year **2012**, the maximum amount that can be contributed to a Traditional IRA or Roth IRA is **$5000** ($6000 for catch up)(See below).
  - Income limits making individuals ineligible to contribute to a **Traditional IRA in 2012** (MFJ=$92-112k / S=$56-68k / MFS=$0-10k), if one or both spouses are participants in an Emp. based retirement plan (401K, 403B, 457).
  - Income limits making individuals ineligible to contribute to a **Roth IRA** in 2012 (MFJ=$169-179k / S=$107-122k / MFS=$0-10k).
  - Individuals over 50 will be allowed to make additional contributions to either IRA (see catch up rules above).
  - **Direct Deposit of Tax Refunds** now available for funding IRA deposit for the tax year.
  - **Tax-Free Distribution** from IRA for Charitable Contributions allowable under new law.

Year	**Contribution Limit** if Under Age 50	**Contribution Limit** if Age 50 or Older
2012	**$5,000**	**$6,000** (Adj. for inflation)
2013	**Unknown**	

- ## **Employer Sponsored Retirement Plans (401k, 403b, 457):**

  - Effective deferral limits on 401(k), 403(b) and 457 retirement plans (see chart below).
  - For individuals over the age of 50, a catch-up provision will allow an additional contribution.
  - Self-employed 401(k) is now available, with a substantial increase in deferred compensation possible.
  - Maximum contribution per employee is $50,000, per year.

Year	Deferral Limits	Extra Catch-up Contribution Limits
2012	**$17,000**	**$5,500**

- ## **Simplified Employee Pensions (SEP Plans):**

  - Maximum Contribution for **2012** is limited to **25% annual compensation,** or a max. of **$50,000**.

- **SIMPLE IRA Plans:**

  - The **2012** deferral limits of the SIMPLE IRA 408(p) plans have been increased to $11,500.

Year	Deferral Limits	Extra Catch-up Contribution Limits
2012	**$11,500**	**$2,500**

- **Roth Conversions**:

  - Beginning in year **2010**, there is no longer an adjusted gross income cap limitation on individual's ability to convert a traditional IRA to a "tax free" Roth IRA.
  - The AGI cap limitation for 2009 conversion was $100,000.
  - MFS taxpayers will be able to convert in 2012 if they lived apart all year.
  - Conversions remain available for tax year 2012.

- **Tax Credit for Elective Deferrals and IRA Contributions:**

  - Lower income taxpayers may receive a **non-refundable credit of up to $1,000** for contributions made to a qualified retirement plan.
  - Qualified plans include SIMPLE IRA, Traditional and Roth IRAs, SEPs, 401(k)s, 403(b)s, and 457 plans.
  - Phase-out of credit begins for MFJ at $56,500 AGI, HH at $42,375 AGI, and all others at $28,250 AGI.
  - Credits reduced by taxable distributions received by either taxpayer from a qualified deferred saving plan, during the taxable year for which the credit is claimed, the two (2) years prior to that year, and/or during the period ending the taxable year but prior to the filing of the taxpayer's return.
  - Credit available to individuals who are at least eighteen (18) or over, other than individuals who are full-time students or claimed as a dependent on another's tax return.

- **Annual Gift Exclusion for 2012:**

  - The Annual Gift Tax Exclusion has increased to **$13,000** for year **2012.**
  - Anticipated that the exclusion will remain at **$14,000** for **2013**.
  - **Observation:** Annual contribution limits for 529 (College saving) plans will increase in 2012 to $13,000.

- **Five-Year Carry-back of NOL's:**

  - Generally, NOL's (Net Operating Loss) may be carried back for two (2) years.
  - Beginning in 2008, Corporations, Partnerships and Sole-proprietorships can elect to carry back three (3), four (4) or five (5) tax years.
  - Applies only to businesses that meet the $15 million or less gross receipts test.
  - Carry back only 50% for first year beyond the original two (2) years.
  - Other significant rules and AMT issues may apply.

- **2012 Tax Tables (Tax Rates):**

  - Tax rates for tax years **2012** are substantially the same as prior year.
  - No significant changes/increase to the tax rate is expected for **2013** for all taxpayers with **AGI under** $400k (Single) and $450k (MFJ).
  - For **2013 and beyond,** the top tax bracket will include a rate of 39.6% (a 4.6% increase) for all taxpayers having income greater than shown above.

- **2013 Medicare Surcharge Tax (3.8%):**

  - Beginning in 2013, unearned income of individuals, trusts and estates is subject to a surtax of 3.8% on "unearned income".
  - The surtax, also called the "unearned income Medicare contribution tax", is 3.8% of the lesser of (1) net investment income or (2) the excess of modified AGI over the threshold amount ($250k for MFJ, $200k for single, and $125k for MFS) for individuals.
  - Example: Single individual with net investment income of $100k and an MAGI of $220k would pay 3.8% on $20k or $760 surtax.
  - For Estates and Trusts, the surtax is the lesser of (1) the undistributed net investment income or (2) the excess of adjusted gross income over highest tax brackets for estates and trusts.
  - Investment income includes interest, dividends, capital gains, annuities, royalties, rents (unless derived in the ordinary course of business), and passive income from S-Corp distributions..

- **2013 Obama Care Wage/ Income Medicare Tax:**

  - Beginning in 2013, additional Medicare Tax of 0.09% will be charged to all individuals earning in excess of $200k.
  - Required by IRS to be withheld by individual's employer.

- **2012 & 2013 Medical Itemized Deduction Limitation Increase:**

    - For 2012, unreimbursed medical expenses exceeding 7.5% of AGI are deductible on schedule "A" as an itemized deduction (same as prior).
    - In 2013, for taxpayers under the age of 65, the percentage of AGI must exceed 10%. For taxpayers 65 and older, the percentage remains at 7.5% of AGI thru 2016.
    - The 10% limitation will apply to all taxpayers after the tax year 2016.
    - Deductions include all unreimbursed medical and dental expenses paid for yourself, your spouse and your dependents, for the year.
    - Deductible medical expenses include the diagnosis, mitigation and treatment, prevention of disease or for the purpose of affecting the body structure or function, as well as nursing services, insurance payments and transportation for services.
    - Deductible amount, "the out of pocket expenses", is net of any insurance reimbursement received.

- **New Estate Tax Law & Tax Rates**:

    - Prior legislation gradually reduced the estate tax rates and increased the amount of non-taxable transfers ($3.5 million in 2009), until 2010 when the Federal Estate tax was eliminated for all estates.
    - New legislation revives the estate taxes for decedents dying after December 31, 2010.
    - **The 2012 exclusion amount is increased to $5.12 million**, with a maximum tax rate of thirty-five **(35%)** percent.
    - Anticipated that the exclusion will be **$5.25m in 2013,** however, the maximum tax rate will increase to forty **(40%)** percent.
    - If decedent died in 2010, on estates of $5 million value or greater, the estate may choose to pay tax with <u>full</u> step up in basis of assets, or pay no tax and receive modified step up in basis.
    - New law allows for **"portability"** between spouses of the maximum death exclusion ($5mil.+). Surviving spouse may elect (on a timely basis) to take advantage of the unused portion of his/her spouses exclusion.
    - **Observation:** With careful planning, a married couple can effectively shield up to $10+ million in assets from estate tax.
    - Generation Skipping Tax (GST Tax) has been increased to the $5m+ exemption as well.

- **Phase-Out of Itemized Deductions and Personal Exemptions:**

    - For **2013 and beyond**, taxpayers with AGI above $300k (MFJ), and $250k (Single), itemized deductions and personal exemptions will be phased-out.
    - Reduction of itemized deductions up to twenty (20%) percent maximum.

- **Owing $ to the IRS:**

    - **Partial Payment Agreements**: Taxpayer may request the IRS to enter into an installment agreement that result in full or partial payment of the tax liability. Maximum three (3) year payment agreement available. Subject to financial review every two (2) years.
    - **Offer in Compromise**: Taxpayer may request the IRS to take a payment of less than the total tax liability for reason including doubt as to liability and doubt as to collectability of the tax. Many rules apply in order to qualify. New streamline process of taxpayers owing less than $50k.
    - **Installment Agreements**: File request for installment agreement (form 9465). Balance must be less than **$50,000**. Must agree to pay within five (5) years. For amount over $25K, form 433-A must be filed with the request. Must remain current on all future returns while under agreement. Request automatic if less than $10K. IRS may issue a tax lien under certain circumstances.

This review of the changes for both 2012 and future years is simply a highlight of the changes made by Congress in the Tax Acts of 2012 and prior years. **It is not intended to be used as a source of tax information to rely upon when making decisions about your income taxes.** Rather, it has been prepared to offer an overview of the changes in question and to make you aware of those changes which may affect your taxes in the future.

There are other, numerous changes to the tax code that have not been listed herein. If you feel that your tax situation may be impacted by these or any other changes to the tax code, please contact your tax professional for further discussion and understanding of the changes, as you feel necessary.

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