



AFTER THE 'FISCAL CLIFF': 'WHAT DO TAX CHANGES MEAN TO YOU?'

President Obama signed the 2012 Taxpayer Relief Act into law on Jan. 3, 2013. The act will impose tax increases affecting about 2% of individuals and 3% of small businesses, and makes other changes to the tax code.

Many of you may have concerns about what this means for you. In fact, there are a few key provisions in the new law that may affect your taxes for 2013. This article addresses how the new law could directly affect you and your business.

Income Taxes – The new act raises tax rates from 35% to 39.6% for America's high-income earners. This means an increase of 4.6% to single individuals making more than \$400,000 a year, for a head of household making \$425,000/year, and for married couples filing jointly making \$450,000/year.

Payroll Taxes – The 2% decrease in Social Security tax for the past 3 years has been eliminated and is back to the rate of 6.2%. This means a smaller paycheck for W-2 wage earners in 2013. This also means more taxes to pay for those who are self-employed. As employers, don't forget to withhold the correct amount of taxes on your employees' paychecks based on the new Social Security tax rate. The employee share of FICA taxes is back to 7.65% (6.2% for Social Security and 1.45% for Medicare), the same rate as the employer's share, which remains unchanged from 2012. For those that use QuickBooks or similar software to prepare payroll, be sure to run a payroll update in order to get the latest tax tables available.

Dividends and Capital Gains – Tax rates on investment earnings from dividends or capital gains will remain at 15% for those that don't qualify as a high-income earner. However, the maximum dividend and capital gains tax will rise from 15% to 20% for those individuals taxed at the higher 39.6% rates.

Fortunately, the new (estate tax) law will maintain the \$5 million exemption (\$10 million for married couples), indexed for inflation (which means a 2013 exemption amount of \$5,250,000) for estate, gift and generation skipping transfer taxes; however, the tax rate will increase from 35% to 40%.

Itemized Deduction & Personal Exemption Phase-outs – The itemized deduction and personal exemption will now be capped for those higher-income households. They will be phased-out if your adjusted gross income (AGI) exceeds \$250,000 for single individuals; \$275,000 for head of household; \$300,000 for those married filing jointly; and \$150,000 for married taxpayers filing separately. However, under new tax rules for 2013, medical expenses, investment interest, casualty losses, and gambling losses (to the extent of winnings) are exempt from this phase-out.

Tax Credits – With the new act in place, the \$1,000 Child Tax Credit, the \$2,500 American Opportunity Tax Credit (education credit), and the Earned Income Tax Credit have been extended through 2017.

Business Tax Breaks & Personal Deductions & Exclusions – The following deductions and exclusions were extended through 2013.

Business:

- The 50% first-year bonus depreciation deduction for qualified property.
- The \$8,000 increase of first-year depreciation deduction for qualified autos and trucks.
- The section 179 deduction on personal property; in addition, the limit was retroactive-

ly increased to \$500,000 beginning in 2012.

Personal:

- The exclusion for discharge of qualified principal residence indebtedness.
- The option to deduct state and local general sales taxes.
- The above-the-line deduction for qualified tuition and related expenses.

Estate Taxes – Fortunately, the new law will maintain the \$5 million exemption (\$10 million for married couples), indexed for inflation (which means a 2013 exemption amount of \$5,250,000) for estate, gift and generation skipping transfer taxes; however, the tax rate will increase from 35% to 40%. The new act will continue to provide portability that will allow the estate of the first spouse to die to transfer his or her unused exclusion to the surviving spouse.

Other Tax Changes For 2013 – In addition to the 2012 Taxpayer Relief Act, some new tax rules for 2013 may affect you and your business.

- The standard deduction increased to \$6,100 for singles (\$7,600 if 65 or older), \$12,200 for married couples (\$13,400 if one is 65 or older and \$14,600 if both are 65 or older), and \$8,950 for head of households (\$10,450 if 65 or older). In addition, blind people receive \$1,200 more (\$1,500 if unmarried and not a surviving spouse).

- Personal exemptions increased to \$3,900.

- The Social Security wage base increased to \$113,700 from \$110,100.

- If you are single or married and both are under age 65, then the medical deduction threshold for medical expenses increased to 10% from 7.5%. That means medical expenses in excess of 10% of your AGI are deductible as itemized deductions. However, if at least one of the married filers is 65 or older your threshold stays at 7.5%.

- The standard mileage allowances for business driving is 56.5¢, 14¢ for charity work, and 24¢ for medical or job-related moves.

This overview highlights just some of the key provisions in the 2012 Taxpayer Relief Act among other 2013 changes to the new tax rules. If you would like a detailed listing of what the Act entails, or if any of these items ignites a bit of curiosity, contact your accountant or CPA. □

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