

INDIVIDUAL TAX RETURN CHANGES FOR 2013

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For many people, the 2013 individual tax return filing may be a bit of a shock. Increased tax rates and phase-outs will have many wondering why they did not withhold enough to pay their tax bill come April 15th. Some of the changes will have effect only on higher income taxpayers, but several provisions will also impact the majority. Below are a few of the 2013 provision changes to look forward to:

There are now seven “normal” federal income tax rates, including a new top income tax rate of 39.6% for high income filers (single filers over \$400,000, married filing joint \$450,000).

Itemized deductions limitation and the phase-out of personal exemptions are both reinstated for 2013. The itemized deduction limitation begins for single filers with adjusted gross income over \$250,000 and married filers with adjusted gross income over \$300,000. The exemption phase-out also begins at those adjusted gross income numbers.

Alternative minimum tax was permanently indexed for inflation – this is a provision that was long overdue!

The capital gain rates went to 20% for those that would otherwise be taxed at the 39.6% rate. The zero percent gain rate still applies to those taxed at the 10%-15% rate. For all others, the 15% capital gain rate applies. For unrecaptured section 1250 property, the capital gain rate of 25% continues to apply.

There is a new 3.8% tax that is imposed on “Net Investment Income” for single filers with modified adjusted gross income over \$200,000 and married filers over \$250,000. Net Investment Income is interest, dividends, royalties, rents, capital gains and income from a business where the taxpayer does not personally materially participate. This could take our three top brackets of income tax rates to 36.8%, 38.8% and 43.4%, respectfully.

There is a new 0.9% Medicare tax on the wages of self-employment income in excess of \$200,000 for single filers and for married filing jointly, \$250,000 (and they consider both spouses as one for this computation). This tax, although withheld from wages by the employer, will be reconciled on the Form 8959 as part of your individual Form 1040 return for any inadequacies.

Medical expenses now have to exceed over 10% of adjusted gross income instead of 7.5% before a deduction is allowed on Schedule A.

A new Business Use of Home safe harbor is available at a rate of \$5.00 per sq. ft. for the portion of the home used for the business, not to exceed 300 sq. ft. (\$1,500). If this is used, no substantiation of actual expenses is required. No depreciation is used, so the basis of your home is not decreased. The mortgage and tax benefits that used to be allocated between the home office and the Schedule A are now fully deductible on Schedule A when using the safe harbor.

If you have any questions regarding the circumstances for your 2013 filing, please consult your tax advisor or call me at (952) 844-2507.