

Tax Tips

Keeping You Informed • Summer 2013



Reporting Casualty Losses

Were you hit by bad weather?

Horrific weather can impact a large segment of the population. If you were one of the many taxpayers who experienced property loss to your home or business (and any belongings therein), you may be entitled to certain deductions on your income tax return.

First, you'll need to know how much you originally paid for the property. Then you'll need to determine the value of the property before and after the casualty. The smaller of the decline in value and the original price is used to determine the loss.

The lesser of the two amounts is reduced by any insurance or other reimbursement you receive on the property. Sometimes reimbursements can actually lead to a gain from the casualty instead of a loss, in which case different rules may apply limiting the reporting of that income to the IRS.

The amount you have determined after insurance reimbursements will then be reduced by \$100 and reported on Schedule A, *Itemized Deductions*. The aggregate total of all casualty losses that are greater than 10 percent of your adjusted gross income is allowed as a deduction.

Casualty losses are generally deductible in the year the casualty occurred. However, if you have a casualty loss from a federally declared disaster, such as Superstorm Sandy, you can choose to treat the loss as having occurred in the year immediately preceding the tax year in which the disaster actually happened.

As your tax professional, I can help you navigate the tax options to give you the best possible outcome.



Health Care Provisions

How will they affect your taxes?

In 2010, President Obama signed a new health care reform law. The legislation is in two parts consisting of the *Patient Protection and Affordable Care Act* and the *Health Care and Education Reconciliation Act of 2010*.

While the primary purpose of this reform is to mandate that all U.S. residents obtain health insurance coverage, the law creates a host of tax credits and penalties on employers and taxpayers for failure to do so. In addition, there are several new rules that were created to raise the necessary funds to pay for this reform. Many of these provisions do not become effective until 2013 and 2014. Below are several of the provisions that may affect you.

Provisions Effective in 2013 Medicare Contribution Tax on Investment Income

A Medicare contribution tax on net investment income is imposed on individuals, estates and trusts. Investment income includes interest, dividends, capital gains, taxable annuities, royalties and passive rental income. For an individual, the tax is 3.8% of the lesser of either:

1. Net investment income, or
2. The excess of modified adjusted gross income (MAGI) over the threshold amount. The threshold amount is \$250,000 for a joint return or surviving spouse, \$125,000 for a married individual filing a separate return, and \$200,000 for all others.

Medical Expense Deduction Floor Increases to 10%

The AGI threshold for deducting medical

expenses increases from 7.5% to 10%. For taxpayers who have reached age 65 by the end of the year, the effective date of this provision is delayed until January 1, 2017.

Additional Medicare Tax for High Income Workers

An additional 0.9% Medicare tax will be imposed on the wages of individual taxpayers (including self employment income) received with respect to employment in excess of:

- \$250,000 for joint returns;
- \$125,000 for married taxpayers filing a separate return; and
- \$200,000 in all other cases.

Limitation on Health FSA Reimbursements

The maximum amount available for reimbursement as a pretax benefit under a qualified cafeteria plan (health FSA) is limited to \$2,500. Previously there were no limits other than those set by the plan.

Provisions Effective in 2014 Individuals With No Health Insurance Coverage

Starting on January 1, 2014, residents must maintain minimum essential health coverage or pay a penalty. Minimum essential coverage includes government sponsored programs (Medicare, Medicaid), eligible employer sponsored plans, plans in the individual market, certain grandfathered group health plans and other coverage as recognized by the Department of Health and Human Services.

Some exemptions to the minimum essential health coverage include:

- Individuals who cannot afford coverage because their required contribution exceeds 8% of household income for the year.

- Taxpayers with income below the income tax filing threshold.
- Those exempted for religious reasons (members of a recognized religious sect who can elect exemption from self employment taxes).
- Individuals residing outside of the U.S.
- Individuals who are incarcerated or are not legally present in the U.S.
- All members of Indian tribes.

No penalty is assessed if you do not maintain health insurance for a period of three months or less during the tax year. If you exceed the threemonth maximum during the taxable year, the penalty for the full duration of the gap during the year is applied. The maximum tax penalty is gradually phased in and increases between 2014 and 2016.

Refundable Tax Credit for Providing Premium Assistance

If your household income is at least 100%, but not more than 400% of the federal poverty threshold, and you don't receive health insurance under an employer plan, you may be allowed a refundable tax credit for the premiums you paid during the tax year for qualified health plan insurance coverage.





Quik Tips

Inherited Property

Receive a step-up in basis

Losing a loved one is never easy. If you inherit property, there are some things you need to know that could potentially save you thousands of dollars when you decide to sell the property.

Generally, when you inherit property, it receives a stepup in basis. Basis is the cost of the property when it is purchased. However when a property is inherited, the basis is allowed to equal (to be stepped up to) the fair market value of the property on the day of the decedent's death. This becomes important when you decide to sell the property and have to calculate capital gains tax.

For example, let's say your grandfather purchased a home in 1960 for \$40,000, which was his basis. On the day he died, the fair market value of the home is \$250,000. You later inherit the home, so your basis is \$250,000. If your grandfather had gifted you the home prior to death, your basis would have only been \$40,000.

Because of this IRS provision, any appreciation that occurs during the decedent's lifetime will never be taxed.

Qualified Charitable Distributions

Tax-free transfers to charity renewed for IRA owners 70½ or older

IRA distributions are generally taxable; however, the *American Taxpayer Relief Act of 2012* extended the provision authorizing qualified charitable distributions (QCDs) for 2012 and 2013. A QCD allows someone who is 70½ or older to transfer their IRA distributions directly to an eligible charitable organization taxfree. Each year, you can exclude up to \$100,000 of these QCDs from gross income. First available in 2006, this provision had expired at the end of 2011.

The QCD option is available regardless of whether you itemize deductions on Schedule A. Transferred amounts are not taxable and no charitable contribution deduction is available for the transfer. QCDs are counted in determining whether you have met your IRA required minimum distributions for the year.

1

The maximum 401(k) contribution limit was raised to \$17,500 for 2013.

2

The HSA annual deductible contribution limit for 2013 is \$3,250 for individuals and \$6,450 for families.

3

The annual exclusion for gifts is \$14,000 for 2013, up from \$13,000 for 2012.

4

The amount used to reduce the net unearned income reported on a child's tax return subject to the "kiddie tax," is \$1,000, up from \$950 for 2012.

5

The foreign earned income exclusion is \$97,600 for 2013, up from \$95,100 in 2012.

6

Beginning in tax year 2013, a new tax rate of 39.6 percent has been added for individuals whose income exceeds \$400,000 (\$450,000 for married taxpayers filing a joint return).

7

Through December 31, 2013, the payment of private mortgage insurance (PMI) premiums continues to be deductible as qualified residence interest on Schedule A.

Nonbusiness Energy Credit *Save up to \$500 when making your home more energy efficient*

The late Congressional action in January resulted in an extension of the Nonbusiness Energy Credit, which was set to expire at the end of 2011. The law change extended this credit through the end of 2013.

The Nonbusiness Energy Credit allows you to claim a credit of 10 percent (up to \$500) of the cost of certain energysaving property that you add to your main home. This includes the cost of qualified insulation, windows, doors and roofs. This credit has a maximum lifetime limit of \$500. You may only use \$200 of this limit for windows.

In some cases, you may be able to claim the actual cost of certain qualified energyefficient property. Each type of property has a different dollar limit. Examples

include the cost of qualified water heaters and qualified heating and air conditioning systems. However, not all energyefficient improvements qualify, so be sure you have the manufacturer's credit certification statement. You'll find it on the Energy Star government website, manufacturer's website or with the product's packaging.

Dividends and Long-term Capital Gains *How investment rates may affect your taxes*

Due to *The American Taxpayer Relief Act of 2012 (ATRA)*, dividends and longterm capital gains may be taxed differently for some in 2013, than in previous years.

The 0% and 15% dividends and capital gains rates were made permanent by ATRA. This means that if your tax bracket is 15% or below, you do not pay taxes (0%)

on your dividends and capital gains. If your tax bracket is 25-35%, you'll pay 15% on your dividends and capital gains.

The ATRA also implemented the new 39.6% income tax bracket for single filers who make over \$400,000 and married filers making over \$450,000. These filers will pay a 20% tax on dividends and capital gains.

