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HOT OFF THE PRESS!

YEAR END TAX PLANNING - 2013 VERSION

For most individuals, the ordinary federal income tax rates for 2013 will be the same as last year: 10%, 15%, 25%, 28%, 33%, and 35%. However, the fiscal cliff legislation passed early this year increased the maximum rate for higher-income individuals to 39.6% (up from 35%). This change only affects taxpayers with taxable income above $400,000 for singles, $450,000 for married joint-filing couples, $425,000 for heads of households, and $225,000 for married individuals who file separate returns. Higher-income individuals can also incur the new 0.9% Medicare tax and the 3.8% Net Investment Income Tax (NIIT), which can result in a higher-than-advertised federal tax rate for 2013.

Despite these tax increases, the current federal income tax environment remains relatively favorable by historical standards. Some of the ideas that follow may apply to you, some to family members, and others to your business.

Leverage Standard Deduction by Bunching Deductible Expenditures

Are your 2013 itemized deductions likely to be just under, or just over, the standard deduction amount? If so, consider the strategy of bunching together expenditures for itemized deduction items every other year, while claiming the standard deduction in the intervening years. The 2013 standard deduction is $12,200 for married joint filers, $6,100 for single filers, and $8,950 for heads of households.

For example, assume you file jointly and your only itemized deductions are about $4,000 of annual property taxes and about $8,000 of home mortgage interest. If you prepay your 2014 property taxes by December 31 of this year, you could claim $16,000 of itemized deductions on your 2013 return ($4,000 of 2013 property taxes, plus another $4,000 for the 2014 property tax bill, plus the $8,000 of mortgage interest). Next year, you would only have the $8,000 of interest, but you could claim the standard deduction (it will probably be around $12,500 for 2014). Following this strategy will cut your taxable income by a meaningful amount over the two-year period (this year and next). You can repeat the drill all over again in future years. Examples of other deductible items that can be bunched together every other year to lower your taxes include charitable donations and state income tax payments.

Time Investment Gains and Losses

For most individuals, the 2013 federal tax rates on long-term capital gains are the same as last year: either 0% or 15%. However, the maximum rate for higher-income individuals is now 20% (up from 15% last year). This change only affects taxpayers with taxable income above $400,000 for singles, $450,000 for married joint-filing couples, $425,000 for heads of households, and $225,000 for married individuals who file separate returns. Higher-income individuals can also get hit by the new 3.8% NIIT on net investment income, which can result in a maximum 23.8% federal income tax rate on 2013 long-term gains.

As you evaluate investments held in your taxable brokerage firm accounts, consider the tax impact of selling appreciated securities (currently worth more than you paid for them). For most taxpayers, the federal income tax rate on long-term capital gains is still much lower than the rate on short-term gains. Therefore, it often makes sense to hold appreciated securities for at least a year and a day before selling in order to qualify for the lower long-term gain tax rate.

Selling some securities, (currently worth less than you paid for them) before year-end, can also be a good idea. The resulting capital losses will offset capital gains from other sales this year, including short-term gains from securities owned for one year or less. For 2013, the maximum rate on short-term gains is 39.6%, and the 3.8% NIIT may apply too, which can result in an effective rate of up to 43.4%. However, you don't have to worry about paying a high rate on short-term gains that can be sheltered with capital losses (you will pay 0% on gains that can be sheltered).

If capital losses for this year exceed capital gains, you will have a net capital loss for 2013. You can use that net capital loss to shelter up to $3,000 of this year's high-taxed ordinary income from salaries, bonuses, self-employment, and so forth ($1,500 if you are married and file separately). Any excess net capital loss is carried forward to next year.

Selling enough securities with losses to create a bigger net capital loss that exceeds what you can use this year might also make sense. You can carry forward the excess net capital loss to 2014 and beyond and use it to shelter both short-term gains and long-term gains recognized in those years.

Take Advantage of Generous But Temporary Business Tax Breaks

Several favorable business tax provisions have a limited shelf life that may dictate taking action between now and year-end. They include the following.

Generous Section 179 Deduction Rules. Your business may be able to take advantage of the temporarily increased Section 179 deduction. Under the Section 179 deduction privilege, an eligible business can often claim first-year depreciation write-offs for the entire cost of new and used equipment and software additions and eligible real property costs. For tax years beginning in 2013, the maximum Section 179 deduction is $500,000, including up to $250,000 for qualifying real property costs. For tax years beginning in 2014, however, the maximum deduction is scheduled to drop back to only $25,000, and most real property costs will be ineligible.

50% First-year Bonus Depreciation. Above and beyond the Section 179 deduction, your business can also claim first-year bonus depreciation equal to 50% of the cost of most new (not used) equipment and software placed in service by December 31 of this year. For a new passenger auto or light truck that is used for business and is subject to the luxury auto depreciation limitations, the 50% bonus depreciation break increases the maximum first-year depreciation deduction by $8,000. The 50% bonus depreciation break will expire at year-end unless Congress extends it.

Don't Overlook Estate Planning

For 2013, the unified federal gift and estate tax exemption is a historically generous $5.25 million, and the federal estate tax rate is a historically reasonable 40%. Even if you already have an estate plan, it may need updating to reflect the current estate and gift tax rules. Also, you may need to make some changes for reasons that have nothing to do with taxes.

It is time you started thinking about tax planning moves for the rest of this year. Please don't hesitate to contact us if you want more details.

OHIO BUDGET BILL - SIGNIFICANT CHANGES IN TAXATION

With the passage of the Budget Bill effective July 1 of this year, every Ohioan and business that operates within Ohio will be impacted by the changes in income tax, real estate tax, sales tax and CAT tax. The following discussion summarizes these changes. If you would like additional information on these changes, do not hesitate to contact us.

Income Tax

There is a three year phase in for a personal income tax reduction. For 2013, tax rates will be decreased by 8.5%, 2014-9%, and 2015-10%. However, inflation indexing of tax brackets and personal/dependent exemptions will be suspended during that time. The personal exemption credit of $20 will be available only to those households with Ohio taxable income of under $30,000.

Losses from gambling that are itemized deductions on the federal return, are no longer deductible against Ohio personal income tax beginning in 2013. A personal income deduction for the value of services by dentists and dental hygienists under the Hope for a Smile Program is available in 2013 (good lobbyists).

Business investors receive a small benefit with a personal income tax deduction of the lesser of $125,000 ($62,500 married filing separately) of small business investor income includable in federal adjusted gross income beginning in 2013. A pass through entity (trust, S corporation, LLC, partnership) with income apportioned to Ohio is eligible as is income from a sole proprietorship.

Real Estate Tax

The homestead exemption will be subject to means testing. This will limit the eligibility to homeowners 65 years and older with incomes less than $30,000 beginning with 2014 applications. Current participants will be grandfathered.

Real estate rollbacks will be eliminated for new and replacement levies passed in November 2013 and beyond. Existing levies and renewals will be grandfathered into the new bill.

Sales Tax

Effective September 1, 2013, the new state rate will increase to 5.75%. Also sales or use tax will be imposed on digital media that is delivered electronically whether purchased or rented. On September 29, 2013 magazine subscriptions will also be subject to sales or use tax.

CAT Tax

The Commercial Activities Tax (CAT) rate will remain at .26; however, the minimums and maximums have changed. The minimum changes from a flat $150 to a variable tax which is tied to business receipt levels. New maximum taxes apply on taxable gross receipts between $1 million and $5 million. This adds an element of graduated rates to bring the rate up to 26 basis points over $5million.

DIVORCE, MEDIATION TAX PLANNING

If you are facing these alternatives, we know it is a very stressful time. However, we can assist you in making decisions that may ease some of your concerns. As a firm we work with attorneys and other professionals to assist persons to understand the impact of financial decisions on their future, including budgeting, retirement and pensions, child support, spousal support, division of assets, marital home, and tax planning strategies. Recently, **Christine Bretz**, was conferred the designation of Certified Divorce Financial Analyst by the Institute for Divorce Financial Analysts. If you or your professional requires assistance in this area, do not hesitate to contact us to see how we can help you to work thru this process.

NEWS AND NOTES . . .

The purpose of this column is to keep you informed of happenings within the office and with our friends. If you have any items you would like to contribute, contact the editor.

Christine Bretz, a member of our speaker's bureau, will be speaking to the Air Conditioning Contractors of America (Cleveland) on the subject of "Tax Law and Planning Strategies for the Small Business Owner". . . A star is born**, Lisa Singer,** daughter-in-law of **Debbie and Michael Singer** recently made a guest appearance on the TV show "*The View*" discussing art projects for children. . . Congratulations to **Bonnie Chernikoff** on the celebration of the 50th Anniversary of *Bonnie's Goubaud*. Started in 1953 by her mom, Claire, Bonnie's is now located at Eton Collection specializing in women's fashions and accessories unique to Cleveland. . .

FROM THE EDITOR

If you are receiving this newsletter in hardcopy form and would like to receive it via email, along with updates issued during the year, email us your address at apress@sbp-cpas.com

BUSINESS IS GREAT . . . AND WE ARE LOOKING FOR MORE!

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