WINTER, 2013

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# P A R T N E R S

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## HOT OFF THE PRESS!

## FISCAL CLIFF-DEFERRED!

*Congress and the President have finally reached agreement averting the "fiscal cliff" we were due to go over on December 31. However, there are future cliffs to come. We will keep you informed of their tax implications as they occur.*

*In the interim, please find below a summary of the agreement to avoid the latest crisis.*

**INCOME TAX RATE INCREASE**--The Bush-era income tax rates will be **permanently** extended for all income up to $400,000 ($450,000 if married). A 39.6 percent rate (up from 35 percent) will be imposed on individuals making more than $400,000 a year and families making more than $450,000.

**PAYROLL TAX HOLIDAY ENDS**--The two-percent cut in the Social Security tax for all earners up to the Social Security wage base ($113,750) will not be extended into 2013.

**ALTERNATIVE MINIMUM TAX PATCHED**--A permanent AMT patch, adjusted for inflation, will be made retroactive to 2012, promising to protect an additional 30 million taxpayers from AMT liability. Without a patch for 2012, the IRS had warned that up to 100 million taxpayers might not be able to file 2012 returns until late March, and their refunds would be delayed.

**DIVIDENDS AND CAPITAL GAINS**--The maximum capital gains tax will rise from 15 percent to 20 percent for individuals making at least $400,000 and $450,000 for families.

Of course, you have to add to these rates, an additional 3.8 percent for the Affordable Care Act tax on net investment income for taxpayers earning in excess of $250,000 married filing joint ($200,000 for single taxpayers) starting in 2013.

Because not all investment income is subject to this surtax, even for wealthy individuals, we now have four different preferential rates to contend with. For example, staring in 2013, a taxpayer's capital gains could be taxed at 15 percent, 18.8 percent, 20 percent, or 23.8 percent. Tax simplification at its best!

**ITEMIZED DEDUCTION AND PERSONAL EXEMPTION PHASEOUT**--The itemized deduction phase-out and personal exemption phase-out will be reinstated. The thresholds for phase-out will begin at $300,000 for itemized deductions, and $250,000 for personal exemptions.

**ESTATE TAX**--The estate tax regime will continue to provide an inflation adjusted $5 million exemption (effectively $10 million for married couples) but will be applied at a higher 40 percent rate (up from 35 percent in 2012).

**PERSONAL TAX CREDITS**--The $1,000 child tax credit, the enhanced earned income tax credit, and the enhanced American Opportunity college tuition tax rate credit will all be extended.

**BUSINESS TAX CREDITS**--The research tax credit and the production tax credits will be extended through 2013.

**INDIVIDUAL TAX BREAKS**--The compromise bill extends some temporary breaks including option to deduct state and local sales taxes in place of state and local income taxes, and a deduction for elementary and secondary school teachers for certain expenses.

The legislation also provides for an extension of long-term unemployment benefits and prevents a cut in Medicare doctors' pay.

It provides that the sequester--the automatic spending cuts to defense and nondefense programs--will be replaced for two months in 2013. This is part of the battle to come.

Again, as further explanations of these changes are made available, we will continue to update you on our website and through our newsletter. If you have any questions on how these changes apply to you, do not hesitate to contact us.

## COST OF LIVING ADJUSTMENTS FOR 2013

Normally at this time of the year, the IRS can project tax adjustments for the following year. However, since no one is sure what the tax rules will be for 2013 the projections are limited.

With that in mind, these are the estimated adjustments assuming a 2.5% hike based upon the CPI index. The standard deduction will increase $150 to $6,100 for singles, up $250 to $8,950 for heads of household, and up $300 to $12,200 for joint filers. The personal exemption will increase $100 to $3,900.

IRA contributions maximum limit will increase from $5,000 to $5,500. The gift tax exclusion will increase $1,000 to $14,000.

## 2013 and Beyond - *for now!*

We do know that under the Affordable Care Act, beginning January 1, 2013, there will be a 0.9 percent Medicare tax on earned income, and we know there will be a 3.8 percent Medicare tax on net investment income. The 0.9 percent tax applies to individuals; it does not apply to corporations, trusts or estates. This tax applies to wages and other self-employment income exceeding certain thresholds.

There is no cap on application of the 0.9 percent tax. Therefore, all earned income, exceeding the thresholds, is subject to the tax. The thresholds are $200,000 for a single individual, $250,000 for married couples filing jointly; and $125,000 for married couples filing separately. This surtax applies to the combined earned income of a married couple. For instance, if the wife earns $220,000, and the husband earns $80,000, the tax applies to $50,000, the amount by which the combined income exceeds the $250,000 threshold for married couples.

The 0.9 percent tax applies on top of the existing 1.45 percent Medicare tax on earned income. Thus, for income above the applicable thresholds, a combined tax of 2.35 percent applies to the employee's earned income. Because the employer also pays a 1.45 percent tax on earned income, the overall combined Medicare taxes on earned income is 3.8 percent (matching the new 3.8 percent tax on investment income).

Withholding on the additional 0.9 percent Medicare tax is imposed on an employer if an employee receives wages that exceed $200,000 for the year, whether or not the employee is married.

## OUR PHILOSOPHY AND YOU

*We appreciate the fact that many of you have been friends of the Firm over many years, but also, many of you are new friends. For all of you, we thought you should be aware of what makes us tick, our philosophy. .*

- To provide the finest accounting, tax, and management advisory services.
- To be associated with quality clients to assist them to reach their potential.
- To contribute to our community and the profession to which we belong.
- To grow, but never to lose the local identity and personal relationship with clients that are the foundations of our practice.

Thanks to you, we have had substantial growth and expect this to continue. As we say, Business is great and we are looking for more. As always, referrals are appreciated.

## 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 be considered for this column, contact the editor.*

Congratulations to **Armond Budish** upon his reelection to the Ohio House of Representatives . . . Best wishes to **Dr. Mark Root and South Russell Family Practice, Inc.** upon the celebration of their 20th Anniversary.

And, congratulations to **Colette Jones, VP of Marketing for Positively Cleveland** for being recognized in *"Crain's Cleveland Business"* as one of 2012's "40 Under 40".

## NOTE FROM THE EDITOR

If you are receiving this newsletter in hardcopy from and would like to receive it via email, along with update issued during the year, or you would like us to send a copy to another party, email us your address at apress@sbp-cpas.com.

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

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