December 4, 2013

Tax Planning Issues for Individual Returns

Many of the provisions associated with the American Taxpayer Relief Act of 2012 (ATRA) became effective in 2013, which means they will have an impact on this year's tax return.

Among the issues you should be considering:

Health Care Reform

The Affordable Care Act (ACA) has generated a great deal of confusion and concern. Although no tax considerations for individuals are involved, taxpayers who don't have health care coverage may be subject to a penalty. Even if you already have coverage, you may want to consider alternatives available in the newly created Health Insurance Marketplace.

New Tax Laws in Effect

- High-income individuals will likely pay more in taxes under the new law and should consider options for minimizing their burden. The highest individual income tax rate rose to 39.6% in 2013 and taxpayers at this income level also saw the dividend and long-term capital gains tax rates rise from 15% to 20%.

- In addition, the new 3.8% net investment income tax applies to single taxpayers with adjusted gross income of $200,000 and joint filers earning $250,000. This new tax may affect the effective after-tax return on the sale of your investments, but proper planning may serve to minimize the impact.

- Although the alternative minimum tax (AMT) originally was aimed at high-income taxpayers, it increasingly has affected more and more middle-income taxpayers over the years. The law indexed the AMT for inflation but the use of certain tax breaks could still subject you to the tax.

- Phase-outs of personal exemptions and the limitation on itemized deductions have been reinstated. As a result, joint filers with adjusted gross income greater than $300,000 and single taxpayers whose adjusted gross income exceeds $250,000 may see a decrease in both of these deductions.

- In the estate tax area, the ATRA finally created some permanency. The amount that an heir can inherit without owing estate tax is now set at $5 million and will be indexed for inflation in future years. In addition, the estate tax was raised to 40%.

- Under the ATRA, taxpayers age 70½ and older can once again make up to $100,000 of tax-free distributions from an IRA directly to qualified charities.

Several education-related benefits were extended by the ATRA, including the American Opportunity Tax Credit, which allows eligible taxpayers to claim a tax credit for education.