Newsletter
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TYLER ✦ LYNCH PC

CERTIFIED PUBLIC ACCOUNTANTS | BUSINESS CONSULTANTS

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"Affordable Care" Act Tax Provisions

Under the "Affordable Care" Act that was approved by the US Supreme Court, a number of important tax increases will go into effect beginning in 2013. Among them include higher HI (hospital insurance) taxes for high earners, a 3.8% surtax on unearned income of higher-income individuals, and a higher threshold for deducting medical expenses.

Increased HI tax for high-earning workers and self-employed taxpayers

For tax years beginning in 2013, an additional 0.9% hospital insurance (HI) tax applies to wages received with respect to employment in excess of the threshold amount.

The threshold amounts are as followed:
$250,000 for joint returns;
$125,000 for married taxpayers filing a separate return;
$200,000 in all other cases.

The additional 0.9% HI tax also applies to self-employment income for the tax year in excess of the above figures.

To clarify the distinctions listed above, here are a couple examples:

Example 1: Bob and Susan file their return jointly. Bob has a salary of $180,000 and Susan a salary of $105,000. Together, their salary exceeds the 'joint' threshold amount of $250,000 by $35,000. With that being said, $35,000 of their joint salary is subject to the 0.9% HI tax. They will own an additional $315 because of the 0.9% HI tax.

Example 2: Rick is a single man who has a salary of $175,000. He will not be affected by the 0.9% HI tax because he is under the 'single' threshold amount of $200,000.

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Estate and Gift Tax Planning

Estate Tax

a tax on your right to transfer property at your death. It consists of an accounting of everything you own or have certain interests in at the date of death.

Gift Tax

a tax on the transfer of property by one individual to another while receiving nothing, or less than full value, in return. The tax applies whether the donor intends the transfer to be a gift or not.

If current Estate Tax rule is not extended:

Estate Tax:
- $5 million exemption reverts back to $1 million
- Increase in estate tax rate from 35% to 55%

Gift Tax:
- $5 million exemption reverts back to $1 million

Who can benefit most from planning:
- Elderly or ill
- Those who have asset protection needs
- Non-married same sex couples
- Wealthy Individuals

Reasons to gift now:
- Save estate tax (federal and state)
- Remove appreciation from estate

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Surtax on unearned income of higher - income individuals

For tax years beginning in 2013, an unearned income Medicare contribution tax is imposed on individuals. 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 over the threshold amount (threshold amount listed on previous page).

For surtax purposes, gross income doesn't include excluded items, such as interest on tax-exempt bonds, veterans' benefits, and excluded gain from the sale of a principal residence.

In order to understand how the 3.8% Medical surtax works, there are three critical terms to understand:

Net investment income - Interest, dividends, annuities, rents, royalties, income derived from a passive activity, and net capital gain derived from the disposition of property (other than property held in an active trade or business), reduced by deductions properly allocable to such income.

Threshold amount - the key factor in determining the "lesser of" formula for purposes of calculating the surtax.

Modified adjusted gross income ("MAGI") - the amount that is compared to the "threshold amount" to determine the "net investment income" that is subject to the surtax.

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Here are a few examples to help your understanding:

Example 1: John, a single taxpayer, has $100,000 of salary and $50,000 of net investment income for MAGI of $150,000. The 3.8% surtax would not apply because his MAGI is less than $200,000.

Example 2: Linda, a single taxpayer, has $225,000 of net investment income and no other source of income. The 3.8% surtax would apply to $25,000 of income (the lesser of investment income of $225,000 or the excess of $225,000 MAGI over $200,000 "threshold amount").

Example 3: Terry & Tina, married filing jointly, have $300,000 of salaries and no net investment income. The tax 3.8% surtax will not apply because they have no investment income.

Higher threshold for deducting medical expenses

For tax years beginning in 2013, unreimbursed medical expenses will be deductible by taxpayers under age 65 only to the extent they exceed 10% of adjusted gross income (AGI) for the tax year. If the taxpayer or his or her spouse has reached age 65 before the close of the tax year, a 7.5% floor applies through 2016 and a 10% floor applies for tax years ending after Dec. 31, 2016.

Expiration of the Bush Era Tax Cuts

In 2001 and 2003, Congress passed tax cuts. The cuts expired at the end of 2010. In December 2010, President Obama reached a deal with Republicans that extended the tax cuts at all income levels through the end of 2012 (they expire Jan. 1, 2013).

What will happen to tax rates in 2013?

This is a question many American tax payers are asking about now that the election has been held. Unless the tax cuts are extended, there will be an increase in ordinary income, capital gains, and qualified dividend rates – among other things.

Exhibit 1 Ordinary Income Rate	
2012	**2013 & Beyond**
10%	15%
15%	15%
25%	28%
28%	31%
33%	36%
35%	39.6%

Exhibit 2 Long Term Capital Gains	
2012	**2013 & Beyond**
0%	10%
15%	20%

Higher Tax Rates for All

More than just the top two tax brackets will be affected. Unless Congress takes action and President Obama agrees, rates will go up for everyone. (Refer to exhibit 1 to review the rate changes.)

Higher Capital Gains and Dividend Taxes

At present, the maximum federal rate on long-term capital gains and dividends is 15%. In 2013, the maximum rate on long-term gains will increase to 20% (Refer to exhibit 2). Qualified dividends currently are taxed at either 0% or 15% depending on your tax bracket. Unless the tax cuts are extended, starting in 2013 dividends will get taxed at ones' ordinary income rate. (Refer to exhibit 1 to review 2013 dividend rates).

Harsher Marriage Penalty

The 'marriage penalty' may cause a married couple filing jointly to pay more in taxes than when they were single. The Bush era tax cuts included several provisions to ease the so-called marriage penalty.

At present, the lowest two tax brackets for married joint-filing couples are exactly twice as wide as for single filers. This keeps the marriage penalty from affecting the tax liability of lower and middle-income couples. In 2013, the joint-filer tax brackets will contract, causing higher tax bills for many folks.

Currently, the "standard deduction" for married joint-filing couples is double the amount for singles. Starting next year, the joint-filer standard deduction will fall back to about 167% of the amount for singles.

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