Newsletter
Winter 2012

TYLER LYNCH PC

CERTIFIED PUBLIC ACCOUNTANTS | BUSINESS CONSULTANTS

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Governor Deval Patrick's Proposed Massachusetts Tax Changes

In the 2014 Massachusetts budget proposal submitted by the Governor in January 2013, there are major tax law changes. Gov. Patrick asked the state legislature to approve a hike in the state's 5.25% income tax, among other things. These are the most significant tax proposals in twenty years.

Here are some of the major differences:

1. Increase the personal income tax rate from 5.25% to 6.25%
   $2.57 billion more in Massachusetts tax collections
2. Increase the personal tax exemption from $4,400 to $8,800
   $1.09 billion less in Massachusetts tax collections
3. Reduce the Massachusetts Sales Tax rate from 6.25% to 4.5%
   $1.37 billion less in Massachusetts tax collections
4. Eliminate 45 "tax expenditures"
   $1.33 billion more in Massachusetts tax collections

Net change in tax revenue:
$1.44 billion more in Massachusetts tax collections

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Social Security: The 8% Solution?

In 2010, the first baby boomers became 64 years old. Millions more will reach this age in the next few years. Therefore, many financial planning clients are asking "When should I start my Social Security benefits?"

You can begin to receive Social Security benefits as early as age 62. If you elect to collect before your full retirement age (FRA), you will receive reduced benefits for the rest of your life. If your full retirement age is 66, as it is for people born from 1943 to 1954 (age 59 to 70 this year), by starting your Social Security benefits at 62, you will receive 75% of your FRA benefit.

An example:

Joe Taxpayer has a work history that entitles him to $3,000 a month from Social Security at 66, his FRA. If Joe starts his benefits at age 62 he will only get $2,250 (75% of $3,000) for the rest of his life, plus any cost of living adjustments (COLAs).

Here is an example if Joe decides to wait:

If Joe decides to wait until age 66, his FRA, he will get his basic $3,000 a month for the rest of his life, plus COLAs. Thus, by waiting 4 years, Joe increases his monthly benefit by $750 – a 33.3% increase from the first example, which is about 8% a year for the 4 years he waited.

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The proposed budget estimates that the net effect of these changes will be to reduce the combined sales and income tax rate on taxpayers with income less than $37,523 from 5.43% to 5.14%.

For taxpayers with income greater than $102,886, the combined tax rate is estimated to increase from 5.63% to 6.49%.

What is item 4, Eliminate 45 “tax expenditures”? On first reading it seems to be elimination of many exclusions and deductions from Federal Taxable Income that Massachusetts has previously accepted. We will describe some of the details of this list in future commentaries.

Governor Patrick said the proposed tax changes would make Massachusetts more comparable and competitive with other states.

Leaders in the Democratic-controlled state House of Representatives and the Senate have not ruled out tax increases this year. House Speaker Robert A. DeLeo and Senate President Therese Murray have signaled that any possible tax hikes will be closely examined and fully debated.

Read financial articles written by Founder & President, John A. Tyler

www.TylerLynchPC.com/articles.php

Clients, beware that the IRS does not ordinarily use e-mail as a means of communication. If you receive an e-mail from the ‘IRS’, please consult us before responding.

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Here is an example if Joe waits until 70 (deferring his benefits):

If Joe waits until age 70 to begin his benefits, his FRA increases Joe’s check by 32% from $3,000 to $3,960 a month, plus all the COLAs that took effect while he waited.

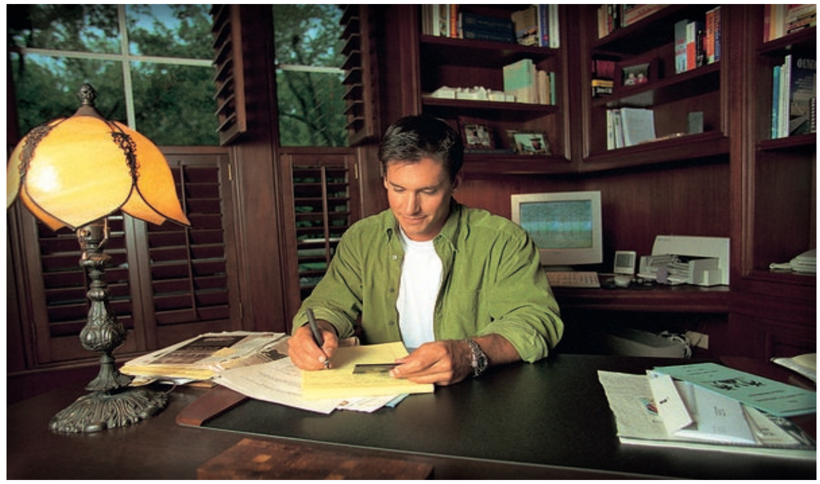
There are various aspects to the decision about when to begin taking Social Security Retirement benefits. The first question may be simply financial. Do you need the money now? A second question is more difficult, because it relates to how long you expect to receive benefits, bluntly, how long do you expect to live. Insurance companies and the IRS maintain actuarial tables that predict remaining life expectancy based on any particular age.

For a better analysis of your particular situation, please call us at 617-354-3814

Be sure to check out our Financial Blog at:

www.TylerLynchPC.com/Blog

Home Office Deductions



If you use your home for business, the Internal Revenue Code allows a taxpayer to deduct Office in the Home Expenses. As with other costs that you can expense, there are complicated regulations and limits about what costs and how much are allowed.

Recently, the IRS released some new rules, known as Revenue Procedures {Rev. Pro c. 2013-13] ,which provide a simpler alternative method, beginning with the 2013 tax year.

Under the current rules, Section 280A allows you to deduct expenses allocable to a portion of your home, provided you use that space exclusively and regularly for either:

1) The principal place of business of a trade or business,
2) As a place where you meet with patients, clients, or customers in the normal course of your business, or
3) Your work as an employee, but only if the use of the home office is for the convenience of your employer

For instance if you have a seven room house, and your home office is a single room, you can use an expense ratio of 1/7 times the number of square feet in your home. If the total square feet is 1,600, you can use 228 as your allowable number of home office related expense ratio.

The new rules, starting with the 2013 tax year, allow you to select a "Safe Harbor Method", instead of the "Actual Expense Method". Using the new method, you can deduct an amount determined by multiplying the allowable square footage by $5, which in this example would be $1,140. There are still some limits. The allowable square footage is the portion of the house used in a qualified business use, but not to exceed 300 square feet, and the maximum deductible amount may NOT exceed $1,500.

You may elect, beginning with 2013, the "Actual Expense Method", or the "Safe Harbor Method", and make the same election for the subsequent tax year, 2014. The "Safe Harbor Method" does not remove other IRS Office in Home expense rules. You can check these details with your tax advisor.

The general conclusion: As with most safe harbors, you are trading a potentially higher deduction for simplicity.

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