

HUDSON POPE PLLC

CERTIFIED PUBLIC ACCOUNTANT

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Year End News

As we approach the end of 2013, we first would like to take this opportunity to wish all of you and yours a joyous holiday season. It has been our privilege to work with you this year and we thank each of you for your continued support and allowing us to serve you.

As a reminder to our business clients, we need to furnish W-2's to employees by the end of January and to the Social Security Administration by the end of February. It is important that we have the correct names, social security numbers and addresses for your employees and would appreciate you furnishing us the information as soon as possible.

Several of our clients receive tax organizers to help in gathering their information to complete their

REMINDER:

Individual Estimated Income Taxes are due January 15, 2014. If you have been itemizing deductions in the past, you may want to consider paying your North Carolina estimate by December 31, 2013, in order to receive the deduction in 2013.

individual tax returns. This year we would like to offer our clients the option of receiving their organizers via e-mail. If you would prefer to receive your organizer by e-mail, please let Marilyn Reynolds know by January 2, 2014 at marilynHUDSONPOPE@embarqmail.com. If we do not hear from you, we will mail your organizer as usual.

This newsletter will highlight some of the changes to North Carolina income taxes for individuals which will become effective for taxable years beginning on or after January 1, 2014. New mileage rates will also go into effect starting January 1, 2014.

North Carolina Tax Reform for 2014

New Form NC-4 or NC-04 EZ Required. The North Carolina General Assembly recently enacted House Bill 998, which becomes effective for taxable years beginning on or after January 1, 2014. One of the results of the tax reform package is that all employees and recipients of pension or annuity payments must complete a new withholding allowance certificate. The new form must be completed so the correct amount of state income tax is withheld for any payment periods beginning on or after January 1, 2014. Under this new law, taxpayers may no longer claim a personal exemption for themselves, their spouse, children, or any other qualifying dependents. Additionally, many deductions and tax credits that impact North Carolina withholding tax are no longer available for tax years beginning on or after January 1, 2014. Every employer must have all employees provide a new Employee's Withholding Allowance Certificate,

either Form NC-4EZ (new) or Form NC-4. The new form must be completed by the employee and provided to the employer so the correct amount of state income tax is withheld for any payment periods beginning on or after January 1, 2014. A review of the major changes in the tax reform bill for individuals are:

- Eliminates North Carolina's three-tiered income tax rates of 6, 7 and 7.75 percent. Individual income will be taxed at 5.8 percent in 2014 and 5.75 percent in subsequent years.
- Eliminates "personal exemptions"
- Increases the standard deduction taxpayers may take, in part to offset the loss of personal exemptions. Currently the top

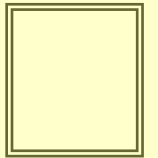
NC TAX REFORM (CONT'D)

- deduction a couple married filing jointly could take is \$6,000. Married couples now get a \$15,000 standard deduction. Individuals would get a deduction of \$7,500.
- For taxpayers who wish to itemize their deductions rather than taking the standard deduction, the new law will cap at \$20,000 the combined deduction on mortgage interest and property taxes that taxpayers may take on their primary residences. Itemizing taxpayers may continue to claim unlimited charitable contributions as they are claimed on a federal tax return.
- Eliminates a \$4,000 deduction for government retirement income and a \$2,000 deduction for private retirement income.
- Boosts the child tax credit by \$25, to \$125 for families with incomes below \$40,000. The child tax credit remains \$100 for families with incomes between \$40,000 and \$100,000. There is no child tax credit for families with income over \$100,000.
- Eliminates credits for child care, permanent and total disability, property taxes paid on farm machinery, education expenses and charitable contributions for those who do not itemize deductions.
- Eliminates a deduction for contributions to North Carolina 529 college savings plans.
- Eliminates the estate tax. Although not technically an individual income tax, it is levied on an individual estate at death.
- **Individual business income.** The tax bill also eliminates a two-year old deduction for personal business income. Taxpayers could previously deduct up to \$50,000 in business income that counted against their personal taxes. Instead of filing their own income, many small businesses and partnerships pay taxes by way of their owner's income tax statement. This is a break that was used by full-time workers who had outside business income – an office worker who picked up extra money mowing lawns on the weekends or a communication professional who took on occasional freelance assignments – as well as attorneys and doctors.

IRS Releases 2014 Standard Mileage Rates

The business standard mileage rate for 2014 will decrease from 56.5 cents-per-mile for 2013 to 56 cents-per-mile. The rate for qualified medical/moving expenses will be 23.5 cents-per-mile. The rate for the charitable miles driven is set by statute and remains unchanged at 14 cents-per-mile for 2014.

Comment: As an alternative to the optional mileage rates, taxpayers can use the actual expense method. Actual expenses include expenditures for gas, oil, repairs, tires, insurance, registration fees, licenses, and other qualified costs.



Customer Name
Street Address
City, ST ZIP Code