

HUDSON POPE PLLC

CERTIFIED PUBLIC ACCOUNTANT

310 New Street, New Bern, NC 28560

Phone: 252-635-1330; Fax: 252-634-2772

Summer, 2013

We trust all our clients are looking forward to the summer months and anticipating some well deserved vacation time. We have completed another tax season and are more than halfway through the second quarter of the year. We are of course continuing to process extended returns and just to remind you, corporate, partnership, estate and trust income tax returns are extended until September 16, 2013 while individual income tax returns have an extension date of October 15, 2013. We appreciate our clients providing us with the organized information which allows us to better serve you and complete the returns in a timely manner. Also to remind our clients, our office hours as of May 1st are 8:30 AM until 5:00 PM Monday through Thursday and 8:30 AM until noon on Fridays. We will still be available by appointment on Friday afternoon as needed.

REMINDER:

Individual Estimated Income Tax Payments are due by June 17, 2013.

In our last newsletter we highlighted the 3.8% Medicare surtax on earned income for higher-incomers and vehicle depreciation limits for 2013. In this newsletter we will discuss some of the other tax changes that are taking effect for this year which will impact tax planning for this year and beyond. These changes were made by the American Taxpayer Relief Act of 2012 (ATRA).

We will also consider some new proposals to consider which could impact planning in 2013.

Tax Changes Taking Effect for the 2013 Tax Year

Estate and Gift Tax. The estate and gift tax exemption for 2013 increases to \$5,250,000. The tax rate jumps to 40%. The annual gift tax exclusion rises to \$14,000 per donee. More estate tax will qualify for an installment-payment tax break. If one or more closely held businesses make up greater than 35% of an estate, as much as \$572,000 of tax can be deferred and the Internal Revenue Service will charge only 2% interest.

Tax Rate Increases. For the first time since 1993 the tax rates on high-incomers will increase. A 39.6% rate now applies to taxable income over \$400,000 for singles, \$425,000 for heads of household and \$450,000 for married couples filing jointly. The 2013 standard deductions rise a bit also. Married filing jointly get \$12,200; if one spouse is age 65 or older it

rises to \$13,400; and if both are 65, \$14,600. Singles can claim \$6,100; \$7,600 if they're 65. Heads of household get \$8,950 plus \$1,500 more once they reach age 65. High-incomers will also lose some of their itemized deductions for 2013. Their write-offs are cut by 3% of the excess of adjusted gross income over \$250,000 for singles, \$275,000 for household heads and \$300,000 for married filing jointly. However the total reduction cannot exceed 80% of itemizations. Medicals, investment interest, casualty losses and gambling losses (to the extent of winnings) are exempted from this cutback.

Investments. The top rate on capital gains and dividends rises to 20% for high-incomers. Singles with taxable income above \$400,000 and

married couples filing jointly over \$450,000. The Medicare surtax can boost the rate to 23.8%. For others, a 15% rate applies but filers in the 10% or 15% tax bracket can still qualify for the special 0% rate.

Alternative Minimum Tax. The AMT exemptions are going up for 2013. They jump to \$80,800 for married couples filing jointly and \$51,900 for both singles and heads of household, up from 2012 by \$2,050 and \$1,300 respectively. The exemptions will automatically increase in future years, based on the rate of inflation. In addition, personal tax credits, such as those for tuition and dependent care, will continue to offset alternative minimum tax liability.

Social Security. The Social Security wage base rises this year to \$113,700, a \$3,600 increase. Social Security benefits go up 1.7% in 2013 which is less than half of 2012's hike. The earnings limits also increase. Individuals who turn 66 this year do not lose any benefits if they make \$40,080 or less a year before they reach that age. Individuals who are at least 62 but are not 66 by the end of 2013 can make up to \$15,120 before they lose any benefits. There is no earnings cap once a beneficiary turns 66.

Medicare. The basic Medicare Part B premiums increased to \$104.90 per month in 2013. But the Part B and D premiums are much higher for upper-income seniors if their modified adjusted gross incomes for 2011 exceeded

\$170,000 for couples or \$85,000 for single people. Modified AGI is AGI plus any tax-exempt interest.

Medicals. The threshold for deducting medical expenses jumps to 10% of AGI for singles and married couples filing jointly under age 65. Annual ceilings on deductible pay-ins to health savings accounts inch up in 2013. The maximums are \$6,450 for account owners with family medical coverage and \$3,250 for single coverage. HSA owners born before 1959 can put in \$1,000 more. The limitations on out-of-pocket expenses such as deductibles and copayments increase to \$12,500 for those with family coverage and \$6,250 for single coverage. Minimum policy deductibles increase to \$2,500 for families and \$1,250 for individuals.

Savings plans. The maximum 401(k) contribution is \$17,500 this year, a \$500 increase over 2012. Individuals born before 1964 can put in as much as \$23,000. The contribution limits apply to 403(b) and 457 plans as well. The ceiling on SIMPLEs will rise to \$12,000. Individuals age 50 or older in 2013 can put in an additional \$2,500. The 2013 pay-in limits for IRAs and Roth IRAs will jump to \$5,500, \$500 more than for 2012. Anyone who was born in 1963 or earlier can put in an extra \$1,000. The income ceilings on Roth IRA pay-ins go up. Contributions phase out at AGIs of \$178,000 to \$188,000 for couples and \$112,000 to \$127,000 for singles. The deduction phaseouts for regular IRAs start at higher levels, ranging from \$95,000 of AGI to \$115,000 for couples and from \$59,000 to \$69,000 for singles.

New Proposals for 2013 to Consider

Looking ahead, some new proposals could impact tax planning in 2013 and beyond. President Obama has proposed to reduce the value to 28 percent of certain deductions and exclusions that would otherwise reduce taxable income in the 33, 35 or 39.6 percent tax brackets. The President also re-proposed the so-called Buffett Rule, now referred to as the "Fair Share Tax" for taxpayers with incomes above \$1 million (with full phase-in above \$2 million). Moreover, the President has proposed to limit contributions and accruals on tax-favored retirement benefits, including IRAs, qualified plans, tax-sheltered

annuities, and deferred compensation plans. The limit generally would apply when a taxpayer accumulates total retirement amounts that exceed the amount necessary to provide the maximum annuity permitted for a defined benefit plan. The President's proposals are expected to be debated in Congress as lawmakers and the White House try to reach an agreement on tax reform and deficit reduction. President Obama has said he wants an agreement before August, which could significantly change your tax planning for 2013 and beyond.

An Article for Everyone

By Author Name



A caption is a sentence describing a picture or graphic.

Please see *Everyone* on page 4

Fitting an Article into a Tight Space

By Author Name

So you have space for one more article in your newsletter, and one of your experts out in the field is writing the article. How can you determine how long the article should be?

As in newspapers, the length of a newsletter article can be thought of in terms of how many “column inches” are available for the article. A column inch is a measure of space, namely an area on a page 1 column wide and 1 inch deep, used to measure the amount of type that would fill that space. This will vary from newsletter to newsletter depending on the font you are using, its size, the column width, and the amount of space between lines and between paragraphs. By knowing how many words on average fit into a column inch in your

newsletter, and then by measuring how many column inches are available for the article, you can tell the writer how many words an article can have. Let’s take this scenario one step at a time.

1. Fill up at least 10 inches of column with actual article text, then print the page and use a ruler to measure how many inches of column your text takes up.
2. Count the number of words in the text.
3. Divide the number of words in the article by the number of inches the text takes up. For example, let’s say you have 456 words in 12 inches of column: $456 \div 12 = 38$. That’s your magic number for how many words fit in an

Please see *Tight Space* on page 4

Congress Passes Military Tax Relief Bill; Overrides Farm Bill Veto

enrollment. It can be claimed for a maximum of four years. The phase-out levels are higher: adjusted gross income of \$80,000 – \$90,000 for non-joint filers; \$160,000 – \$180,000 for joint filers. Unlike the Hope Credit the AOTC is partially

or anyone else without owing gift tax. These gifts also reduce the size of your estate. Also, tuition and medical expenses that you pay directly for donees are not counted against the \$12,000 exclusion amount or

Tight Space from page 3

inch of column in your newsletter. But you're not finished yet.

4. Measure how many column inches you have available for the article. For example, we'll say it's 7 inches.
5. Multiply your magic number by the number of column inches available for the article, which in this case would be: $38 \times 7 = 266$. This is the maximum length that the article can be.

Farm Act

The *Farm Act* targets tax incentives to farmers and ranchers. Some of the tax incentives are:

1. Tax credit for securing agricultural chemicals
2. Enhanced like-kind exchanges of water rights in the form of mutual ditch, reservoir irrigation stock;
3. New forestry conservation bonds;
4. Tax credit for cellulosic biofuels;
5. Temporary tax relief for the Kansas Disaster area.

The tax incentives in the *Farm Act* are offset, among other revenue raising provisions, by limiting the amount of farming losses that a taxpayer receiving certain subsidies may use to offset non-farming business income. The *Farm Act* also conditionally reduces the ethanol tax credit from \$0.51 to \$0.45 per gallon. The offsets, in total are estimated to raise roughly \$2 billion over 10 years.

the \$1 million lifetime gift-tax exemption, and they reduce your estate. Consider creating a family limited partnership. They are designed to generate big estate tax valuation discounts after the donor dies, however they must be structured carefully so that the donor is prevented from having too much control over the partnership.

6. To give yourself some room for error, tell the writer to write an article between 250 and 260 words. Once you get the article back and edit it, you can add or remove words here and there to get the article to the right length.

Over time, you'll get used to this practice, and it won't be long before you become a pro at writing and editing articles that are not only helpful to your readers, but perfect in length as well.

Extenders

The House passed a package of extenders (*H.R. 6049*) on May 21. The bill extends many popular – but temporary – individual and business tax

incentives, including the: (1) State and local sales tax deduction; (2) Higher education tuition deduction; (3) Research tax credit; (4) Teachers' classroom expense deduction; (5) New Markets Tax Credit; (6) Credit for residential energy efficient property; (7) Renewable energy production credit; (8) Subpart F exception for active financial income; and (9) Fifteen-year straight-line cost recovery for qualified leasehold improvements and qualified restaurant property.

Child tax credit. *H.R. 6049* also would expand the refundable child tax credit. Under current law, the credit is refundable to the extent of 15% of the taxpayer's earned income in excess of a \$10,000 floor (\$12,005 as adjusted for inflation for 2008). *H.R. 6049* reduces the floor to \$8,500 for 2008.

Comment: The Senate has yet to act on its version of an extenders bill, which includes an AMT "patch".

"To catch the reader's attention, place an interesting sentence or quote from the story here."

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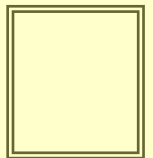
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