THE SMALLBIZ BUILDER

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Year End 2013 PADGETT BUSINESS SERVICES® Special Edition

2013 Individual Year-End Tax Planning

Taxpayers and their advisers are once again challenged by a complex legislative environment when it comes to tax planning for 2013. At the same time, *proper planning could be especially productive this year by taking advantage of expiring tax breaks, traditional tax planning moves, and being aware of NEW taxes for 2013.* It has been the case for the past few years that Congress has passed end-of-year legislation that could impact tax planning. With that in mind, you should plan to prepare your returns in accordance with current laws, but stay in contact with your local Padgett office so that we can inform you of any legislative changes.

The most common strategy is to simply **defer income and accelerate deductions** to minimize 2013 taxes. By deferring income until the following year and increasing deductions in the current year, taxpayers may be able to minimize or avoid AGI-based phase outs of various tax deductions and exemptions. As a reminder, year-end tax planning must take account of each taxpayer's particular situation and planning goals. Below highlights some of the individual tax savings provisions that are set to expire at December 31st, as well as, some traditional tax planning strategies. Contact your local Padgett office to discuss what tax planning strategies can benefit you!

Individual Tax Saving Provisions Expiring at Year End	Tax Saving Strategy
Cancellation of debt income exclusion for qualified principal residences	Complete any potential debt cancellation in 2013
Charitable contribution of certain IRA accounts (including required minimum distributions)	Complete any desired transfers before 12/31/13
Deduction for qualified higher education expenses (subject to AGI limitations)	Make qualifying education expense payments in 2013 (including for winter/spring 2014)
Above-the-line deduction for expenses of elementary and secondary school teachers ($250 maximum)	Teachers should take advantage of this deduction by tracking out of pocket expenses.
State and local sales tax deduction (in lieu of state income tax deduction)	Make any large dollar purchases in 2013 to maximize sales tax paid
Mortgage insurance premiums treated as deductible interest	Pay mortgage insurance premiums by year end or pay 2014 premiums in advance
Tax credits for certain non-business energy saving improvements to a residence	Complete any desired home improvements that are eligible for the credit

Year-End Moves for Individuals

- It may be advantageous to defer your year-end bonus until next year.
- Bunching your itemized deduction, such as real estate taxes may save you taxes this year.
- Look for losses in your stock portfolio and consider selling them before year end to offset your 2013 capital gains. Keep in mind the wash sale rules!
- Increase your withholdings if you are facing a penalty for underpayment of federal estimated tax. Doing so may reduce or eliminate the penalty.
- Taking required minimum distributions (RMD) from your employer sponsored retirement plan if you have reached age 70 ½ to avoid a penalty.

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- Make annual exclusion gifts before year-end to save gift tax. You can give $14,000 tax free in 2013 to an unlimited number of people.
- Increase the amount you set aside for next year in your employer's health flexible spending account (FSA) if you set aside too little for this year.
- If you're eligible to make health savings account (HSA) contributions in December of 2013, then you can make a full year's worth of deductible HSA contributions for 2014.
- Convert traditional-IRA money invested in beaten-down stocks (or mutual funds) into a Roth IRA if eligible to do so. Keep in mind that such a conversion will increase your adjusted gross income for 2013.
- Estimate the effect of any year-end planning moves on the alternative minimum tax (AMT) for 2013, keeping in mind that many tax breaks allowed for purposes of calculating regular taxes are disallowed for AMT purposes.
- If you are self-employed and haven't done so yet, set up a self-employed retirement plan.
- If you own an interest in a partnership or S corporation you may need to increase your basis in the entity so you can deduct a loss from it for this year.

NEW Individual Issues to Consider for 2013

For the first time, taxpayers have to take into account the following new provisions: The new **3.8% tax surtax on unearned income** and the **additional 0.9% Medicare tax.**

The new 3.8% surtax is applied to the lesser of: (1) net investment income, or (2) the excess of modified adjusted gross income over certain thresholds. These thresholds are $250,000 for joint filers or surviving spouses, $125,000 for a married individual filing separate, and $200,000 in any other case. *Because this is the "lesser of" rather than the "greater of," taxpayers with MAGI under the threshold, will NOT be subject to the 3.8% surtax.* The easiest way to avoid this tax would be for taxpayers to reduce their modified adjusted gross income below the stated threshold by deferring income and accelerating deductions. Other taxpayers should consider ways to minimize their net investment income by deferring interest income, dividends, and rents/royalties, as well as, reducing passive activity income for the year.

The additional 0.9% Medicare tax may require year-end actions for employees and self-employed persons. Employers are required to withhold the additional Medicare tax from wages in excess of $200,000 regardless of filing status. However, unique situations may require taxpayers to review their withholdings at year end to avoid underpayment of tax. For example, an individual earns $150,000 from two separate employers during the year. He is subject to the additional Medicare tax, but neither employer would have withheld the tax since wages from each employer did not exceed $200,000.