

# Lassus Wherley

## Building Better Futures

### People and Puppy News

We're sad to report that our very special Linda retired last September. She has relocated to the Williamsburg, Virginia area and we can't wait to see her in Colonial garb. Only kidding, of course. We miss her terribly. She was the smile on our faces and the energy behind our motivation. We wish her well and will do our best to enjoy the special tax season luncheons she always planned!

We're glad to report that we have a new special person this year. Join us in welcoming Dana Cahill who will replace Linda as Chen's tax season sidekick! Dana has been with us for several months and has proven to be another energetic "do whatever needs to be done" gal. Could not have asked for a more perfect addition to the team.

Abigail and Bunker are still going strong. Like the rest of us, they're one year older, hopefully wiser, and forever playful!

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News

**Awarded "Best Places To Work in New Jersey" for 2nd consecutive year!**

**NJBIZ selected Deb Rivosca for "Best 50 Women in Business"**

**Clare was honored in "Salute to the Policymakers" by Executive Women of New Jersey**

**Diahann was quoted extensively in a new business book "How Women Lead": The Eight Essential Strategies Successful Women Know**

### It's 2013 and We Finally Have Some Tax News!

Last year we complained bitterly about the lack of progress on setting tax policy. This year found us impatiently waiting for Congress to act on ANYTHING! When they finally did, as expected there was good news and bad. We've included a separate flyer on what we know, but it's too early to explore the fine details.

In the meantime, many of us have been expecting to pay the medicare-related surtax on investment income. The actual assessment is very different from expectations when you understand the finer details. Here's the deal.

For individuals the 3.8% surtax is imposed on the lesser of:

- (i) "net investment income" (NII), or
- (ii) the excess of "modified adjusted gross income" (MAGI) over a certain threshold amount.

Example. If you are single, your threshold for purposes of the surtax is \$200,000. You have NII of \$30,000 and other income of \$170,000, so your MAGI is \$200,000. Because your MAGI does not exceed the threshold, the surtax does not apply. However, assume you had an additional \$50,000 of income. Although this \$50,000 of income is not NII, it causes your MAGI to increase to \$250,000, which exceeds your threshold by \$50,000. As a result, your \$30,000 of NII is now subject to the 3.8% surtax. On the other hand if the MAGI totaled \$210,000 then the surtax would apply to \$10,000.

So the surtax will not apply to everyone, but if MAGI is over the \$200,000 for singles or \$250,000 for married, then the surtax will apply.

## *Health Care Reform: What Kicks Off in 2013...*

**Effective: January 1, 2013**

### **Medicaid Pay Raise for Family Doctors**

Currently, primary care doctors typically receive less for treating low-income Americans on Medicaid than for treating seniors covered by Medicare, even though both are federal-state programs. But beginning in January, state Medicaid programs will be required to pay at or above the Medicare rates, with the additional money coming solely from the federal government.

### **Improving Medicaid Preventive Care**

Health care reform's unofficial motto might be that old saw about an ounce of prevention being worth a pound of cure. Chronic diseases, such as heart disease and diabetes, account for 7 out of 10 U.S. deaths and 75 percent of national spending on health care. To bend that costly curve, the Affordable Care Act invests an unprecedented \$15 billion over 10 years to catch and manage diseases early.

### **Exploring 'Bundled' Payments in Medicare**

Just as a party is more successful if everyone mingles, Medicare, and eventually health care in general, can provide better care at a lower cost if doctors, hospitals and caregivers work together for the well-being of the patient.

**Effective: October 1, 2013**

### **Chipping in More for CHIP**

Established in 1997 and reauthorized by Congress in 2009, the Children's Health Insurance Program, or CHIP, provides affordable health coverage for nearly 8 million kids from low-income families that make too much to qualify for Medicaid but not enough to afford private health insurance. Health care reform extends federal CHIP funding to states through Oct. 1, 2015.

### **Effectively Ongoing: Certifying New State Insurance Exchanges**

New state insurance exchanges, designed to offer consumers and small businesses one-stop online shopping for affordable private health plans, are supposed to launch starting in 2014. They're to be certified by the federal government during the coming year.

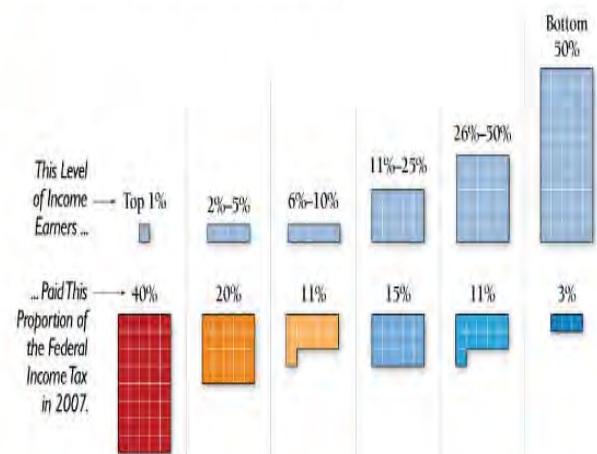


## *In Perspective*

### **The Top 10 Percent of Earners Paid 71 Percent of Federal Income Tax**

Top earners are the target for new tax increases, but the U.S. tax system is already highly progressive. The top 1 percent of income earners paid 40 percent of all federal income taxes in 2007, while the bottom 50 percent paid only 3 percent. More than one-third of U.S. earners paid no federal income tax at all.

PERCENTAGE OF TOTAL INCOME TAXES (2007)



Source: Internal Revenue Service.

Federal Revenue Chart 2 • 2010 Budget Chart Book [heritage.org](http://heritage.org)

### **Compliance Disclosure**

Please remember that the newsletter content may not be directly applicable to your individual situation. In addition, due to various factors, including changing market conditions and/or applicable laws, the content may no longer be reflective of current opinions or positions. Moreover, you should not assume that any discussion or information contained in this newsletter serves as the receipt of, or as a substitute for, personalized advice from Lassus Wherley & Associates, P.C. Please remember to contact Lassus Wherley & Associates, P.C., in writing, if there are any changes in your personal/financial situation for the purpose of reviewing/evaluating/revising our previous recommendations and/or services. .

## The American Taxpayer Relief Act of 2012

### Individuals

#### Permanent extension of

*the 10% bracket.*

**the 25%, 28% and 33% income tax rates** for Single (S) taxpayers with adjusted gross income (AGI) less than \$400,000, Head of Household (HOH) taxpayers with less than \$425,000 and Married Filing Jointly (MFJ) taxpayers with less than \$450,000.

**the repeal of the Personal Exemption Phaseout for taxpayers** with income at or below \$250,000 (S), \$275,000 (HOH) and \$300,000 (MFJ).

**the repeal of the itemized deduction limitation for certain taxpayers** with incomes below \$250,000 (S), \$275,000 (HOH) and \$300,000 (MFJ).

**the child tax credit** of \$1000 for each child under age 17 for taxpayers with income below certain threshold amounts.

**marriage penalty relief** for the standard deduction, the 15% bracket and the earned income tax credit.

**expanded Coverdell accounts** which increased the annual contribution amount from \$500 to \$2,000 and expanded the definition of education expenses to include elementary and secondary school expenses.

**the expanded exclusion for employer-provided educational assistance** whereby the employee may exclude from gross income up to \$5,250 for income and employment tax purposes per year of employer-provided education assistance.

**the expanded student loan interest deduction** which allows an above-the-line deduction for such interest expenses up to \$2,500 with an income phaseout of \$55,000 to \$70,000 (\$110,000 and \$140,000 for joint filers).

**the exclusion from income of amounts received under certain scholarship programs** for qualified tuition and related expenses as well as certain qualified tuition reduction programs.

**the expanded dependent care credit** of \$3,000 for one child and \$6,000 for two or more children.

**the increased adoption tax credit and the adoption assistance programs exclusion** which provides for a \$10,000 credit and a \$10,000 income exclusion for employer-assistance programs.

**estate, gift and generation-skipping transfer tax relief** makes permanent the \$5,000,000 exclusion amount and indexes that amount for inflation going forward, and sets the top tax rate to 40%.

**portability of unused exemption** allowing the executor of a deceased spouse's estate to transfer any unused exemption to the surviving spouse.

**the capital gains and dividend rates** of 0% for those below the 25% bracket and 15% for those with income at or below \$400,000 (S), \$425,000 (HOH) and \$450,000 (MFJ). For income in excess of these amounts, the rate for both capital gains and dividends will be 20%.

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## The American Taxpayer Relief Act of 2012

### Individuals

#### Temporary extension of

**the American Opportunity Tax Credit through 2017** for up to \$2,500 of the cost of tuition and related expenses subject to a phaseout for taxpayers with adjusted gross income in excess of \$80,000 (\$160,000 for married couples filing jointly).

**the deduction for certain expenses of elementary and secondary school teachers.** The bill extends for two years the \$250 above-the-line tax deduction for teachers.

**mortgage debt relief** up to \$2 million of forgiven debt is **eligible** to be excluded from income (\$1 million if married filing separately) through tax year 2013.

**premiums for mortgage insurance deductible as interest that is qualified residence interest.** The provision extends the ability to deduct the cost of mortgage insurance on a qualified personal residence through 2013. Income limitations apply.

**deduction for state and local general sales taxes.** The bill extends for two years the election to take an itemized deduction for state and local general sales taxes.

**above-the-line deduction for qualified tuition-related expenses** of \$4,000 for taxpayers with AGI of \$65,000 or less (\$130,000 for joint returns), or \$2,000 for taxpayers with AGI of \$80,000 or less (\$160,000 for joint returns). The act extends the deduction to the end of 2013.

**tax-free distributions from individual retirement plan for charitable purposes.** The bill extends for two years the provision that permits tax-free distributions to charity from an Individual Retirement Arrangement (IRA) held by someone age 70½ or older of up to \$100,000 per taxpayer, per taxable year. The provision contains a transition rule under which an individual can make a charitable rollover during January of 2013 and have it count as a 2012 charitable rollover.

#### Permanent Alternative Minimum Tax (AMT) patch

**increases the exemption amounts** for 2012 to \$50,600 (S) and \$78,750 (MFJ) and indexes the exemption and phase-out amounts thereafter.

#### Tax Brackets 2013

Single Person			Married Person		
\$ 0	\$ 8,925	<b>10%</b>	\$ 0	\$ 17,850	<b>10%</b>
\$ 8,925	\$ 36,250	<b>15%</b>	\$ 17,850	\$ 72,500	<b>15%</b>
\$ 36,250	\$ 87,850	<b>25%</b>	\$ 72,500	\$ 146,400	<b>25%</b>
\$ 87,850	\$ 183,250	<b>28%</b>	\$ 146,400	\$ 223,050	<b>28%</b>
\$ 183,250	\$ 398,350	<b>33%</b>	\$ 223,050	\$ 398,350	<b>33%</b>
\$ 398,350	\$ 400,000	<b>35%</b>	\$ 398,350	\$ 450,000	<b>35%</b>
\$ 400,000		<b>39.6</b>	\$ 450,000		<b>39.6</b>

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## Individuals

### Automatic Adjustments for 2013

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**Personal exemption** rises to \$3,900.

**Standard deduction** is \$6,100 or \$7,600 if over age 65 (S) and \$12,200 or \$13,400 if either spouse is over age 65 (MFJ).

**Social Security Wage Base** is \$113,700.

**Medical expense deduction threshold** rises to 10% unless over age 65 (which stays at 7.5%).

**IRA contribution limits** rise to \$5,500 with an extra \$1,000 for those age 50 and over.

**401(k) contribution limits** are \$17,500 plus \$5,500 for those age 50 and over.

**Standard mileage allowance** is 56.5 cents per mile.

### Affordable Care Act Income Tax Provisions

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**.9% Medicare Surtax on earned income** over \$200,000 (S) and \$250,000 (MFJ).

**3.8% Medicare Surtax on net investment income** with adjusted gross income over \$200,000 (S) and \$250,000 (MFJ).

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## The American Taxpayer Relief Act of 2012

### Businesses

#### Depreciation Cost Recovery

**15-year straight-line cost recovery for qualified leasehold improvements, qualified restaurant buildings and improvements, and qualified retail improvements.** The bill extends for two years, through 2013, the temporary 15-year cost recovery period for certain leasehold, restaurant, and retail improvements, and new restaurant buildings, which are placed in service before January 1, 2014. The extension is effective for qualified property placed in service after December 31, 2011.

**Temporarily extend increase in the maximum amount and phase-out threshold under Section 179.** The bill increases the maximum amount and phase-out threshold in 2012 and 2013 to the levels in effect in 2010 and 2011 (\$500,000 and \$2 million, respectively). Within those thresholds, the proposal would also allow a taxpayer to expense up to \$250,000 of the cost of qualified leasehold improvement property, qualified restaurant property, and qualified retail improvement property. This proposal expires at the end of 2013 and the amounts revert to pre-2010 levels (\$25,000 and \$200,000, respectively).

**Bonus depreciation.** This provision would extend the current 50% expensing provision for qualifying property purchased and placed in service before January 1, 2014 and also allow taxpayers to elect to accelerate some AMT credits in lieu of bonus depreciation.

#### Unemployment

##### **Extension of Emergency Unemployment Compensation Program and Extended Benefit Provisions.**

This provision extends for one year the availability of benefits in all tiers of Federal Emergency Unemployment Compensation (EUC). In addition, this provision continues for one year the Extended Benefits (EB) program with a 3-year look back.

#### Retirement Plans

**Roth conversions for retirement plans.** The bill allows any amount in a non-Roth account to be converted to a Roth account in the same plan, whether or not the amount is distributable. The amount converted would be subject to regular income tax.



## If you have a business...

### New Hires

Remember, the State of New Jersey requires employers to report information about new hires within 20 days of the date of hire. Reports will require the employee's name, address, and social security number. This is part of a federal program to track down parents and enforce child support payments.

### Electronic Deposits

**All federal tax deposits must be made by electronic funds transfer.** Generally, electronic funds transfers are made using the Electronic Federal Tax Payment System (EFTPS). If you do not want to use EFTPS (free), you can arrange for your tax professional, payroll service, or third party to make deposits on your behalf (may be subject to a fee). Some states are now requiring electronic payments as well.

### Pension Plans

The **maximum 401(K) deductions** will be **\$17,500** for employees in 2013. The catch-up provision amount is \$5,500 for taxpayers reaching age 50 by the end of 2013. The **maximum SEP and profit sharing contribution** may not exceed the lesser of 20% of self-employment income (not exceeding \$255,000) or **\$51,000**.

### Mileage Rate

The standard mileage rate for 2012 was \$0.555 per mile. The standard mileage rate for 2013 is \$0.565 per mile.

### Social Security

OASDI (Old Age, Survivor, and Disability Ins) - 6.2% (change from 4.2% for EE, no change for ER)

MEDICARE (Medical Hospitalization Ins) - 1.45% (no change from 2012)

<i>Social Security</i>	<i>Rate</i>	<i>Wage Base</i>	<i>Max Contribution</i>
2013 OASDI	0.062	\$113,700	\$7,049.40
2013 MEDICARE	0.0145	\$unlimited	\$unlimited

### New Jersey Unemployment/Disability/Family Leave

<i>Employee Deductions</i>	<i>Rate</i>	<i>Wage Base</i>	<i>Max Contribution</i>
2013 SUTA/EE (Unemployment)	.003825	\$30,900	\$118.19
2013 WFD/SWF(Workforce Development)	.000425	30,900	13.13
2013 SDI/EE (Disability)	.0036	30,900	111.24
2013 FLI (Family Leave Act}	.001	30,900	30.90
\$ TOTAL	.00885	30,900	\$273.46