TAXMAGEDDON

Why Do They Do This?

FISCAL CLIFF

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Time to Expect the Unexpected

1. Introduction
2. Plan for Changes & the Unknown
3. Provisions Aplenty
4. Plan for Your:
    a) Health
    b) Business
    c) Investments
    d) Estate
    e) Self

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Introduction

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- Started firm in 2003
- We work “out of the box” when it comes to our clients & the services we provide
- Client businesses cover a wide spectrum of sectors/industries (National & International)
- Firm members have 50+ years of combined experience
- We are available when you need us

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J. A. (Jay) Lesemann, Jr. CPA CGMA

- Managing Member of firm
- 2012-2013 Chair for the NC Association of CPAs
- CFO, VP of Finance, Controller, Treasurer, Director of IT
- Public companies ($2.0 Billion) – Family owned companies ($100K)
- Business Start-ups, IPOs, System Implementations, Turn-around Management, M&A, Change Integration

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Disclaimer

- This session summarizes selected new and/or changed tax provisions –it does not cover everything.
- The summaries of tax law in this session are not comprehensive –the actual laws have additional provisions not covered.
- This session is not to be relied on as tax or other advice and cannot be used for the purpose of avoiding penalties.
- Participants should verify information presented.
- Participants are strongly encouraged to obtain tax law education beyond this session.

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Plan for Changes & the Unknown

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2010 - Time of Reflection

- National debt hits ceiling
- Bush tax cuts expiring
- “Bi-Partisan” Super Committee formed
- Bowles-Simpson Plan
- What happened?

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Roll Forward to 2012

- Déjà vu
  - National debt ceiling
  - Bush tax cuts expiring
- But wait there's more!

Patient Protection & Affordable Care Act

And

Health Care and Education Reconciliation Act

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If Elected Officials Fail to Act

- Income tax rates will rise across the board
  - Top rate goes from 35% to 39.6%
- Tax rate on long-term capital gains increases
  - Top rate goes from 15% to 20% (>5 years: 18%)
  - Lower income individuals: 0% to 10% (>5 years: 8%)
- Favorable dividend rates disappear
  - Current rates of 0% & 15% could go to 39.6%
- 2% payroll tax reduction for employees will be eliminated

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If Elected Officials Fail to Act

- Federal estate tax exclusion as well as lifetime gift exclusion suffers an 80% reduction
  - $5.12m shrinks to $1.0m
- Marriage penalty returns
- Itemized deduction phaseouts
  - Including charitable contributions
- Personal exemption phaseout (in effect for 2012)

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If Elected Officials Fail to Act

- Child tax credit is reduced
  - $1,000 to $500
- Max. child/dependent care expenses will be capped at $2,400 per child (2 child max)
- American Opportunity Tax Credit eliminated
- Alternative Minimum Tax (AMT) returns to pre-2010 amounts
  - $48,450 to $33,750 for single status filers
  - $74,450 to $45,000 for MFJ status filers

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2012 vs. 2013 Tax Rates

Ordinary Income

2012	2013 & Beyond
10%	15%
15%	15%
25%	28%
28%	31%
33%	36%
35%	39.6%

Long-Term Capital Gains

2012	2013& Beyond*
0%	10%
15%	20% (23.8% if surtax applies

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Provisions Aplenty

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Health Care Provisions/Changes

Patient Protection and Affordable Care Act
and
Health Care and Education Reconciliation Act

These two (2) Acts contain:

- Over 500 new provisions
- More than 40 provisions add to or amend tax code
- One provision effective in 2013 creating the greatest stir:

0.9% & 3.8% Medicare Surtax

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What is the 0.9% Medicare Surtax?

- Effective January 1, 2013 on

Higher Income Individuals

- Applies to wages & self-employment income

Filing Status	Threshold
Married taxpayers filing jointly	$250,000
Married taxpayers filing separately	$125,000
All other individual taxpayers	$200,000

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What is the 3.8% Medicare Surtax?

- Effective January 1, 2013 on *Unearned Income*
- Applicable threshold amounts:

Filing Status	Threshold
Married taxpayers filing jointly	$250,000
Married taxpayers filing separately	$125,000
All other individual taxpayers	$200,000

- Also applicable to trusts and estates

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Calculating the 3.8% Medicare Surtax

- Danger Will Robinson Danger!!

- Applies to the lessor of:

Net investment income

OR

Modified adjusted gross income (MAGI)
Less: Threshold amount

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Net Investment Income

Items Included	Items Excluded
Interest	Self-employment income
Dividends	Non-resident aliens
Rents	Active Trade or Business Income
Annuities	Gain on sale of active interest in partnership or S-corporation
Capital gains	IRA or qualified plan distributions
Royalties	Trusts for charity (some exceptions)
Passive activity income	

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Modified Adjusted Gross Income

Adjusted Gross Income (bottom of page 1, Form 1040) plus:

- Foreign earned income
- Excluded employer-provided adoption assisstance
- US savings bond interest income used for higher education expenses
- Student loan interest deduction
- Tuition and fees deduction
- Domestic production activities deduction

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Plan for Your Health

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Health Care Provisions

- Most contentious provision won't take effect until 2014 – requirement that most Americans purchase health insurance
- Some provisions go into effect in 2013
- Other provisions are in effect now

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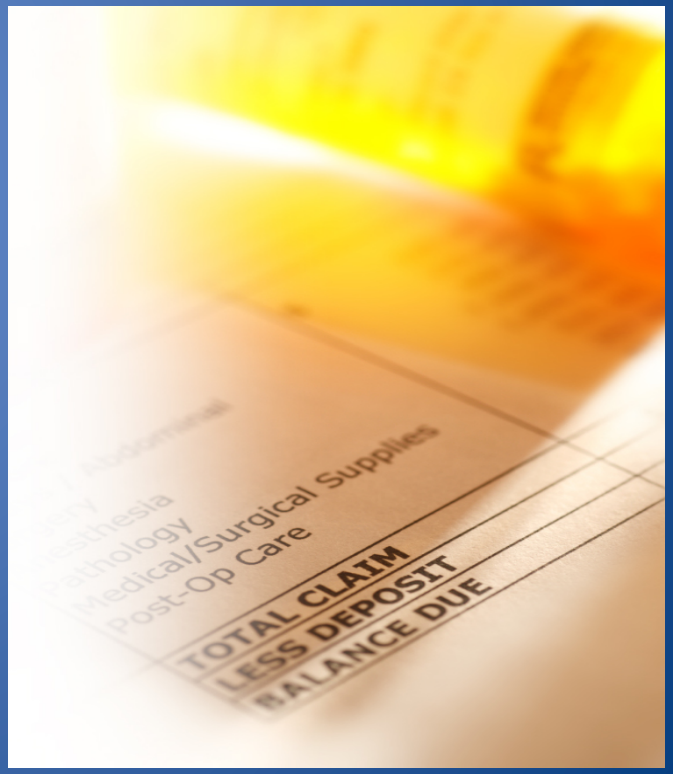
Health Insurance Premium Rebates

Insurance carriers must issue rebates to policyholders if less than a standard percentage of their premiums was spent on clinical services and health care quality improvement activities.

- Health plans were required to report the percentage of each premium dollar that was spent on medical claims in plan year 2011.
- This calculation was based on aggregate market data in each state. If the percentage was less than 80% (for small groups and individuals), rebates for the difference were sent to policyholders prior to August 1, 2012.



Effective Date: 2012

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W-2 Reporting Requirement

Employers filing 250 or more Form W-2s must report the aggregate value of health coverage benefits.

- There are certain amounts that are not required to be included (refer to www.IRS.gov).

- This is for informational purposes only and does not represent a new tax to be imposed on you.

Effective Date: 2012
(for employers filing 250 or more Form W-2s in the previous year)

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Itemized Deduction Threshold

You can claim an itemized deduction for your unreimbursed medical expenses.

- Must be in excess of 10% of your adjusted gross income (this threshold for claiming the deduction is increased from 7.5% of adjusted gross income).
- Age-Based Exception: The itemized deduction threshold remains at 7.5% of adjusted gross income through 2016 for individuals age 65 or older.

Effective Date: 2013

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FSA Contribution Limit

If you contribute funds from your paycheck to a medical flexible spending account, the maximum amount you will be allowed to contribute per year will be the lesser of the plan maximum or $2,500 (to adjust annually for inflation).

Currently, the maximum FSA contribution amount is determined by the employer and there is no statutory limit.

Effective Date: 2013

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Plan for Your Business

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Jumpstart Our Business Startups (JOBS)

- Signed and enacted in 2012 – a true job creation effort.
- Designed to help small companies & entrepreneurs raise capital
- Operate with less regulation
- Both sides of the aisle believe this more employment opportunities

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Jumpstart Our Business Startups (JOBS)

Three major provisions:

1. Crowdfunding – brings potentially lucrative private opportunities to investors of moderate means. May also be an administrative nightmare.
2. Relief from federal requirements for small IPOs - threshold went from $5m to $50m
3. Companies that go public now have a five (5) year window (previously a two (2) year window) before complying with Sarbanes-Oxley

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IRS & Independent Contractors

- Employee vs Contractor – age old dilemma
- IRS believes it is losing significant amounts of revenue due to worker misclassification
- IRS & DOL are conducting a huge number of audits

- IRS created an “offer you can’t refuse”

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Year-end Planning - Business

- If planning to sell company, 2012 might be the year to consider finalizing the sale
- Review retirement plans
- Accelerate equipment purchases
  - 50% bonus depreciation
  - 100% §179 depreciation:
    - 2012 - $139,000 limit
    - 2013 - $25,000 limit
  - MUST BE IN-USE BY END OF YEAR

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Year-end Planning - Business

- If income will be more in 2013 then in 2012, consider accelerating income recognition
- Work Opportunity Credit – still available in 2012 for hiring qualified veterans
- Small Employer Health Insurance Credit – best fit is less than 10 employees and average salary of $25K or less
- Pay employee bonuses by year end

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Plan for Your Investments

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Investment Timing & Conversions

- 2012 is a GREAT year to harvest gains
  - Sell investments to capture the 15% capital gain rate
  - Reinvest at beginning of 2013
- If you have unused losses from prior years, harvesting gains may not make sense
- Should consider converting from traditional IRA to Roth IRA

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Plan for Your Estate

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Estate Tax Planning – What to Do??

- On January 1, 2013, federal estate tax exemption expected to drop to $1.0m from $5.12m in 2012
- So-called exemption "portability" between spouses would no longer be available
- Tax on assets over exemption amount will increase from 35% to 45%
- If estate is >$1.0m, consult trust & estate attorney before year end

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Gifting

- Annual exclusion - $13,000 per person
- For 2012, lifetime exclusion equals $5.12m
- For 2013, lifetime exclusion will equal $1.0m
- If you plan to make major charitable contributions, might want to consider pushing most, if not all, into 2012.

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Charitable Gifting

- Gift tax rules don't apply to charitable donations
- Consider giving appreciated stock instead of cash. As long as stock has been held more than one (1) year, your deduction = current market value not purchase price

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Plan for Yourself

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What To Do Between Now & Dec 31st

- Continue to work your plan
- Secure the services of trained professionals CPAs, Attorneys, Financial Planners
- If you are already working with professionals, consult with them sooner than later
- If your spouse has always “taken charge” of your tax planning, now is a good year to get involved.

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