Tax Changes You Need to Know

A Snapshot of 2014 Tax Law

This fact sheet explains many of the tax law changes made in 2013 that could affect your tax bill or refund in 2014. Your CPA can explain how these laws affect you, and identify strategies to reduce your future tax liability and help you meet your financial goals. Rely on your CPA to provide you with trusted advice, not only during tax season but throughout the year.

WHAT'S NEW?

The good news is that some credits and deductions were made permanent, so taxpayers don't need to worry year to year if they are available. The bad news is that new taxes were created and tax rates increased for higher-income taxpayers, who also will see limits on itemized deductions and personal exemptions. Also, certain tax credits have stricter income limits, so taxpayers no longer will qualify for them.

ALTERNATIVE MINIMUM TAX (AMT)

The AMT was designed to ensure high-income taxpayers paid a minimum amount of tax. Over time, it reached more and more middle-income individuals. When it is triggered, the taxpayer pays a higher tax than their regular income tax.

Taxpayers who paid AMT in the past but don't owe it for 2013 may be eligible for a credit.

NEW TAXES

- 3.8% tax on net investment income (e.g., capital gains, interest and dividend income) applies only if modified adjusted gross income (MAGI) exceeds $200,000 for single taxpayers or $250,000 for married filing jointly

> Modified AGI, used to determine eligibility for numerous credits, includes most forms of income, minus a few select deductions such as student loan interest, alimony payments and half of any self-employment taxes paid.

- Additional 0.9% health insurance tax on wages in excess of $200,000 for single filers or $250,000 for married filing jointly taxpayers

Important to check: Withholding is only required on wages above $200,000. If each spouse earned below $200,000, their employers may not have withheld the tax but they will owe it if their joint income exceeds $250,000.

FEDERAL TAX RATE INFO

Income Tax
Most rates stay the same, but a new rate was created — highest income taxpayers (above $400,000 or $450,000) will pay 39.6%.

Capital Gains
- 10% or 15% tax bracket: No tax
- 25%, 28%, 33% or 35% brackets: 15%
- 39.6% tax bracket: 20%

Estate Tax: 40%

NEW RULES

- Itemized deductions are reduced for upper-income taxpayers. Similarly, some higher-income taxpayers will lose part or all of the personal exemption ($3,900 for 2013).
- The $5 million estate and gift tax exclusion amount will now be indexed for inflation ($5.25 million for 2013), but the top rate increased from 35% to 40%. The portability rule, which allows the surviving spouse to claim the deceased spouse's unused exemption, is now permanent.
- Following a Supreme Court ruling (*U.S. v. Windsor*), same-sex couples are treated as married for federal tax purposes if the couple was legally married in a state that authorizes same sex marriage. The new rules require married same-sex couples to file as married filing jointly or married filing separately.
- The exemption for the Alternative Minimum Tax (AMT) will now be indexed for inflation so fewer middle-income taxpayers will have to pay it. However, the income limits are still low. For tax year 2013, the exemption is only $51,900 for single taxpayers and heads of household and $80,800 for joint filers.

TAX BENEFITS EXTENDED OR MADE PERMANENT

Higher Education
The American Opportunity Tax Credit for undergraduate expenses was extended through 2017. Other education incentives that will be permanently available include:

- The Lifetime Learning Credit that provides up to $2,000 for qualified graduate or undergraduate expenses
- The $5,250 exclusion for employer-provided educational assistance
- The $2,500 deduction per return for student loan interest (without a 5-year limitation)

Family
- The child tax credit ($1,000 per child) is now permanent
- The child and dependent care credit (up to $3,000 of expenses for the first child, $6,000 for multiple children) was made permanent
- The tax credit for qualified adoption expenses ($12,970 in 2013) is also permanent

SAY GOOD-BYE FOR NOW TO THESE TAX BREAKS

Several tax deductions or credits can be claimed for the return filed in 2014, but they cannot be used in 2015 as they expired Dec. 31, 2013* — below are a few popular ones.

- Teachers' classroom expenses — Primary and secondary educators could claim an above-the-line deduction for up to $250 in unreimbursed expenses
- Deduction for mortgage insurance premiums — These premiums will no longer be treated as interest that can be deducted
- Tax credit for purchasing energy-efficient appliances and making energy-saving home improvements
- The charitable rollover, which allowed someone age 70½ or older to make tax-free distributions from an IRA to a charity as a gift
- Deduction for state and local sales taxes — taxpayers could deduct these instead of state and local income taxes

*Legislation has been introduced in Congress to extend these provisions through 2014.

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