

Embarking on the New Tax “Frontiers”

Preparing for the 2014 “Tax Tier” Filing Season

Highlight Reel

- The year 2013 is seeing **higher tax rates**. Prepare for 2014 by knowing where you fall.
- There is a new **3.8 percent surtax** on net investment income. However, income derived from an active trade or business; distributions from IRA’s or qualified plans; income taken into account for self-employment tax purposes; gain on the sale of an active interest in partnership; and interest from tax-exempt bonds would not be subject to this surtax.
- An additional **Medicare tax** of 0.9 percent applies to individual wages, compensation and self-employment income over various thresholds. Check the graph to see if this tax applies to you.
- Couples with an AGI of \$300,000 or more and single filers with an AGI of \$250,000 or more can expect to experience the **Pease limit** which places limitations on itemized deductions.
- Alternative Minimum Tax (**AMT**) exemptions have been raised in 2013, as well as exemption phase outs for AMT.

Graph

INCOME TAX RATES	SINGLE FILERS	MARRIED FILING JOINTLY
10 percent	\$8,925	\$17,850
15 percent	\$36,250	\$72,500
25 percent	\$87,850	\$146,400
28 percent	\$183,250	\$223,050
33 percent	\$398,350	\$398,350
35 percent	\$400,000	\$450,000
39.6 percent	\$400,001 and up	\$450,001 and up

NET INVESTMENT INCOME TAX

3.8 percent	\$200,000+	\$250,000+
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MEDICARE TAX

0.9 percent	\$200,000+	\$250,000+
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PERSONAL EXEMPTION PHASEOUT AND PEASE LIMIT

	\$250,000+	\$300,000+
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AMT EXEMPTIONS

SINGLE FILERS	MARRIED FILING JOINTLY	MARRIED FILING SEPERATELY
\$51,900	\$80,800	\$40,400

AMT EXEMPTIONS PHASEOUT EXEMPTIONS

SINGLE FILERS	MARRIED FILING JOINTLY	MARRIED FILING SEPERATELY
\$115,400	\$153,900	\$76,950

Examples

John Smith:

John Smith is married with two children, filing jointly with an AGI of \$500,000 (all earned, ordinary, non-investment income) with the following deductions:

- Charitable = \$20,000
- Property Taxes = \$30,000
- Mortgage Interest = \$20,000

Smith would **not** hit the top tax rate of 39.6, as his taxable income falls below the \$450,000 threshold. Based on his earned income, he would pay an additional \$2,250 in Medicare tax. Itemized deductions would be limited, and personal exemptions would be phased out completely. Smith would also be subject to the *Alternative Minimum Tax* (see chart)

Henry Wilson:

Taxpayer Henry Wilson is single, with no dependents. Wilson has an AGI of \$450,000 (\$350,000 earned, ordinary, non-investment income, and \$100,000 of net investment income).

Deductions:

- Charitable = \$10,000
- Property Taxes = \$17,000
- Mortgage Interest = \$15,000

Wilson would hit the top tax rate of 39.6, and would be subject to the 3.8% surtax on the \$100,000 of net investment income. Wilson would pay an additional \$1,350 in Medicare tax, based on his earned income, and his itemized deductions would be limited. His personal exemption would be phased out completely, but Wilson would **not** be subject to the Alternative Minimum Tax.

Margaret White:

Taxpayer Margaret White is married and filing jointly. White has an AGI of \$750,000 (all earned, ordinary, non-investment) and one teenage son with no income to report.

Deductions:

- Charitable = \$25,000
- Property Taxes = \$40,000
- Mortgage Interest = \$25,000

White would hit the top tax rate of 39.6, and would also pay an additional \$4,500 in Medicare tax, based on her earned income. Her itemized deductions would be limited, and personal exemptions would be phased out completely. Wilson would **not** be subject to the Alternative Minimum Tax.

**If you have questions about the new tax tiers, the Maddox Thomson team is here to help.
Give us a call at (713) 783-4242 or email us at info@maddoxthomson.com**