



January 2013

RE: WHAT'S NEW FOR 2013? (Oh boy!)

Happy New Year! Please find enclosed our annual guide to what's new in the coming year. Also included are the latest changes made as a result of the (much discussed) "fiscal cliff" compromise, as well as new taxes enacted as part of the new health care legislation.

Highlights:

Extra Take-home Pay Eliminated

In 2011 and 2012, social security taxes withheld from wages were reduced by 2% as part of the economic stimulus package. This benefit was *not* extended into 2013. This has the effect of reducing take-home pay for employees by up to \$2,200.

Expensing of Business Assets

- The accelerated depreciation rules for business assets have been extended for another year into 2013. As a result, 50% of the cost of *new* assets purchased in 2013 can be expensed as "bonus" depreciation.
- As an alternative (per code section 179), 100% of the cost of *new or used* assets purchased in 2013 can be expensed up to \$500,000, as long as total 2013 asset purchases are less than \$2,000,000. (Surprisingly, the 2012 expensing option was retroactively increased from \$139,000 to \$500,000 as well).
- Qualified leasehold improvements in 2013 can continue to be depreciated over 15 years or expensed, up to \$250,000, as part of their code section 179 cap of \$500,000.

Estate and Gift Taxes

The lifetime exemption of \$5,120,000 was surprisingly retained and is now permanent, with an inflation index to keep it current, but the tax rate increased from 35% to 40%. The very favorable "portability" of unused exemptions between spouses also became permanent.

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Individual Income Taxes

- **Tax Brackets:** Only those with taxable income exceeding \$450,000/joint filing (\$400,000/single) will see their top bracket increase from 35% to 39.6%.
- **Deduction Phase Outs:** Those with income exceeding \$300,000/joint (\$250,000/single) will see a reduction of most itemized deductions by up to 80%, and a 100% phase out of personal exemptions. These phase outs have the effect of increasing the effective tax rate by 1-2%.
- **Capital Gains and Dividends:** Top tax rates on capital gains and qualified dividends will rise to 20%, from 15%, but only for those in the top tax bracket (\$450,000/joint; \$400,000/single). All other dividends and short-term capital gains will be taxed as ordinary income.

Additional Tax Increases

In order to pay for the new health care law, additional tax increases will also begin in 2013 (separate from the "fiscal cliff" tax increases) as follows:

- 3.8% additional tax on investment income, based on the amount that total income exceeds \$250,000/joint (\$200,000/single)
- 0.9% additional tax on earned income, based on the amount that total income exceeds \$250,000/joint (\$200,000/single)

In summary: For those in the top bracket, long-term gains and qualified dividends will be taxed at 23.8%, while short-term gains and other dividends will be taxed at 43.4%.

HAVE A HAPPY AND PROSPEROUS NEW YEAR!



MargolisBecker LLC

What's New in 2013?		
	2013	2012
Business Taxes		
Bonus depreciation (new assets)	50%	50%
Asset expensing option (Sec 179) (new or used assets)	\$500,000	\$500,000 (was 139,000)
Includes interior improvements expensing option or 15-year write-off	\$250,000	\$250,000
Annual asset purchase limitation under Sec 179	\$2 mil - \$2.5 mil	\$2 mil - \$2.5 mil
Domestic production activity deduction (for manufacturing, construction, software development)	9%	9%
Mileage Rate	56.5 cents	55.5 cents
Tax-free parking & transit passes per month, each	\$240	\$240
Individual Income Taxes		
Qualified dividends and capital gains tax (top rate)	20%	15%
Top individual tax bracket	39.6%	35%
Estimate Tax "Safe Harbor" (% of prior year's tax)	110%	110%
Retirement Plans		
Maximum compensation limit	\$255,000	\$250,000
Maximum contribution to employee account	\$51,000	\$50,000
401(k) maximum employee contribution	\$17,500 <i>\$23,000 if age 50 by 12/31/2013</i>	\$17,000 <i>\$22,500 if age 50 by 12/31/2012</i>
Simple plan contribution limit	\$12,000 <i>\$14,500 if age 50 by 12/31/2013</i>	\$11,500 <i>\$14,000 if age 50 by 12/31/2012</i>
IRA contribution limit	\$5,500 <i>\$6,500 if age 50 by 12/31/2013</i>	\$5,000 <i>\$6,000 if age 50 by 12/31/2012</i>
Social Security Tax - Employee (employer is 6.2% in 2012 and 2013)		
Medicare Tax	1.45%	1.45%
Social Security taxable wage base	\$113,700	\$110,100
Maximum earnings before Social Security benefits reduced:		
Before full retirement age (between ages 62 and 66)	\$15,120	\$14,640
Year of full retirement age (age 66)	\$40,080	\$38,880
After full retirement age (over age 66)	no limit	no limit
Social Security benefits increased	1.7%	3.6%
Maximum Social Security benefits per month	\$2,533	\$2,513
Estate and Gift Taxes		
Annual gift tax exclusion	\$14,000	\$13,000
Estate tax exemption upon death	\$5,120,000	\$5,120,000
Gift tax exemption upon death	\$5,120,000	\$5,120,000