Year-end tax planning could be especially productive this year because timely action could nail down a host of tax breaks that won't be around next year unless Congress acts to extend them, which, at the present time, looks doubtful.

By: DRDA, PLLC

Tax savings can be realized by taking advantage of the following business tax breaks that still exist for 2013:

Bonus Depreciation. Bonus depreciation is still available for 2013. You can deduct 50% of the cost of qualifying new business assets. Large SUVs are eligible for bonus depreciation; bonus depreciation is limited to $8,000 on passenger automobiles. The business assets must be new in order to qualify for bonus depreciation.

Section 179. For tax years beginning in 2013, the Section 179 deduction is $500,000. The $500,000 deduction is limited if a business acquires more than $2,000,000 of qualifying property. Unlike bonus depreciation which only applies to new business assets, Section 179 may be taken on new and used property. The Section 179 limit for large SUVs ($25,000) remains unchanged. The Section 179 expensing limit will be reduced to $25,000 in 2014.

Standard Mileage Rate. The standard mileage rate for business miles in 2013 is 56.5 cents per mile.

2013 Tax Rate Changes for Individuals:

39.6% Tax Bracket. The highest marginal tax bracket of 39.6% on ordinary income has been reinstated for income over $400,000 for single filers and $450,000 for married filing jointly.

Qualified Dividends and Capital Gains. Qualified dividends and long-term capital gains for taxpayers that fall in the new 39.6% tax bracket will be taxed at 20%. The 0%/15% tax rates on dividends and capital gains in lower tax brackets remain the same.

3.8 Percent Medicare Contribution Tax. There is a new, complicated 3.8% Medicare tax on unearned income of high-income individuals, estates and trusts. The Medicare surtax is imposed on net investment income including interest, dividends, capital gains, royalties, rents and passive income (income that is not from an active trade or business). This tax applies to taxpayers with modified adjusted gross income above these thresholds: $250,000 for married taxpayers filing jointing; $125,000 for married taxpayers filing separately; and $200,000 for single and head of household taxpayers. The tax applies to the lesser of the taxpayer's net investment income or amount of modified AGI over the threshold amount. For an estate or trust, the surtax applies at the highest marginal tax bracket (currently $11,950). This tax does not apply to distributions from qualified retirement plans.

0.9 Percent Additional Medicare Tax. Higher-income individuals also face an additional 0.9% Medicare tax on wages. Wages in excess of $200,000 for an individual ($250,000 for married taxpayers filing jointly) will be subject to a 2.35% total Medicare tax. Self-employed individuals are also subject to this additional Medicare tax. Employers must withhold the additional Medicare tax from wages in excess of $200,000 regardless of filing status or other income.

If an employee has changed jobs during the year, the employee may need to have more withheld toward year-end to cover the tax if total wages for the year will exceed $200,000.

Retirement Savings Rules:

401(k) Contributions. The §401(k) elective deferral limit is $17,500 for 2013 and 2014. If you will be 50 years old by December 31, you may contribute an additional $5,500 to your §401(k) account, for a total maximum contribution of $23,000.

IRA Contribution Limit. The IRA contribution limit is $5,500 for 2013 and 2014 ($6,500 if you're over 50).

Required Minimum Distribution. If you have reached 70 1/2, you can delay the first required distribution to 2014. However, you will have to take a double distribution in 2014 which may put you into a higher tax bracket or make you subject to the 3.8% additional Medicare tax.

Other Tax Provisions:

Foreign Earned Income Exclusion. If you're a U.S. citizen living abroad, the amount of foreign earnings you can exclude from taxable income is $97,600 in 2013.

Home Office Deduction. Beginning in 2013, taxpayers who use their home office for business are allowed to use a simplified method to compute the deduction. In lieu of actual expenses, the simplified deduction is $5 per square foot, up to $1,500.

Gift Tax Exclusion. The gift tax exclusion increased to $14,000 for 2013.

Health Flexible Spending Accounts (FSA). The maximum salary reduction limit is $2,500.

Health Savings Accounts (HSA). The annual contribution limit is $3,250 in 2013 and $3,300 in 2014 for self-only coverage and $6,450 in 2013 and $6,550 in 2014 for family coverage. An additional catch-up contribution of $1,000 may also be made for those participants who are 55 or older.

The following deductions and credits are still available for 2013 but are scheduled to disappear for 2014:

- Itemized deduction for state and local sales tax
- Above-the-line deduction for tuition and fees
- Above-the-line deduction for educator expenses
- Research credit for businesses
- Mortgage insurance premiums deduction
- Energy-Efficient Home Improvement Tax Credit
- Tax free IRA distributions to charity

Health Care Reform Provisions:

Individual Mandate. All citizens and legal residents are required to have qualifying health coverage in 2014. If you don't have health insurance, you'll have to pay a tax penalty starting at $95 per individual, $285 per family, or 1% of income, whichever is greater. The penalty rises to $695 per individual, $2,085 per family, or 2.5% of income in 2016.

Business Mandate. Not taking effect until 2015, the employer mandate requires employers of 50 full-time employees or more to offer quality, affordable health insurance coverage to full-time employees (those working on average at least 30 hours per week) and their families. The penalty for not offering coverage is $2,000 multiplied by all full-time employees (minus first 30 full-time employees). If the employer coverage is not affordable (employee's cost for single coverage exceeds 9.5% of household income), the annual penalty is the lesser of $2,000 multiplied by all full-time employees (minus first 30) or $3,000 for each full-time employee who receives a subsidy through an exchange.

If you would like our assistance with a more in-depth analysis of your own tax situation for 2013, please contact us. We appreciate the opportunity to work with you and want to assist you in making timely decisions prior to December 31, 2013. We believe we can help with financial decisions that are prudent and will take advantage of the opportunities that are currently available to you. We look forward to working with you.