Tax Tips

Fall 2012

Tax News You Can Use from Steinberg Enterprises, LLC

What You Need to Know Now...

New Taxes You'll See from the Affordable Care Act

Now that the Affordable Care Act (also known as "ObamaCare") has been upheld by the Supreme Court, a series of tax increases will take effect starting in January. Here's what you'll see:

1. If you are Single and earning at least $200,000 or Married with combined earnings of at least $250,000, you'll get hit with an additional 0.9% surtax. This surtax also affects those who are self-employed.
2. Unearned income – investment income including interest, dividends, capital gains, annuities, royalties, and passive rental income – will be subject to a 3.8% Medicare surtax for those who are Single and earning at least $200,000 or Married with combined earnings of at least $250,000.
3. Tax-free interest (e.g., from municipal bonds) or payouts from retirement plans are **exempt** from the 0.9% Medicare surtax tax.
4. The 7.5% of AGI floor for deducting medical expenses will increase to 10% for taxpayers under age 65. Under current law, those 65 and older will not be affected until 2017.
5. Employer sponsored Flexible Spending Accounts (FSAs) will be capped at $2,500 rather than at the 2012 level of $5,000.
6. The federally subsidized part of retiree drug plan costs will become non-deductible.
7. A 2.3% excise tax will be imposed on medical devices. Common retail items as hearing aids, eyeglasses, and contact lenses will be exempt from this tax.

2013 Retirement & Savings Plans Guidelines

The IRS has issued the 2013 tax and contribution guidelines for employer-sponsored retirement plans [401(k), 403(b), 457], Traditional IRAs, Roth IRAs, and other retirement plans. Please review these guidelines carefully to determine if any apply to accounts owned by you or your loved ones.

We strongly recommend that you consult with your employer's benefits administrator if you have any questions regarding a specific employer's plan.

1. The elective deferral (contribution) limit for employees who participate in 401(k), 403(b), most 457 plans, and the federal government's Thrift Savings Plan is **$17,500**.
2. The catch-up contribution limit for employees aged 50 and over who participate in 401(k), 403(b), most 457 plans, and the federal government's Thrift Savings Plan **remains unchanged at $5,500**.
3. The deductible amount for an individual making qualified retirement contributions is increased to **$5,500.**
4. The dollar limitation for catch-up contributions to an applicable employer plan for individuals aged 50 or over remains **unchanged at $2,500 or $5,500**, based on your type of plan.
5. The minimum compensation amount regarding Simplified Employee Pensions (SEPs) remains **unchanged at $550**.

continued on page 2

2013 Plan Guidelines, continued…

6. Traditional IRA contributions are phased out, based on your filing status and your adjusted gross income (AGI) amounts:
   - for Singles and Heads of Household who are covered by a workplace retirement plan and have modified AGI between **$59,000 and $69,000**;
   - for Married couples filing jointly, where the spouse who makes the IRA contribution is covered by a workplace retirement plan, the income phase-out range is **$95,000 to $115,000**;
   - for an IRA contributor who is not covered by a workplace retirement plan and is married to someone who is covered, the deduction is phased out if the couple's income is between **$178,000 and $188,000**.
7. Roth IRA contributions are phased-out based on your filing status and your AGI amounts:
   - for Singles and Heads of Household, the income phase-out range is **$112,000 to $127,000**;
   - for Married couples filing jointly, the income phase-out is **$178,000 to $188,000**;
   - for a Married individual filing a separate return who is covered by a retirement plan at work, the income phase-out range remains $0 to $10,000.
8. The limitation regarding SIMPLE retirement accounts is increased to **$12,000**.
9. The AGI limits for the saver's credit (i.e., the retirement savings contribution credit) for low- and moderate-income workers is **$59,000** for Married couples filing jointly; **$44,250** for Heads of Household; **$29,500** for Married individuals filing separately and for Singles.
10. Elective deferrals to deferred compensation plans are increased to **$17,500**. This limitation affects elective deferrals to 401(k) plans, Section 403(b) (tax-exempt non-profit) plans, state and local governments, and the Federal Government's Thrift Savings Plan). The limitation on the annual benefit under a defined benefit plan is increased to **$205,000**, and that for defined contribution plans is increased to **$51,000**.

Two Common Tax Benefits Get Inflation Adjustments

Here, at least, is some good news. The IRS has announced the 2013 inflation adjustments for two common tax benefits:

1. The annual exclusion for gifts rises to **$14,000** for 2013, up from $13,000 for 2012.
2. The amount used to reduce the net unearned income reported on a child's tax return subject to the "kiddie tax," is **$1,000**, up from $950 for 2012.

Thank You for Your Business

As always, please do not hesitate to contact us with any questions or concerns you may have about any issues covered in the newsletters or any other issues important to you. Your business continues to be appreciated.

Please call us with your tax and financial questions.
Steinberg Enterprises provides confidential, convenient services based on over 25 years of practical financial management and tax experience.

We are committed to improving our clients' financial well being.

Steinberg Enterprises, LLC
119 Tunicflower Lane
West Windsor, NJ 08550
609.443.0469 609.443.0499 fax
LSteinberg@SteinbergEnterprises.com
www.SteinbergEnterprises.com