

2014 Tax-Related Updates

Hello!

We hope the New Year is off to a good start for you. In this month's newsletter, a summary of some of the updated tax-related changes for 2014 are highlighted. Additional information on the updated numbers for this year can be found in the "2014 Clarity Reference Guide" on the Additional Clarity section of our website (www.claritywa.com). With it being a new year, some individuals choose to make their new year's resolutions be to save more diligently or learn potential financial strategies they can benefit from.

Federal Income Tax Brackets

Beginning in 2013, the 39.6% federal tax bracket was reinstated. For this year, here are the tiered tax brackets:

- 10%
 - Single Filers: \$0 - \$9,075
 - Joint Filers: \$0 - \$18,100
 - Head of Household: \$0 - \$12,950
 - Filing Separately: \$0 - \$9,075
- 15%
 - Single Filers: \$9,076 - \$36,900
 - Joint Filers: \$18,151 - \$73,800
 - Head of Household: \$12,951 - \$49,400
 - Filing Separately: \$9,076 - \$36,900
- 25%
 - Single Filers: \$36,901 - \$89,350
 - Joint Filers: \$73,801 - \$148,850
 - Head of Household: \$49,401 - \$127,550
 - Filing Separately: \$36,901 - \$74,425
- 28%
 - Single Filers: \$89,351 - \$186,350
 - Joint Filers: \$148,851 - \$226,850
 - Head of Household: \$127,551 - \$206,600
 - Filing Separately: \$74,426 - \$113,425

- 33%
 - Single Filers: \$183,251 - \$405,100
 - Joint Filers: \$226,851 - \$405,100
 - Head of Household: \$206,601 - \$405,100
 - Filing Separately: \$113,426 - \$202,550
- 35%
 - Single Filers: \$405,101 - \$406,750
 - Joint Filers: \$405,101 - \$457,600
 - Head of Household: \$405,101 to \$432,200
 - Filing Separately: \$202,551 - \$228,800
- 39.6%
 - Single Filers: Over \$406,750
 - Filing Jointly: Over \$457,600
 - Head of Household: Over \$432,200
 - Filing Separately: Over \$228,801

Payroll Taxes

Social Security Taxes

The tax rate is a combined 12.4% for this year and the Social Security wage base is \$115,000, up from \$113,700 in 2013. For those that are employed, one-half of the tax is paid by them, and the other half by the employer - when one's compensation exceeds \$115,000, Social Security taxes will no longer be withheld.

For those that are self-employed, the same Social Security wage base also applies for purposes of calculating self-employment taxes. Since business owners pay taxes on both levels - as the employer and an employee - one-half of the self-employment taxes are tax-deductible.

Medicare Taxes

For 2014, the rate is 2.9% of which half is paid is paid by the employee and the remaining half by the employer. There is no income limit on this so they will continue to be deducted.

Supplemental Medicare Tax

For those taxpayers with an adjusted gross income (AGI) over a certain amount, they are also subject to a Medicare tax on investment income, such as interest, dividends, capital gains, and rental income. The tax rate of 3.8% will be calculated based on the lesser of:

- Net investment income
- Excess of one's modified AGI over specified threshold amounts:
 - Single Filers: \$200,000
 - Married Filing Jointly: \$250,000
 - Head of Household Filers: \$200,000
 - Married Filing Separately: \$125,000

Deductions

Personal Exemption Amount

For 2014, this has increased to \$3,950 and represents the amount one can deduct for each exemption claimed on a federal income tax return for this year. This amount is reduced by 2% for each \$2,500 by the amount one's adjusted gross income exceeds the threshold based on filing status:

- Single: \$254,200
- Married Filing Jointly: \$305,050
- Head of Household: \$279,650
- Married Filing Separately: \$152,525

Standard Deduction Amount

According to the IRS, approximately two-thirds of taxpayers claim the standard deduction on their income tax returns. Here are the updated figures for this year:

- Single: \$6,200
- Married Filing Jointly and Qualifying Widows: \$12,400
- Head of Household: \$9,100
- Married Filing Separately: \$6,200

There is an additional \$1,200 deduction for those over age 65, blind, and filing jointly as well as an additional \$1,500 deduction for single and head of household filers that are not a surviving spouse.

Itemized Deductions

In one's federal tax return, there is an option to either take the standard or itemized deductions.

In the event the latter is greater than the standard deduction, one would most likely choose to itemize. However, itemized deductions are reduced by 3% of the amount one's AGI exceeds the threshold below yet the reduction cannot exceed 80% of the allowable deductions.

- Single: \$254,200
- Married Filing Jointly: \$305,050
- Head of Household: \$279,650
- Married Filing Separately: \$152,525

Alternative Minimum Tax (AMT) Exemption

For this year, the AMT exemption amount for is \$52,800 for single and head of household filers and \$82,100 for those filing jointly.

Retirement Plans

Traditional IRAs

The contribution limit for these accounts remains at \$5,500 and an additional \$1,000 can be added as catch-up contribution if the person is age 50 or over. The deductibility of the contributions depends on if one participates in an employer-sponsored retirement plan and their modified adjusted gross income.

Roth IRAs

As with traditional IRAs, the maximum contribution for this year is \$5,500 for those under age 50 and \$6,500 for those ages 50 and over. Only those with incomes below a certain level can contribute the full amount.

- Single Filers: \$114,000
- Married Filing Jointly: \$181,000
- Head of Household: \$114,000
- Married Filing Separately: \$0

Those with incomes above those figures may be able to contribute a reduced amount.

401(k) Plans, 403(b) Accounts, Government Thrift Savings Plans (TSP), and some 457 Plans

The contribution limit remains unchanged from last year at \$17,500. For those ages 50 or over, the catch up contribution is an additional \$5,500.

SEP IRAs

This year, the contribution limit for these plans is the lesser of \$52,000 or 25% of one's compensation (up to \$260,000 of one's calculation can be used in the calculation).

SIMPLE IRAs and SIMPLE 401(k) Plans

Contribution limits for these plans remain at \$12,000, as does the catch up contribution limit of \$2,500 for those ages 50 and over.

Defined Benefit Plans

For this year, the maximum contribution is the lesser of \$210,000 or 100% of the participant's average compensation for his or her highest three years.

Flexible Spending Account (FSAs)

For health-care related FSAs, the maximum contribution for 2014 is \$2,500. Last year, the government changed the rules so employers can allow their employees to carry over up to \$500 in their FSAs from one year to the next. In the past, there was a use-it-or-lose-it provision if the funds from the prior year were not used before March 15th of the current year. Employers had the option to make this change to their plan before the end of last year, but they were not required to offer this carryover provision. Employers can continue to have the March 15th grace period instead or offer neither option, but they cannot offer both the grace period and the \$500 carryover provision.

For dependent care FSAs, the maximum contribution amount is \$5,000 for all tax filers except those filing separately. Their contribution limit is \$2,500.

High Deductible Health Plans (HDHPs) and Health Savings Accounts (HSAs)

HDHPs – For those who are covered under HDHPs, the annual deductible remains unchanged from last year:

- Individual coverage: \$1,250
- Family coverage: \$2,500

HSAs – As long as one has an HSA-compatible HDHP, then a health savings account can be funded. For this year, the contribution limits are:

- Individual: \$3,300
- Family: \$6,650

For those covered under an HSA-compatible HDHP, if they are age 55 or over, they are entitled to make an additional catch-up contribution of \$1,000.

Gift Tax Exclusion Amount

The annual exclusion for gifts this year remains unchanged at \$14,000.

For those that have a spouse who is not a U.S. citizen, the first \$145,000 in gifts to them are not included in the total amount of taxable gifts made during the year. The exceptions are gifts of future interests in property.

Estate Tax Exemption Amount

For this year, the amount has been increased to \$5,340,000, up from \$5,250,000 for estates of decedents who passed away last year.

Conclusion

As there are changes to tax-related items, it is important to keep apprised of them so as to take advantage of available strategies to reduce one's overall tax liability.