



FINANCIAL SECURITY
PLANNING SERVICES, INC.SM

Tax Planning Update

March 2014

Let's review some important items to be aware of as you prepare to file your 2013 taxes, and changes for 2014.

Filing your 2013 return

Americans, especially high-income taxpayers, are set to face a host of changes this tax season, both pleasant and not-so-pleasant. Highlights include:

- **New top tax rate.** Individual filers who earn more than \$400,000 (\$450,000 for married couples filing jointly) will fall into a new 39.6-percent bracket, which replaces the previous 35-percent rate.
- **Higher Medicare taxes.** An additional Medicare surtax of 0.9 percent applies to income over \$200,000 (\$250,000 for married couples filing jointly). There's also a new 3.8-percent tax on net investment income for taxpayers with modified adjusted gross income above that same threshold. (The IRS explains what does and doesn't count as net investment income at www.irs.gov/uac/Newsroom/Net-Investment-Income-Tax-FAQs.)
- **Limitation on itemized deductions.** Reintroduced in 2013 by the fiscal cliff deal, the limitation affects taxpayers with adjusted gross income (AGI) above \$250,000 (\$300,000 for married couples filing jointly). For these taxpayers, itemized deductions will be reduced by 3 percent of the AGI amount above the threshold. The same income threshold also applies to phaseouts for personal and dependent deductions.
- **Simplified home office deduction.** Instead of calculating actual expenses for a home office, you can take a standard deduction of \$5 per square foot of home office space, up to 300 square feet-for a maximum of \$1,500. The IRS estimates that the new option will save taxpayers 1.6 million hours of paperwork and recordkeeping annually.

- **New filing options for married same-sex couples.** Legally married same-sex couples must file their federal returns as married, regardless of whether their current state of residence recognizes same-sex marriage. Keep in mind that some couples may need to file their state tax returns singly if the state where they live doesn't recognize the marriage.

What's in store for tax year 2014?

Although there's been plenty of talk about the dozens of tax breaks that expired at the end of 2013, it's important to note that this won't affect your 2013 return. And, by the time next tax season rolls around, Congress may have extended some or all of the expired provisions for 2014. Of course, from a planning standpoint, it's helpful to know what to expect.

Here's a look at a few key tax breaks that may not be available in 2014:

- **Mortgage debt forgiveness.** During the housing crisis, struggling homeowners were able to exclude from their taxable income up to \$2 million in forgiven mortgage debt on their principal residence. Now that the housing market is improving, it remains to be seen whether the government will act to extend this tax break.
- **Charitable rollovers.** If this provision isn't renewed, people age 70½ and older will no longer be able to donate to charity directly from an individual retirement account, which allowed them to avoid recognizing the withdrawal as income and paying taxes on it.
- **Bonus depreciation provision.** Small business owners may lose out on the 50-percent bonus depreciation provision, which allowed them to deduct half the cost of qualified property in the first year of use and immediately reinvest that into the company. For more information, visit the IRS website at www.irs.gov/publications/p946/ch03.html.

While we can only wait and see whether Congress acts to extend these and other tax breaks, one change that's already set for next tax season is **Obamacare's "individual responsibility payment."** If you don't have health insurance in 2014, you'll pay either 1 percent of your taxable income or a flat fee of \$95 per uninsured adult and \$47.50 per child, whichever is greater, with a maximum of \$285 per family. (The maximum increases to \$325 in 2015 and \$695 in 2016.)

Time to change your W-4?

Tax season is also a good time to consider adjusting your W-4 withholding. This may be especially relevant if you've recently seen a substantial change in income or if you plan to retire in 2014. The IRS offers a convenient withholding calculator, available at

www.irs.gov/Individuals/IRS-Withholding-Calculator, that can help you determine if you're having too much or too little withheld from your pay.

More to come . . .

We hope you find this information helpful as you prepare your 2013 taxes and begin to plan for 2014. As always, we'll update you on the latest tax news as it becomes available, with an eye to helping you minimize your liability and keep your financial plan on track.

This material has been provided for general informational purposes only and does not constitute either tax or legal advice. Although we go to great lengths to make sure our information is accurate and useful, we recommend you consult a tax preparer, professional tax advisor, or lawyer.

IRS CIRCULAR 230 DISCLOSURE:

To ensure compliance with requirements imposed by the IRS, we inform you that any U.S. tax advice contained in this communication (including any attachments) is not intended or written to be used, and cannot be used, for the purpose of (i) avoiding penalties under the Internal Revenue Code or (ii) promoting, marketing, or recommending to another party any transaction or matter addressed herein. © 2014 Commonwealth Financial Network®

My staff and I deeply appreciate the continuing opportunity to work with you. Please let me know if you have any questions or requests. Thank you.

Sincerely,

Paul S. Bonapart, JD, RFC, AIF®, President
Financial Security Planning Services, Inc.
520 Tamalpais Dr, Suites 103 & 104
Corte Madera, CA 94925

(415) 927-2555

www.FinancialSecurityPlanning.com



CA Insurance License No. 0808412

-
- Financial Security Planning Services, Inc. is a Registered Investment Adviser.
 - Registered Representative with/and offering securities through Commonwealth Financial Network, Member FINRA, SIPC.
 - Indices are unmanaged and cannot be invested into directly. Past performance is not indicative of future results.

Delivering financial confidence since 1992