# Year-End Tax Planning Letter

# 2013

# Introduction

Tax planning is inherently complex, with the most powerful tax strategies often relying as much on clairvoyance as they do calculations. As 2013 begins to wind down, the need for a crystal ball lessens, and the ability to strategize with more certainty is upon us. This developing certainty provides us with an opportunity to better help our clients manage tax liabilities through tax planning techniques.

Year-end tax planning has always been arduous, but early 2013 legislation complicated our tax structure by layering in new tax brackets and income buckets, bringing a multidimensional complication to tax planning this year.

We focus here on tax planning techniques that can be executed during the remainder of 2013, but your facts and circumstances may open up other opportunities or limit some of the tactics discussed. If you think any of these strategies may help you manage your current-year tax liability or would like to discuss tax planning for 2013 and beyond, please let us know.

# Individual Tax Rate Management

In prior years, the main concern was that, if you reduced your regular income tax too far, the alternative minimum tax (AMT) would step in to appropriate your hard-earned tax savings. We now have additional dynamics to consider, when certain thresholds are exceeded, in the form of a 3.8 percent net investment income (NII) tax levied on investment income, a 0.9 percent Medicare payroll tax levied on wages and self-employment earnings and a multitiered long-term capital gains tax rate structure.

New taxes beginning in 2013 are as follows:

| New Taxes for 2013 | | | | |
|---|---|---|---|---|
| **Rate (%)** | **Single** | **Head of Household** | **Married Filing Jointly and Surviving Spouses** | **Married Filing Separately** |
| 3.8% | NII tax can apply for modified AGI over these thresholds | | | |
| | Over $200,000 | Over $200,000 | Over $250,000 | Over $125,000 |
| 0.9% | Wage/self-employment earnings thresholds for additional Medicare payroll tax on wages and net earnings from self-employment | | | |
| | Over $200,000 | Over $200,000 | Over $250,000 | Over $125,000 |

Additionally, the 39.6 percent tax bracket returns this year after a long hiatus for taxpayers above the following thresholds:

| 2013 Tax Rates | | | | |
|---|---|---|---|---|
| Ordinary Income Brackets | | | | |
| **Rate (%)** | **Single** | **Head of Household** | **Married Filing Jointly and Surviving Spouses** | **Married Filing Separately** |
| 10%-35% | $0-$400,000 | $0-$425,000 | $0-$450,000 | $0-$225,000 |
| 39.6% | Over $400,000 | Over $425,000 | Over $450,000 | Over $225,000 |

## 3.8 percent net investment income tax

The 3.8 percent NII tax now applies to most investment income.

For individuals, the amount subject to the tax is the lesser of:

1. Net investment income; or

2. The excess of modified adjusted gross income (MAGI) over the applicable threshold amount (shown in the previous table).

NII includes dividends, rents, interest, passive activity income, capital gains, annuities and royalties. Passive pass-through income will be subject to this new tax, but nonpassive will not. Self-employment income, income from an active trade or business and portions of the gain on the sale of an active interest in a partnership or S corporation with investment assets, as well as IRA or qualified plan distributions, are not subject to the NII tax.

For purposes of the NII tax, the threshold is generally adjusted gross income (AGI) as modified for certain foreign earned income.

- ▲ **Planning Point** – Weighing a decision about selling marketable securities to meet current cash needs? Consider using margin debt for replacement securities. The interest on the debt will be deductible, subject to the investment interest limitation, which could reduce your NII for purposes of the new tax.

- ▲ **Planning Point** – To the extent your NII is income from a passive activity, increasing your material participation in the activity between now and the end of the year can reduce the amount of income subject to the NII tax. Proceed with caution, though, because a change in participation level may impact other short- and long-term tax obligations.

- ▲ **Planning Point** – As you near the applicable threshold, consider revising the timing of distributions from retirement plans to manage your net investment income. While the distributions themselves are not NII, the distributions increase your MAGI, which could subject more of your investment income to the NII tax.

## Additional 0.9 percent Medicare payroll tax

An additional 0.9 percent Medicare payroll tax applies to earnings of self-employed individuals and wages in excess of the previously noted thresholds.

## Increased maximum tax rates on long-term capital gains

While avoiding or deferring tax may be your primary goal, to the extent there is income to report, the income of choice is long-term capital gain income thanks to the favorable tax rates available.

The available rates are as follows:

| 2013 Capital Gains Tax Rates (Not Including 3.8% Net Investment Income Tax) | |
|---|---|
| **Long-term capital gains and qualified dividends** | **Maximum rate*** |
| Most investments – for those in these marginal ordinary tax brackets: | |
| 39.6% bracket | 20% |
| 25% to 35% bracket | 15% |
| 0% to 15% bracket | 0% |
| Real estate (amount up to prior allowable depreciation; balance of gain taxed at the same rate as most investments) | 25% |
| Investments classified as "collectibles" | 28% |
| Short-term gains and nonqualified dividends | 39.6% |
| *For those subject to the NII tax, the maximum rate could be 3.8 percentage points higher. | |

Complex netting rules control the taxation of capital gains and losses. Once you determine your net gain or loss for the year, you must then ascertain whether the resulting gain or loss is short-term or long-term. Assets held over 12 months are considered long-term holdings.

The long-term portion of the gain alone is eligible for the favorable tax rate. Net capital losses, regardless of term, are available to offset up to $3,000 ($1,500 if married filing separately) of other types of income. Any excess loss is carried forward to future years, where it retains its short-term or long-term character.

▲ **Planning Point** – The netting rules provide an opportunity to manage the net gain or loss subject to taxation, making it prudent to review your investment gains and losses before the close of year to determine whether additional transactions prior to year-end may improve your tax outlook.

## Recognition of same-sex marriage for federal tax purposes

Beginning in 2013, legally married same-sex couples must file a joint or married filing separately return. The rules do not extend to cover domestic partnerships. The ruling is retroactive, opening up a refund opportunity in certain circumstances for those who were previously prohibited from joint filing. Amended returns may be, but are not required to be, filed for tax years still open by statute of limitations.

# Tax Strategies for Individuals

## Year-end timing strategies

Not all taxpayers can control the timing of when income is received, but timing of receipt is a powerful planning tool. For those taxpayers who can control the timing of receipt, or for the rest of us who can determine when deductible expenses are paid, an opportunity exists to permanently reduce tax liability, particularly for taxpayers who are:

- In different tax brackets in 2013 compared with 2014;
- Subject to the AMT in one year and not the other;
- Subject to the 3.8 percent NII tax in one year and not the other; or
- Subject to the additional 0.9 percent Medicare tax on earned income in one year but not the other.

Even when tax rates align year over year, accelerating deductible expenses into 2013 and/or deferring income to 2014 or later years can provide extended use of the cash destined for taxes.

Maximize your tax deferral strategies by forecasting income tax positions for 2013 and, to the extent possible, subsequent years. This means evaluating not only the amount of income but also the types of income you anticipate generating, your marginal tax bracket, net investment income, wages and self-employment earnings, and capital gains and losses.

Additionally, determining whether you are subject to the AMT in any given year is a critical planning component.

## Managing the alternative minimum tax

The AMT applies when income, as adjusted for certain preference items, exceeds certain exemptions, but the rate applied to that income falls below the AMT rate, essentially acting as a tax leveling mechanism. Residents of states with high income and property taxes, like California, Connecticut, New Jersey, New York and Oregon, are more likely to be subject to the AMT because these state taxes are not deductible when computing AMT income.

The AMT rates, exemptions and phaseouts are as follows:

| 2013 AMT Rates and Exemption Amounts | | | | |
|---|---|---|---|---|
| **AMT Income** | | **Rate** | | |
| $1-$179,500* | | 26% | | |
| Over $179,500* | | 28% | | |
| | **Single** | **Head of Household** | **Married Filing Jointly and Surviving Spouses** | **Married Filing Separately** |
| **AMT Exemption Amount** | $51,900 | $51,900 | $80,800 | $40,400 |
| **Exemption Phaseout Begins** | $115,400 | $115,400 | $153,900 | $76,950 |
| *Note: Married taxpayers filing separate returns should substitute $89,750 for $179,500 in the rate table. | | | | |

Taxpayers subject to the AMT in 2013 should consider deferring payment of the following expenses into 2014 to the extent the AMT could be inapplicable in the later year:

- State and local income taxes
- Real estate taxes (except rental property)
- Miscellaneous itemized deductions such as investment expenses and employee business expenses

The above expenses are not deductible for AMT purposes and could give rise to an increased tax liability in a year the AMT is applicable. Careful management around the time of payment is recommended.

On the other hand, if you do not expect to be subject to the AMT in 2013, but could be subject to the AMT in 2014, you may want to prepay some of these expenses to secure a tax benefit in 2013. But be careful: The more you prepay, the more likely you will become subject to the AMT.

## Delaying or prepaying expenses

As a cash method taxpayer, you can deduct expenses when you pay them or charge them to your credit card. Payment by credit card is considered paid in the year the charge is incurred.

Expenses that are commonly prepaid in connection with year-end tax planning include:

***Charitable contributions*** – A tax deduction is available for cash contributions to qualified charities of up to 50 percent of adjusted gross income (AGI) and up to 30 percent (20 percent for gifts to private operating foundations) of your AGI for charitable gifts of appreciated property.

- ▲ **Planning Point** – Consider contributing appreciated securities that you have held for more than one year. Usually, you will receive a charitable deduction for the full value of the securities, while avoiding the capital gains tax that would be incurred upon sale of the securities.

▲ **Planning Point** – For those charitably inclined taxpayers planning the sale of a significant asset, consider implementing a charitable remainder trust. You may be able to avoid capital gains tax on the sale and retain the income from investing the sales proceeds, while securing a charitable deduction for at least part of the value of the property.

***State and local income taxes*** – Consider prepaying any state and local income taxes normally due on Jan. 15, 2014, or with the filing of the return if you do not expect to be subject to the AMT.

▲ **Planning Point** – If you expect to owe state and/or local income tax when you file your return for 2013, consider paying that amount before Dec. 31, 2013. Although you relinquish your cash in advance, the benefit from accelerating the tax deduction and lowering your current federal income tax could be significant. It is particularly powerful if the deduction could be lost through the AMT in 2014. Just be careful that your prepayment does not make you subject to AMT in 2013.

***Real estate taxes*** – Like state and local income taxes, real estate tax levies due early in 2014 can often be prepaid in 2013. For real estate taxes on your residence or other personal real estate, just be mindful of

the AMT in both years. Real estate tax on rental property is deductible whether or not you are subject to AMT, and it can be safely prepaid.

***Mortgage interest*** – There are limits on your ability to deduct prepaid interest. However, to the extent your January mortgage payment reflects interest accrued as of Dec. 31, 2013, a payment prior to year-end will secure the interest deduction in 2013.

***Margin interest*** – For securities bought on margin, any interest accrued as of Dec. 31, 2013, will be deductible this year only if you actually pay the interest by Dec. 31.

***Other itemized deductions*** – Miscellaneous itemized deductions, like many deductions, are deductible only if you itemize your deductions and are not subject to AMT. Where miscellaneous itemized deductions differ is with the requirement that the total deductions exceed 2 percent of your AGI to be deductible. Grouping these deductions in alternating years is often an effective tax-planning strategy.

## Grouping deductions

Many expenses are deductible only to the extent deductions are itemized. Taxpayers generally elect to itemize deductions only if total deductions exceed the standard deduction for the period. If itemized deductions hover near the standard deduction amount, grouping the deductions in alternating years may maximize the benefit of the standard deduction.

| 2013 Standard Deduction | |
|---|---|
| Single filers | $6,100 |
| Married filing jointly and surviving spouses | $12,200 |
| Heads of household | $8,950 |
| Married filing separately | $6,100 |
| Anyone who can be claimed as a dependent by another taxpayer | The greater of (a) $1,000 or (b) $350 plus the individual's earned income, not to exceed the $6,100 standard deduction for single filers |
| Age 65 or older | An additional $1,200 ($1,500 if unmarried and not a surviving spouse) |
| Legally blind | An additional $1,200 ($1,500 if unmarried and not a surviving spouse) |

Certain expenses are deductible as itemized deductions only to the extent they exceed a specified percentage of your AGI. Medical expenses, unreimbursed employee business expenses, investment expenses and certain other miscellaneous itemized deductions fall into this category.

| 2013 Deductions Subject to "Floors" | |
|---|---|
| **Expense** | **Deduction limited to amount in excess of** |
| Medical and dental (not covered by insurance) | 10% of AGI<br>7.5% of AGI if age 65 or older |
| Unreimbursed employee business expenses, tax return preparation fees, investment expenses and certain other miscellaneous itemized deductions | 2% of AGI |

## Itemized deduction phaseout

After a three-year hiatus, 2013 marks the return of the phaseout of certain itemized deductions for higher-income taxpayers. For affected taxpayers, itemized deductions are reduced by 3 percent of the amount by which AGI

exceeds a threshold. However, deductions for medical expenses, investment interest, casualty and theft losses, and gambling losses are not subject to the limitation. Taxpayers cannot lose more than 80 percent of the itemized deductions subject to the phaseout.

| Phaseout of Itemized Deductions Based on AGI | | | | |
|---|---|---|---|---|
| | Single | Head of Household | Married Filing Jointly and Surviving Spouses | Married Filing Separately |
| AGI Where Phaseout Begins | $250,000 | $275,000 | $300,000 | $150,000 |

## Exemption phaseout

A personal exemption is generally available for you, your spouse if you are married and file a joint return, and each dependent (a qualifying child or qualifying relative who meets certain tests). In 2013, the exemption amount is $3,900, subject to a reinstated phaseout of the exemption for higher-income taxpayers.

| Phaseout of Exemptions Based on AGI | | |
|---|---|---|
| **Filing Status** | **Phaseout Begins at AGI of** | **Completely Phased Out at AGI of** |
| Single | $250,000 | $372,500 |
| Head of Household | $275,000 | $397,500 |
| Married Filing Jointly and Surviving Spouses | $300,000 | $422,500 |
| Married Filing Separately | $150,000 | $211,250 |

## Accelerating or deferring income

Taxpayers with a degree of control over the timing of income receipt should consider the following tax planning strategies:

***Cash salaries and bonuses*** – Wages are taxed when received by the individual, but employers may still avail themselves of a deduction in the year accrued. This combination makes for a strong planning tool when facts align.

***Self-employment income*** – For businesses operating on the cash method of accounting, invoices issued that are not paid until 2014 are not taxed until the payment is received. The timing of the issuance of invoices can defer income into future periods. Conversely, if you are trying to increase 2013 income, consider offering a discount to clients who settle accounts in 2013.

▲ **Planning Point** – Consider employing income planning techniques to manage earned income. Maintaining income below the applicable thresholds avoids the new additional 0.9 percent Medicare tax.

***Retirement plan distributions*** – If you are over age 59½ and your 2013 income is unusually low, consider taking a taxable distribution from your retirement plan, even if it is not required, to use the unusually low tax rate for the period. More powerful still, consider converting the funds to a Roth account.

▲ **Planning Point** – If you expect to be in a higher tax bracket in the future, consider

converting your traditional IRA into a Roth IRA during your lower-income years. You will be paying taxes early, but future appreciation of the assets in your account may escape income taxes entirely.

***IRA distributions to charity*** – If you are over age 70½, you can make a tax-free distribution of up to $100,000 from your IRA to a qualified charity before Dec. 31, 2013. Under current law, this opportunity will not be available for 2014.

Note that this opportunity is doubly powerful beginning in 2013. In addition to prior tax benefits, now the IRA is not included in your MAGI, and thus this strategy may reduce exposure to the new 3.8 percent NII tax.

***Capital gains*** – Generally, gains and losses from securities sales are recognized on the trade date, not the settlement date. December trades will be 2013 transactions, even if the settlement date is in January 2014.

***U.S. Treasury bill interest*** – If you own a U.S. Treasury bill maturing early in 2014, you would normally report the interest income when the bill matures. But selling the bill before Dec. 31, 2013, has the effect of recognizing the interest accrued through the sale date.

***Worthless securities and bad debts*** – Both worthless securities and bad debts could give rise to capital losses. Since no transaction generally alerts you to this deduction, you should review your portfolio carefully.

- **Planning Point** – If you own securities that have become worthless or made loans that have become uncollectible, ensure that the losses are deductible in the current year by obtaining substantive documentation to support the deduction.

***Wash sales*** – The wash sale rule prevents you from claiming a loss on the sale of a security if you acquire a substantially identical security within the 61-day period beginning 30 days before the sale and ending 30 days after the sale. While this rule makes it difficult to claim a loss on a stock that you want to keep in your portfolio, it is possible to manage around the time requirements.

- **Planning Point** – The wash sale rule does not apply to gains. If you want to harvest a gain, you can sell the security and immediately repurchase it, resulting in a step-up in your basis.

***Bond swaps*** – To realize losses in your bond portfolio, it may be possible to sell a bond at a loss and repurchase a very similar bond without running afoul of the wash sale rule.

- **Planning Point** – Bonds with different interest rates or maturity dates, even from the same issuer, are generally not considered substantially identical.

## Contributing to a retirement plan

You may be able to reduce your taxes by contributing to a retirement plan. If your employer sponsors a retirement plan, such as a 401(k), 403(b) or SIMPLE plan, your contributions avoid current taxation, as will any investment earnings until you begin receiving distributions from the plan. Some plans allow you to make after-tax Roth contributions, which will not reduce your current income, but you will generally have no tax to pay when those amounts, plus any associated earnings, are withdrawn in future years.

Elective deferrals to a traditional 401(k) or similar plans and deductible contributions made to a traditional IRA are limited as follows.

| 2013 Retirement Plan Contribution Limits | | |
|---|---|---|
| **Type of Plan** | **Under Age 50** | **Age 50 and Older*** |
| Traditional/Roth IRA | $5,500 | $6,500 |
| 401(k)/403(b)/457(b)/SEP | $17,500 | $23,000 |
| SIMPLE IRA** | $12,000 | $14,500 |
| *Not all employer plans permit additional contributions by those who are age 50 and over. Other contribution limitations could apply. | | |
| **Only SEP plans established before 1997 (SAR-SEPs) may allow employees to make pretax contributions. | | |

You and your spouse must have earned income to contribute to either a traditional or a Roth IRA. Only taxpayers with modified AGI below certain thresholds are permitted to contribute to a Roth IRA. If a workplace retirement plan covers you or your spouse, modified AGI also controls your ability to deduct your contribution to a traditional IRA. There is no AGI limit on your or your spouse's deduction if you are not covered by an employer plan. If your modified AGI falls within the phaseout range, a partial contribution/ deduction is still allowed.

- ▲ **Planning Point** – If you would like to contribute to a Roth IRA, but your income exceeds the threshold, consider contributing to a traditional IRA for 2013, and convert the IRA to a Roth IRA in 2014. Be sure to inquire about the tax consequences of the conversion, especially if you have funds in other traditional IRAs.

# Other Personal Tax Planning Considerations

## Withholding/estimated tax payments

With higher rates in effect for 2013, more taxpayers may find themselves exposed to an underpayment penalty. Underpayment penalties can be avoided when total withholdings and estimated tax payments exceed the 2012 tax liability, or in the case of higher-income taxpayers, 110 percent of 2012 tax.

- ▲ **Planning Point** – If you expect to be subject to an underpayment penalty for failure to pay your 2013 tax liability on a timely basis, consider increasing your withholding between now and the end of the year to reduce or eliminate the penalty. Increasing your final estimated tax deposit due Jan. 15, 2014, may reduce the amount of the penalty but is unlikely to eliminate it entirely. Withholding, even if done on the last day of the tax year, is deemed withheld ratably throughout the tax year.

## Losses from pass-through business entities

If your ability to deduct current-year losses from a partnership, LLC or S corporation may be limited by your tax basis or the “at risk” rules, consider contributing capital to the entity or, in some cases, making a loan to the entity prior to Dec. 31, 2013, to secure your deduction this year.

▲ **Planning Point** – If you anticipate a net loss from business activities in which you do not materially participate, consider disposing of the loss activity by Dec. 31, 2013. Assuming sufficient basis exists, all suspended losses become deductible when you dispose of the activity. Even if there is a gain on the disposition, you may still benefit from having the long-term capital gain taxed at 23.8 percent (inclusive of the NII tax) with the previously suspended losses offsetting other ordinary income.

## Employee stock options

Consider reviewing your employee stock options prior to year-end to determine whether they should be exercised this year.

▲ **Planning Point** – Exercising most employee stock options will result in ordinary income, which may be advantageous if you expect to be in a higher bracket in 2014. A secondary benefit is that future stock appreciation after exercise may qualify for capital gain treatment.

▲ **Planning Point** – If you hold incentive stock options, a poorly planned exercise can be very costly because the spread between the fair market value of the stock and the exercise price is a tax preference item for AMT purposes.

## Flexible spending accounts

Many employers sponsor flexible spending accounts (FSAs), which provide an opportunity to contribute health and dependent care expenses on a pretax basis.

***Health FSAs*** – For 2013, there is a $2,500 cap on the amount taxpayers can contribute to a health FSA.

▲ **Planning Point** – Use health FSA dollars before Dec. 31, 2013 (or March 15, 2014, if the 2½-month grace period applies), to avoid the "use it or lose it" rule. Health FSA dollars cannot be used for over-the-counter medications, except for insulin.

***Dependent care FSAs*** – For 2013, the cap on the amount taxpayers can contribute to a dependent care FSA is $5,000 ($2,500 if married filing separately).

- ▲ **Planning Point** – A taxpayer (and spouse, if married) qualifying for the dependent care tax credit is generally better off using the FSA in tax brackets higher than 15 percent. The FSA income exclusion provides savings at the top marginal rate and may also avoid FICA (Social Security and Medicare) taxes on the amount contributed to the FSA.

## Other individual tax credits

***Child tax credit*** – The child tax credit of up to $1,000 per dependent child under age 17 has been made permanent. The credit is reduced and eventually eliminated when adjusted gross income exceeds $75,000 for single taxpayers or $110,000 for married taxpayers filing a joint return. Tax planning to reduce AGI may provide a larger child tax credit for the year.

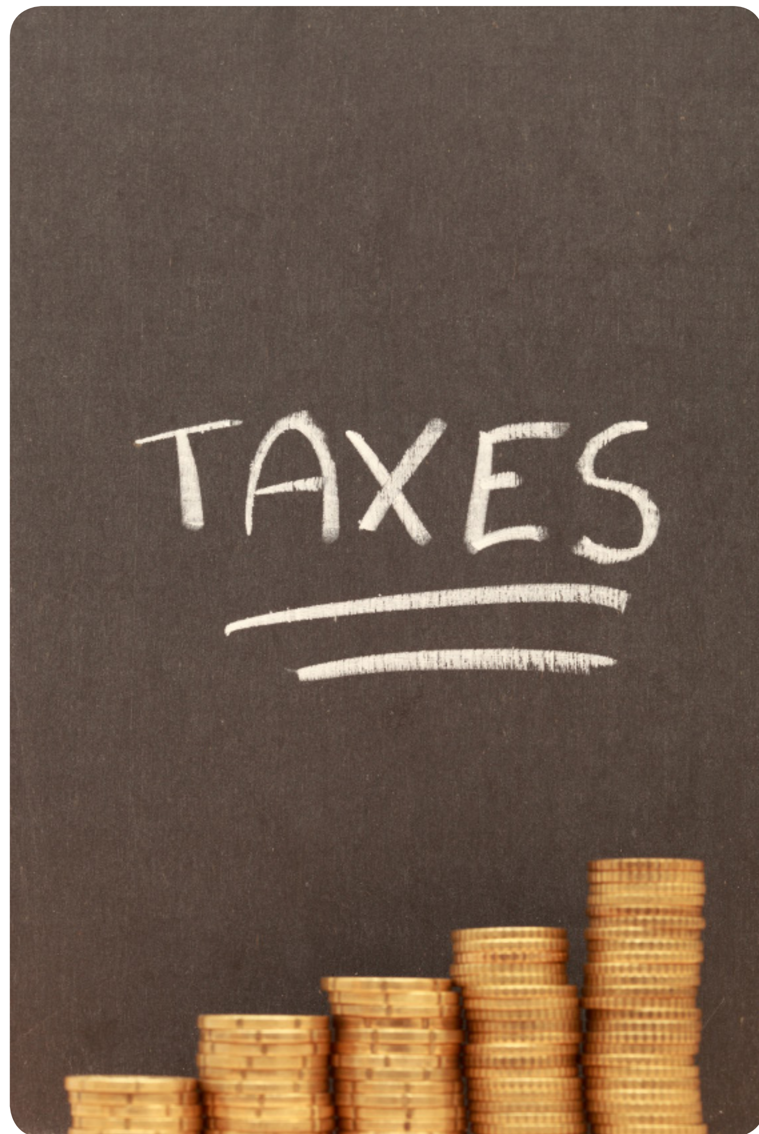
***American Opportunity Tax Credit (AOTC)*** – The AOTC for college costs has been extended for five years through 2017. A credit of up to $2,500 may be claimed during the first four years of college. The credit phases out for AGI in excess of $80,000 for single taxpayers and $160,000 for married taxpayers filing a joint return.

- ▲ **Planning Point** – If your income is too high for you to qualify for the AOTC, consider gifting your children the funds necessary to pay the qualified education expenses, making them eligible to claim the AOTC.

***Energy credit*** – The $1,500 credit for new windows and doors has expired, but a credit of up to $500 for residential energy property is still available if prior years' credits were not taken.

## Estate and gift taxes

For 2013, taxpayers are permitted to make tax-free gifts of up to $14,000 per year, per recipient ($28,000 if married and using a gift-splitting election, or if each spouse uses separate funds). By making these gifts annually, taxpayers can transfer significant wealth out of their estate without using any of their lifetime exclusion.




- **Planning Point** – Consider making similar gifts early in 2014. Each year brings a new annual exclusion, and a gift early in the year transfers next year's appreciation out of your estate.
- **Planning Point** – Additional gifts can be made using the lifetime gift exclusion, which is $5.25 million ($10.5 million for married couples) in 2013. Future exclusions are indexed for inflation. The recent increases to the exclusion make it a good time to review any existing estate and gift plans to ensure they best meet your needs.

▲ **Planning Point** – When combined with other estate and gift planning techniques, such as Section 529 plans to help fund your children's or grandchildren's college education or a GRAT (grantor retained annuity trust), the potential exists to avoid or reduce estate and gift taxes, while transferring significant wealth to other family members.

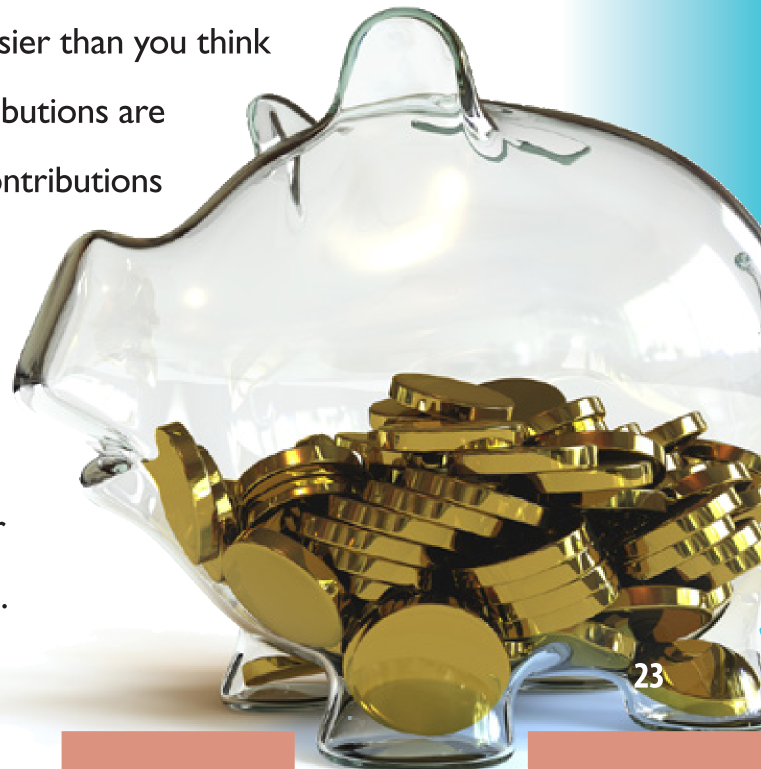
# Tax Strategies for Business Owners

## Timing of income and deductions

Cash-basis businesses can manage income by prepaying or deferring payment of business expenses, securing the deduction in the year they anticipate higher tax rates. If they are concerned about their cash flow but need the deduction, a credit card secures the deduction when the charge is made. Merely purchasing an item "on account" is not considered payment for tax purposes.

## Retirement plans

Starting a small business retirement savings plan is easier than you think and offers significant tax advantages. Employer contributions are deductible from the employer's income, employee contributions are not taxed until distributed to the employee, and investments in the program grow tax-deferred. Further, the tax law offers a small incentive of a $500-per-year tax credit for the first three years of a new SEP, SIMPLE or other retirement plan to cover the initial setup expenses for certain small employers.



## Business equipment

Significant tax benefits remain available for business equipment purchases during 2013. A 50 percent bonus depreciation deduction is available for qualified property placed in service during 2013. The deduction is set to expire for 2014. To qualify for bonus depreciation, equipment must be new and placed in service by year-end.

Section 179 expensing rules provide full expensing for up to $500,000 of qualifying property placed in service during 2013. However, the full deduction is available only if the total amount of qualifying property placed in service in 2013 does not exceed $2 million. The Section 179 deduction limit is scheduled to be drastically reduced in 2014.

- **Planning Point** – If you are planning to purchase a significant amount of machinery and equipment for your business in the next year or two, consider accelerating your order so the assets are delivered and placed into service by Dec. 31, 2013. To take full advantage of the Section 179 deduction, monitor total purchases to prevent its phaseout.

## Home office deduction

Starting in 2013, taxpayers who use their home for business are allowed to compute their deduction using a simplified method. In lieu of actual expenses such as electricity, depreciation, etc., they may compute their qualifying home office deduction at $5 per square foot, up to $1,500 annually.

## Credits

Taxpayers with qualifying research expenditures may qualify for the often-overlooked research and experimentation tax credit. The Work Opportunity Tax Credit for qualifying employees is another credit that is frequently overlooked.

# Conclusion

The changes initiated during 2013 added layers of complexity to an already difficult tax system, but with a purposeful, informed plan in place, taxpayers can still reap significant benefits. Please let us know how we can best support you in building your plan for 2013 and beyond.

*The technical information in this newsletter is necessarily brief. No final conclusion on these topics should be drawn without further review and consultation. Please be advised that, based on current IRS rules and standards, the information contained herein is not intended to be used, nor can it be used, for the avoidance of any tax penalty assessed by the IRS.*

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