Dear Client:

Sciarabba Walker & Co., LLP is pleased to announce the relocation of our Ithaca office in the month of November. We have been proud to be a part of the downtown Ithaca community for the past 30 years. Our expanding staff, our aspiration to facilitate future growth, and our desire to better serve the local community have motivated our search for a larger space. We will be relocating to 410 East Upland Road in Ithaca. For more information, please call us at 607-272-5550.

As 2013 draws to a close there is still time to reduce your 2013 tax bill and plan ahead for 2014. New tax legislation has brought greater certainty to year-end planning, but has also created new challenges. This letter covers some key year-end tax planning strategies.

Changes for 2013 and beyond

In January 2013, Congress passed the American Taxpayer Relief Act of 2012, which made permanent many of the Bush-era tax cuts. Congress also permanently "patched" the alternative minimum tax (AMT) to prevent its encroachment on middle income taxpayers. The result is much greater certainty in year-end tax planning for 2013 because we know what the individual tax rates are in 2014.

Planning for new taxes and rates

There are added complexities to 2013 with three new taxes in effect: the net investment income tax (NII), the additional Medicare tax and a revived 39.6% tax bracket for higher income individuals. With these new taxes, the traditional year-end strategies of timing income and deductions becomes even more important.

The 3.8% NII surtax very broadly applies to individuals, estates and trusts that have certain investment income above set threshold amounts. These amounts include a $250,000 threshold for married couples filing jointly; $200,000 for single filers. One strategy to consider is to keep, if possible, income below the threshold levels for the NII surtax by spreading income out over a number of years or finding offsetting above-the-line deductions.

The additional 0.9% Medicare tax applies to wages and self-employment income above threshold amounts including $250,000 for married couples filing joint returns and $200,000 for single individuals. If you have not already reviewed your income tax withholding for 2013, now is the time to do it. One way to reduce the sting of any additional Medicare tax liability is to withhold an additional amount of income tax.

The starting points for the 39.6% bracket, for 2013 are $450,000 for married couples filing jointly and surviving spouses, $425,000 for heads of households, $400,000 for single filers, and $225,000 for married couples filing separately. The top rate for capital gains and dividends is 20% for those in the new 39.6% income tax rate bracket. Also revived for 2013 is the personal exemption phase-out and the limitation on itemized deductions for higher income individuals.

Planning for gifts

Through the end of 2013, taxpayers age 70 ½ and older can make a tax-free distribution from individual retirement accounts to a charity. The maximum distribution is $100,000. Individuals taking this option cannot claim a deduction for the charitable gift. This provision is scheduled to expire at the end of 2013.

For charitable gifts outside of an IRA consider giving appreciated property to charities to avoid capital gains income.

For 2013, a donor can make gifts of up to $14,000 free of gift tax to each individual recipient. Married couples may “split” their gifts to each recipient, which effectively raises the tax-free gift to $28,000. Gifts between spouses are always tax-free unless one spouse is not a U.S. citizen. There are special rules for gifts made for medical care and education.

Planning for retirement savings

For 2013, the maximum amount of contributions that can be made to an IRA, traditional or Roth, is $5,500, with a $1,000 catch-up amount allowed for individuals over age 50. There are other factors that limit the amount of the allowed contribution. Don't overlook the opportunity to make a spousal IRA contribution which allows a taxpayer to make an IRA contribution based on their spouse's compensation if a joint return is filed. For tax purposes, 2013 contributions may be made until April 15, 2014.

Planning for other changes

Individuals who itemize their deductions need to keep in mind the new 10% floor for qualified medical expenses. You can only claim deductions for medical expenses that exceed 10% of adjusted gross income. This is an increase from the 7.5% threshold in prior years. There is a temporary exception for individuals age 65 or older so 7.5% continues to apply to them through 2016.

The residential energy property credit (lifetime limit of $500) for making certain energy efficient home improvements ends in 2013.

Capitalization v. repair expense regulations have been finalized by the IRS and are effective beginning January 1, 2014. We will be providing a more detailed summary of these new rules with the 2014 tax organizer.

Beginning in 2014, the individual mandate to carry minimum essential health coverage for taxpayers and their dependents will become effective under the health care reform law.

We have reviewed only some of the many year-end tax planning strategies that could help you minimize your 2013 tax bill and maximize savings. Please contact our office to schedule an appointment if you would like to meet to personalize your 2013 year-end tax planning.

Sincerely,

Sciarabba Walker & Co., LLP