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PERSPECTIVE

Several tax law changes in store for 2014

By Carly McKeeman and David E. Libman

Tax may be one of life's great certainties, but tax law is always changing. And, true to form, 2014 brings with it a series of changes to the federal tax law that you may want to be aware of: (1) if you are interested in boring your friends to tears at cocktail parties; or (2) better yet, if that knowledge can help you help your clients.

Starting in 2014, certain eligible taxpayers may claim a new "premium tax credit" for insurance purchased under the Affordable Care Act through the Health Insurance Marketplace (a.k.a. the rather ominous "Exchange"). According to the Internal Revenue Service, the new premium tax credit is intended to make purchasing health insurance coverage more affordable for people with moderate incomes. Eligible taxpayers can choose to either (1) have the credit paid in advance to their insurance company to lower premium costs, or (2) claim the entire credit when filing their annual tax return. The available credit amount is calculated when you apply for coverage in the exchange and is based on factors like family composition and projected household income. Of course, your ability to use the premium tax credit will depend on whether Healthcare.gov is fully functioning.

Additionally, it is worth noting that constitutional challenges to tax issues emanating from the ACA remain. For example, in *Sissel v. U.S. Department of Health and Human Services*, 13-5202, Matt Sissel has appealed a U.S. district court decision rejecting his argument that passage of the ACA violated the Constitution's Origination Clause. Sissel takes the position that the ACA is a bill for raising revenue that did not properly originate in the House of Representatives. While that case is pending, there is at least the potential that the ACA's tax impact could be blunted if certain aspects are ultimately ruled unconstitutional.

Although the ACA has garnered a lot of attention, there is more to life, death and taxes than just Obamacare. On Nov. 18, 2013, the IRS announced Revenue Procedure 2013-35. It outlines over 40 new tax provisions that will apply for 2014.

A few notable highlights:

Tax Rates

For 2014, all income brackets and filing statuses are adjusted for inflation. At the highest end, a tax rate of 39.6 percent applies to individuals with taxable income exceeding $406,750 (up from $400,000 in 2013). For married couples filing a joint return, the 39.6 percent rate applies for taxable income exceeding $457,600 (up from $450,000).

Standard Deduction Rates

Nearly two-thirds of filers claim a standard deduction rather than choosing to itemize deductions. For 2014, the IRS has increased the standard deduction by $100 to $6,200 for individuals and married persons filing separately, and $12,400 for married couples filing jointly. The standard deduction for heads of household rises to $9,100 (up from $8,950).

Personal and Pease

Internal Revenue Code Section 151 entitles individual taxpayers and qualifying dependents to a personal exemption to be computed in calculating taxable income. For 2014, the personal exemption amount increases by $50 to $3,950. As in 2013, the personal exemption is subject to a phase-out for reported adjusted gross incomes above a certain threshold. Similar thresholds apply to the Pease limitation, which reduces the value of itemized deductions for taxpayers with income above certain thresholds. For 2014, the threshold adjusted gross income for both the beginning of the personal exemption phase-out and for the Pease limitation is $254,200 for unmarried individuals ($305,050 for married couples filing jointly), and the complete phase-out applies at $376,700 for unmarried individuals ($427,550 for married couples filing jointly).

Alternative Minimum Tax

Enacted in 1969, the alternative minimum tax (AMT) was created to prevent individuals and corporations from benefiting so greatly from tax exclusions, benefits or credits that they eliminate their tax altogether. In such situations, the AMT is triggered, and those individuals or corporations must pay a minimum amount of tax. Because imposition of the AMT requires calculation of two separate potential tax liabilities — tentative AMT and regular tax — it has always been complicated. Admittedly, things got slightly less complicated in 2012, when Congress permanently indexed to inflation the income thresholds that subject a taxpayer to AMT.

In 2014, the AMT exemption amounts — i.e., the amount a taxpayer may deduct from AMT income before calculating AMT liability — are $52,800 for single taxpayers, $82,100 for married couples filing jointly and $41,050 for married persons filing separately. The threshold at which the 28 percent AMT rate applies is $91,250 for married filing separately, and $182,500 for any other filing status. Taxpayers should also be aware that California has its own AMT under California Revenue & Taxation Code Section 17062. In 2013, the California AMT was 7 percent for individuals and 6.65 percent for corporations. Will it be the same in 2014? We'll see.

Foreign Earned Income

The foreign earned income exclusion allows U.S. citizens to exclude income earned abroad from their gross income for purposes of federal income tax. However, the foreign earned income exclusion is eliminated after a certain threshold amount. For 2014, the IRS has again adjusted the foreign earned income exclusion amount for inflation so that it will be $99,200 (up from $97,600 in 2013).

401(k) and IRA

Retirement accounts were not included in Revenue Procedure 2013-35; most remain unchanged from 2013. For 2014, the maximum contribution for Roth and traditional IRAs is $5,500, with an additional catch-up contribution of $1,000 for people age 50 or older. For 401(k), 403(b) and most 457 plans, the maximum contribution is $17,500, with an additional catch-up contribution of $5,500 for people age 50 or older.

Notably, the IRA charitable rollover provision (part of the American Taxpayer Relief Act of 2012) has not been renewed for 2014. Under this provision, qualified charitable deductions are excluded from a taxpayer's income for individuals 70½ or older. Without renewal, the popular tax-wise giving option is only available for qualified charitable distributions made before Jan. 1, 2014.

Estate and Gift Tax

The federal unified credit against estate tax will be increased to $5,340,000 for 2014 (up from $5,250,000 for estates of decedents who die in 2013).The annual gift tax exclusion remains the same: gifts up to $14,000 per person are not subject to the tax, and married couples can gift up to $28,000 to a single individual.

FSA Carry-Over

In a departure from the "use-it-or-lose-it" rule for healthcare flexible spending accounts (FSAs), the IRS issued Notice 2013–71. FSA participants are now allowed to carry over $500 of unspent funds from one plan year to the next. The annual contribution amount remains the same ($2,500).

Filing Season

Finally, filing season is delayed in 2014.

Remember the federal government shut down that happened in October? Well, the IRS does, too. In IR-2013-82 (updated as of Dec. 18, 2013), the IRS announced "a delay of approximately one to two weeks to the start of the 2014 filing season to allow adequate time to program and test tax processing systems following the 16-day federal government closure." The IRS expects it will start accepting the processing of individual tax returns no sooner than Jan. 28, 2014. Good luck!

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