

## Avoid Tax Penalties

There's the old saying "You can't escape death and taxes." Unfortunately, recent laws have increased both income and death taxes. Below is a list of recent federal tax increases; not all will apply to you, but some will. Importantly, these tax increases also apply to future years, so they should be considered in your financial planning. Some retirees will find it necessary to increase their quarterly estimated income tax payments to compensate for the higher taxes. Failure to do so can result in underpayment tax penalties, something you should definitely avoid.

### Tax Act of 2012 tax increases

1. **Death tax:** The top estate tax rate increased from 35 percent to 40 percent. This applies to estates larger than \$5.34 million.
2. **Top income tax rate:** It increased from 35 percent to 39.6 percent for taxable incomes over \$400,000 for single filers (\$450,000 for married filing jointly).
3. **Itemized deductions:** Your itemized deduction will be reduced if your adjusted gross income (AGI) is over \$250,000 for single filers (\$300,000 for MFJ).
4. **Personal exemptions:** Your personal exemptions will be phased out if your AGI is over \$250,000 for single filers (\$300,000 for MFJ).
5. **Investment income tax rate:** The tax rate on qualified dividends and capital gains was increased from 15 percent to 20 percent for taxable incomes over \$400,000 for single filers (\$450,000 for MFJ).
6. **Payroll Tax:** The Social Security payroll tax was increased from 4.2 percent to 6.2 percent.
7. **Taxes on small business:** Expiration of full expensing of capital purchases by businesses.

### Health care act tax increases

8. **Individual mandate:** Beginning in 2014, it's mandatory to purchase health insurance. If you don't, you'll pay a penalty. If you're covered by Chevron and/or Medicare you've satisfied this mandate.
9. **Tax on insurance companies:** We will probably see insurance companies pass along this cost to its policy holders in the form of higher premiums.
10. **Another investment tax increase:** 3.8% surtax on investment income for taxpayers with taxable income exceeding \$200,000 for singles (\$250,000 for married filing jointly).
11. **Another payroll tax increase:** The Medicare tax is increased by .9% for single filers with incomes over \$200,000 (\$250,000 for married).

12. **Medical device tax:** Do you have a hearing aid, a heart stent, a knee replacement, a diabetes meter, or other medical device? There is now a 2.3% excise tax on these medical devices.
13. **Excise Tax on Indoor Tanning Services:** A 10% excise tax on indoor tanning services.
14. **Reducing the medical income tax deduction:** Medical expenses are now not deductible for up to 10% of your AGI. This is up from 7.5%. Few persons under age 65 will be able to deduct medical expenses. Some good news: this change is delayed until 2017 if you are age 65+.

It is important that you keep up-to-date with tax changes and how they may affect your financial situation. This brief article is only meant highlight recent changes and it is not to be considered individual tax advice. Before making any financial moves, consult with your own tax and/or financial advisor. Use of this article in any other manner or context is neither recommended nor authorized. The content of this article is the sole responsibility and property of the below listed author.

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