

January, 2014

Dear Client:

Year-end 2013 brought the biggest tax changes in more than a decade. However, for most single taxpayers with modified adjusted gross income (MAGI) under \$200,000 a year, or couples under \$250,000, marginal income tax rates won't increase, and most tax relief provisions remain in effect.

Standard Mileage Rates: For 2013, the amount per business mile is 56.5¢; 24¢ for miles related to medical or moving. For 2014, the rate is 56¢ per business mile; 23.5¢ per mile driven for medical or moving purposes. Charitable mileage remains at 14¢ for both years.

Estate Tax: The aggregate lifetime estate tax exemption is \$5,250,000 in 2013 and increased to \$5,340,000 in 2014, per person, with a top rate of 40%.

Gift Tax: The annual exclusion remains at \$14,000 per recipient per donor. Excludable gifts to a non-U.S. citizen spouse were limited to \$143,000 for 2013, and increased to \$145,000 in 2014.

Medicare Taxes: Two new Medicare taxes became effective for the first time in 2013. The rate on the individual share of Medicare tax on earned income will increase by 0.9% from 1.45% to 2.35% of earned income exceeding \$200,000 for single filers and \$250,000 for joint filers. A new 3.8% Medicare tax will be applied on investment income of single taxpayers with adjusted gross income (AGI) above \$200,000 and joint filers with AGI over \$250,000. The tax applies to investment income like capital gains, dividends, interest, rents, annuities, royalties, and business income from passive activities.

The Personal Exemption and Itemized Deduction Phase-outs: Beginning in 2013, single filers with AGI in excess of \$250,000 or married couples filing jointly with AGI in excess of \$300,000 will face phase-outs of their itemized deductions and personal exemptions.

New Income Tax Rates: For 2013 and subsequent years, for single taxpayers with taxable income greater than \$400,000 and joint filers greater than \$450,000, the top ordinary income tax rate increased from 35% to 39.6%, and the top capital gains and dividend rates increased from 15% to 20%.

Education Credit: The American Opportunity Tax Credit is limited to \$2,500 for 2013 and 2014.

Pension Deferrals: Elective deferral limit is \$17,500 for both 2013 and 2014, for 401(k), 403(b), 457, and SARSEP plans. The catch-up contribution limit for those age 50 and over remains unchanged at \$5,500. For Simple Pension Plans, the maximum deferral limit is \$11,500 for 2013 and \$12,000 for 2014, with a catch-up contribution of \$2,500 for taxpayers age 50 and over.

IRA/Roth IRA Contribution Limits: For 2013 and 2014, the limit is \$5,500 per year, subject to gross income limitations for contributions and with a catch-up contribution of \$1,000 for individuals age 50 and over.

Health Savings Accounts: For 2014, the maximum HSA contribution is \$3,300 for single coverage and \$6,550 for family coverage (for 2013, the limits were \$3,250 and \$6,450, respectively). Catch-up contributions of \$1,000 per year may be made for individuals age 55 and older. However, no contributions are permitted after a participant reaches age 65 or is covered by Medicare.

Flexible Spending Account: Taxpayers who use Flexible Spending Accounts for healthcare costs may now be able to carry up to \$500 of unused money from one plan year to the next.

Same Sex Marriages: Legally married same-sex couples must now file their 2013 federal income tax return using either married filing jointly or married filing separately filing status.

Our standard U.S. engagement letter is enclosed along with our checklist. Please answer the questions on pages two and three of the letter, sign it, and return it to us. We cannot begin your tax return until we have received the signed engagement letter. We encourage you to meet with us or bring in your tax data as early as is reasonable, but please do your best to have complete information. We may not be able to avoid putting returns on extension if final information is not provided to us by March 21.

Sincerely,

Herrick, Ltd. CPAs

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