Reinhart

Year-End Tax Tips

POSTED:

Dec 3, 2013

RELATED PRACTICES:

Trusts and Estates

https://www.reinhartlaw.com/practices/trusts-and-estates

RELATED PEOPLE:

Christine Rew Barden

https://www.reinhartlaw.com/people/christine-rew-barden

In recent years, estate and gift tax strategies have required a crystal ball. As we head into 2014, the ability to plan with more certainty is here. The estate and gift tax area that had us all hopping last year has settled down with a large unified exemption, indexed for inflation. However, the same legislation that brought us this relief has complicated the income tax landscape by adding new brackets and mandates.

Here are some tax-planning techniques to consider implementing as 2013 draws to a close:

1. **Utilize Annual Exclusions**. $14,000 per donor per donee. Gifts to trusts may qualify as well. Use it or lose it.

2. **Review Impact of New 3.8% Tax**. The new 3.8% Net Investment Income Tax now applies to most investment income. For individuals, the amount subject to the tax is the lesser of:

    1. Net investment income (NII); or

    2. The excess of Modified Adjusted Gross Income (MAGI) over the applicable threshold amount:

    NII includes dividends, rent, interest, passive activity income, capital gains and royalties. Passive income will be subject to this new tax, non-passive will not. So, to the extent your NII is income from a passive activity, increasing your material participation in the activity between now and the end of 2013 can reduce the amount of income subject to the NII tax. Also, carefully monitor your applicable threshold and defer distributions that would either be considered NII or would increase your MAGI to put you over your threshold

Single	Single Head of Household	Married Filing Jointly and Surviving Spouse	Married Filing Separately
Over $200,000	Over $200,000	Over $250,000	Over $125,000

3. **Avoid Underpayment Penalty**. With higher income tax rates in effect for 2013, more taxpayers will find themselves exposed to an underpayment penalty. Avoid this by withholding or making estimated tax payments that exceed your 2012 liability or, for higher-income taxpayers, pay 110% of the 2012 tax liability. If you expect to be subject to underpayment penalty, consider increasing your withholding between now and yearend to eliminate the penalty. Increasing your final estimate on January 15, 2014 may reduce the penalty, but is unlikely to eliminate it entirely.

4. **New Filing Rules – Same-Sex Spouses**. Beginning in 2013, legally married same-sex couples must file a joint or "married, filing separately" federal income tax return. As Wisconsin does not recognize same-sex marriage, both spouses must still file independently for Wisconsin purposes, but should use the new Wisconsin Schedule S to allocate income from the federal joint return to each spouse's Wisconsin return. (If you have been married for several years, consider filing amended returns for the last three years.)

5. **Charitable Contribution from IRA**. If you are over age 70½, you can make a tax-free distribution of up to $100,000 from your IRA to a qualified charitable organization. This opportunity will not be available in 2014 (unless the law is extended). This charitable contribution can be used to satisfy the account owner's required minimum distribution for 2013, and is excluded from the account owner's 2013 gross income.

Planning Ahead

For those of you keeping close watch on your available exemptions from estate and gift taxes, the federal estate and gift tax exemption increases to $5,340,000 in 2014, up from $5,250,000. As mentioned above, the annual exclusion remains at $14,000 in 2014. Several extremely effective planning strategies, such as discounted values for intra-family transfers, certain types of grantor retained annuity trusts and multi-generational transfer tax planning, have been targeted by the IRS and may not be available indefinitely. Furthermore, the low interest rate environment, which “supercharged” many of the available planning techniques, will likely be less advantageous in the coming years. Please contact your Reinhart attorney or Reinhart trusts and estates attorney to discuss these or any other year-end planning strategies.

Reinhart

These materials provide general information which does not constitute legal or tax advice and should not be relied upon as such. Particular facts or future developments in the law may affect the topic(s) addressed within these materials. Always consult with a lawyer about your particular circumstances before acting on any information presented in these materials because it may not be applicable to you or your situation. Providing these materials to you does not create an attorney/client relationship. You should not provide confidential information to us until Reinhart agrees to represent you.