The Rudolph Report

www.rudolphcpa.com   Opening Day 2013

To our clients:

We've just completed an exhausting and successful tax season, and we wanted to say thank you. We're fortunate to serve you, and we are grateful. All of us, including Wayne and Charlie, look forward to serving you again next year.

Our front desk staff works long hours and endures a sometimes not-so-understanding Napoleanic manager. They are terrific. We appreciate how kind all of the clients have been to the people at the front desk.

In this newsletter, please peruse the information on the tax increases in 2013 to see how they affect you. Also included are articles about gifting, health savings accounts, and how the estate tax may contribute to a Jumbo Tron in Wrigley Field.

After preparing many returns this season, I have some suggestions for you to consider. First, never start your Sunday work day at the breakfast table of your mother in law. I can now attest that huevos rancheros are not fried in mayonnaise. Second, please call us to help you anticipate and manage your tax liability. Managing your taxes is like maintaining your furnace: it requires a little time throughout the year and is best performed by somebody whom you didn't marry (Please peruse the "Before you Play Dentist" section).

Thank you,

Chris Rudolph CPA

Tax increases in 2013

There are **three tax increases** in 2013. First, social security withholding taxes have returned to 6.2% from 4.2%. For tax planning, this impacts self employed people who pay estimated taxes. If you are concerned that your estimated payment calculations may need to be reviewed, please contact us.

The second increase of tax is the Medicare **surcharge tax from Obamacare**. Typically, Medicare tax is assessed on earned income and does not exceed 2.9%. However, an additional tax of .9% will be assessed on the earned income component of married taxpayers with income over $250,000. Of course, it's not that simple. If your earned income exceeds $250,000, then any additional investment income is assessed a 3.8% Medicare surcharge. Investment income includes capital gains, rents, dividend income, interest income, and other passive income. Net investment income which is not subject to the 3.8% surcharge includes income from S corporations in which you materially participate, IRA's, and other qualified retirement income. Strategies to avoid the surcharge include shifting wages to further fund your 401K or simply moving to Botswana.

The third tax increase affects married people making about $500,000 or more. The highest marginal tax bracket is now **39.6%** rather than 35%. If someone you know is seeking sympathy from this, please ask him to write his complaint legibly in the box below.

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Before you play Dentist

The fee that we've charged you includes some light year round tax planning. So please do not be bashful about asking us to review your withholdings during the year. Otherwise, you may face an unpleasant surprise next spring. Times to consider contacting us for tax planning include:

- ✓ Changing jobs
- ✓ Returning back to the workforce
- ✓ Withdrawing more from an IRA
- ✓ Retirement
- ✓ Selling stocks for a gain
- ✓ Selling properties
- ✓ Marriage or divorce
- ✓ Losing a job
- ✓ Winning Super Bingo at St. Lucky's

Gifting money to family often generates questions or can lead to do-it-yourself tax planning that is as disastrous as the bullpen of the St. Louis Cardinals (*blah, spit*). Here is some clarification on gifting. First, the recipient of a gift never pays tax because a gift is not income. Next, the donor never receives a tax deduction because the recipient is a person and not a charity (no smarmy comments please). Gifts of under $13,000 are not reportable, and gifts of above $13,000 are reportable but often are not taxable. Each person is permitted to give taxable gifts (amounts exceeding $13,000) of up to $1 million in a lifetime before a special gift tax is assessed. The concepts behind this law is to discourage the wealthy from giving away their wealth to avoid estate tax and to further confuse the general public.

Did you know?

Estate tax (for those still reading) is what drove the **P.K. Wrigley** family to sell the Cubs to the Tribune. There was not enough cash in the estate to pay the tax so the family sold my beloved Cubs. Cash, by the way, apparently now hinders the Cubs from future success, prompting the new owners to petition for a sacrilegious Jumbo Tron on Waveland Avenue. They argue that more revenue can buy more quality players like, let's see…. Ed-no-win Jackson.

Health Savings accounts

If your **employer offers** a health savings account, you do not have to recognize the contributions made by the employer in your income. Contributions which you make are treated as pre tax. When you withdraw funds from the account, there is a reporting requirement; however, there will not be a tax assessment if your distributions do not exceed your qualified medical expenses. Unlike employer flexible spending accounts, funds in HSAs do not need to be spent by year end. There is a tax, however, on spending funds on non qualifying expenses such as a procedure to graft frog-like skin webbing between your fingers to improve your swim times in the triathlon.

If you are **self employed**, you may contribute to a health savings account if you qualify for one under your insurance plan. Contributions are deductible on your tax return, and distributions are not taxable as long as you report them on form 8889 and use the funds for qualified expenditures.

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