ROSNER BROWN TOUCHSTONE & KELLER, LLP

- CERTIFIED PUBLIC ACCOUNTANTS -

New Year, New Taxes

We ended 2012 going over the fiscal cliff but our federal folks fixed that by passing a tax package on January 1, 2013. California also passed a new tax law that was retroactive to the beginning of the year. We will also be subject to the fiscal impacts of Obamacare. So what will the New Year bring us? It will be interesting to see as we navigate our way through these new tax laws and regulations.

The following is a brief discussion of the new federal and state taxes for 2013. I have also outlined the issues related to residency in the State of California as we have had inquiries related to tax issues of moving out of the state. Please contact us if you would like to discuss these issues further.

Federal Taxes

We finally have "permanency" to our tax laws after years of extending the Bush tax cuts - of course until they decide to make a change again. There are a significant number of changes to both individual and business taxes. The biggest changes were aimed at high-income earners. The tax changes result in a significant marriage penalty as the thresholds are not significantly different for married and single taxpayers. The following are the significant changes to the tax laws for individuals:

- The maximum tax bracket increases from 35% to 39.6% for taxpayers with incomes greater than $450,000/$400,000 (Married/Single)
- Capital gain and dividend tax rates increased from 15% to 20% for taxpayers with incomes greater than $450,000/$400,000 (Married/Single)
- Phase-out of itemized deductions and personal exemptions for the high-income earners
- A positive result of the law is retention of $5 million exemption for the estate and gift tax, although the estate tax rate changed from 35% to 40%

Obamacare Taxes

The tax impact of the healthcare legislation takes effect in 2013. There were mainly three tax impacts as a result of the legislation which are:

- Additional Medicare tax of 0.9% on earned income (wages and self-employment income) above $250,000/$200,000 (Married/Single)
- Additional Medicare tax of 3.8% on investment income for those with adjusted gross income above $250,000/$200,000 (Married/Single)
- Increase in medical itemized deduction threshold from 7.5% to 10%

State Taxes

The voters of California were kind enough to pass a new tax law (Prop 30) in November. The following are the highlights of the California tax changes:

- Tax rates increased for incomes greater than $500,000/$250,000 (Married/Single). For single taxpayers with income above $500,000/$250,000 (Married/Single) and up to $600,000/$300,000 (Married/Single) an additional 1% tax applies. Taxpayers with incomes greater $600,000/$300,000 (Married/Single) and up to $1,000,000/$500,000 (Married/Single) an additional 2% tax is applied. Taxpayers with incomes in excess of $1,000,000/$500,000 (Married/Single) an additional 3% tax applies. The top state tax rate is now 13.3%.
- The sales tax was also increased by 0.25% beginning 1-1-13.

Under the tax law these changes are supposed to expire after seven years but only time will tell what will happen.

California Resident Requirements

We have received a number of inquiries regarding what constitutes residency in California. Residency issues and how taxes are paid on income earned in California are fairly complex and the State is aggressive in pursuing taxpayers they believe are California residents. If you are considering moving to another state, but will still have property or activities in California, please consult with us to assess the tax implications.

California taxes residents on worldwide income. Any income derived from another state or another country is taxed to California residents. As a non-resident of California you are taxed only on your income derived from California sources. If a California resident were to leave California and reside in another state that does not have a state income tax (or a lower tax rate) any income presently earned outside California would not be taxed (or taxed at a lower rate).

The key issue is what constitutes being a resident of California. There are a number of factors and rules to consider in determining residency. A few of the factors that are considered in determining residency are: time spent in the state, location of your principal residence, the state that issued your driver's license, where you registered to vote, and the location of your healthcare providers. These are just a few of the factors and there are other rules relating to residency that need to be considered.

If you would like to discuss any of these issues please contact us.

Help Us Welcome Trent Brown!

The firm is excited to announce the addition of Trent Brown as Staff Accountant. Trent will be responsible for performing financial statement audits, reviews, and compilations for clients, as well as preparing client tax returns. In his free time, Trent enjoys being physically active and leading a healthy lifestyle. He played Varsity tennis at Rancho Bernardo High School for four years and also played at Point Loma Nazarene. Trent is an avid billiards player and huge sports fan. Feel free to say "hello" and introduce yourself to Trent at tbrown@rbtk-cpa.com.

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