

LOOKING INTO THE CRYSTAL BALL

Tentative Tax Changes Beyond 2012

TAX CHANGES TAKING EFFECT IN 2013 AND 2014

Increased hospital insurance tax for high-earning workers and self-employed taxpayers. Beginning in 2013, an additional 0.9% hospital insurance (HI) tax applies to wages received in excess of \$250,000 for joint returns and \$200,000 for single returns. The additional 0.9% also applies to self-employment income in excess of the above figures.

Surtax on unearned income of higher-income individuals. Beginning in 2013, an additional 3.8% Medicare contribution tax will be imposed on unearned income for certain individuals, estates and trusts. The tax is 3.8% of the lesser of the taxpayers' net investment income or adjusted gross income in excess of \$250,000 for joint taxpayers and \$200,000 for single taxpayers.

Higher threshold for deducting medical expenses. For years the threshold for deducting unreimbursed medical expenses has been 7.5% of adjusted gross income. In 2013, the threshold increases to 10% for taxpayers aged 65 and under. If a taxpayer or his or her spouse has reached aged 65 before the end of 2013, the 7.5% floor applies through 2016 and the 10% floor applies beginning in 2017.

Individuals not carrying health insurance face a penalty. Beginning in 2014, nonexempt U.S. citizens must pay a penalty if they do not maintain minimum essential coverage. There are a number of exceptions, such as one for certain lower-income individuals.

Refundable tax credit for low- or moderate-income families buying certain health insurance. Beginning in 2014, the "premium assistance credit" is available for qualifying taxpayers who get health insurance coverage by enrolling in a qualified health plan through a State-established American Health Benefit Exchange.

A WORD OF CAUTION...

Future tax law changes are often "false alarms". Congress has been known to overturn proposed changes, especially those that mean higher taxes. We provide you this glimpse into the future only as a little food for thought when considering your tax situation in upcoming years. We do not recommend that you rely on this information as final. As always, we will be sure to keep you informed as time goes on.

HEALTH REFORM OVERHAUL

In March of 2010, legislation was enacted that overhauled the U.S. health care system and affects nearly all taxpayers, many employers and many elements of the health care industry. The *Patient Protection and Affordable Care Act* and the *Health Care and Education Reconciliation Act* contain a host of tax changes, many of which are both complex and novel. To compound the challenge, the tax changes go into effect over an unusually long number of years. The most relevant changes have been detailed in this information sheet for you.