BREARD & ASSOCIATES, INC.
CERTIFIED PUBLIC ACCOUNTANTS

January 2013

Dear Client,

The last few days of 2012, you probably heard way too much of the Mayan calendar world ending and the Fiscal Cliff. Me too! The purpose of this letter is to highlight some of the provisions of the American Taxpayer Relief Act of 2012 (Act). Also, we will discuss some of the popular questions on limits.

Overview

So, what does the new tax act mean to me?

- Wages
- Tax Brackets
- Capital Gains
- New Taxes
- Itemized Deductions
- Estates
- Omnibus: Various Federal and California tax changes

Wages: There will be a pinch in net salary checks. In 2013, the FICA rate of 6.20% was restored. Last year the rate was 4.20%. All things considered, that is a net decrease of 2% in your take-home pay.

Tax Bracket: Beginning in 2013, a new 39.6% tax bracket will apply to "High Earners" as defined:

Filing Status	Income Greater Than	Filing Status	Income Greater Than
Single	$400,000	Head of household	$425,000
Married filing jointly and surviving spouse	$450,000	Married filing separately	$225,000

Capital Gains: Capital gains will remain at 15% for most taxpayers. However the High Earners (see above) will face 5% increase in capital gain rates to 20%.

New Taxes: 2013 brings forth two new taxes that were enacted in healthcare reform legislation :

- Unearned Income Medicare Contribution Tax. This 3.8% surtax will apply to net investment income when taxpayer reaches a threshold.

Filing Status	Income Greater Than
Single and head of household	$200,000
Married filing jointly and surviving spouse	$250,000
Married filing separately	$125,000

- An additional Hospital Insurance Tax. To the extent wages on a tax return exceed an income threshold, an additional 0.9% tax is due on the excess. The thresholds are the same as for the Unearned Income Medicare Contribution Tax listed above.

Limitation on Itemized deductions: This is often referred to as a stealth tax because it decreases your otherwise allowable deductions. In 2013, itemized deductions begin to be phased out when income reaches

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the following thresholds:

Filing Status	Income Greater Than	Filing Status	Income Greater Than
Single	$250,000	Head of household	$275,000
Married filing jointly and surviving spouse	$300,000	Married filing separately	$150,000

Omnibus: Here is a catchall of various provisions.

- Debt forgiveness on home sale. The law extends the income tax forgiveness of debt relief on the sale of your principal residence when debt is greater than the sale price. Further details can be discussed on an individual level.

- Alternative Minimum Tax (AMT). Temporary patches have been the Congressional cure for AMT over the years as a result of their failure to index the exemption amounts for inflation. Beginning in 2012, the AMT exemption amounts were permanently increased with futures year's amounts to be adjusted by inflation.

- Home energy credit: The credit has been extended, but limited to 10% of the cost of the improvement with a maximum credit of $500. Some improvements such as energy efficient windows are limited in the amount of the credit available. For example, the maximum credit for windows is $200 and a hot water heater $150.

- California Personal Taxes: In November 2012, California voters passed Proposition 30. This proposition, which is retroactive to January 1, 2012, adjusted the state tax rate upwards from 1% to 3% over the existing top rate of 9,3% for upper income taxpayers. The measure is supposed to be temporary and is scheduled to expire in seven years. The thresholds are as follows:

Filing Status	1% Tax Increase (10.3 % Rate)	2% Tax Increase (11.3 % Tax Rate)	3% Tax Increase (12.3 % Tax Rate)
Single / married filing separately	$250,000	$300,000	$500,000
Married filing jointly / surviving spouse	$500,000	$600,000	$1,000,000
Head of household	$340,000	$408,000	$680,000

Business tax: Beginning in 2013, taxpayers that appportion income to California may elect to apportion their income using a single sales factor rather than the old three factor fomula based upon sales, property and payroll.

Home office deduction: For 2013 tax returns, writing off home-office expenses will be easier. The IRS will allow $5 per square foot for up to 300 square feet as a write-off without documentation. The maximum under this method is $1,500. This is an alternative for keeping all receipts. The IRS did not change the rule that the area must be exclusively used for business.

Some frequently asked questions:

Here are the answers to some questions that seem to come up on a regular basis:

Question	2012 Amount	2013 Amount
Automobile Mileage Rates:		
Business use	55.5 ¢	55.5 ¢
Medical / moving use	23.5 ¢	23.0 ¢
Charitable use	14.0 ¢	14.0 ¢
Retirement Contributions	**Under age 50/ 50 and over**	**Under age 50/ 50 and over**
IRA Accounts	$5,000 / $6,000	$5,500 / $6,500
Simple Plans	$11,500 / $14,000	$12,000 / $14,500
§401(k) Plans	$17,000 / $22,500	$17,500 / $23,000
Estate Tax Exclusion	$5,120,000	$5,250,000*
Top Estate Tax Rate	35%	40%
Gift Tax Exclusion	$13,000	$14,000
Kiddie Tax (parent's rate)	$950	$1,000

* Indexed for inflation in future years.

Overall, this has been the biggest tax increase in 20 years. We look forward to helping you through the maze. For many, 2013 will be very taxing. Tax returns are due on Monday, April 15, 2013. Please have your information to us by noon, Wednesday, April 3rd. After this date we will need to ask for an extension. Our firm strives to be cost conscience and green. We have not included an organizer in the mailing. To print one go to our website at www.baicpa.com; go to "News and Events" and see the link under tax news.

We thank you in advance for your patronage, and we look forward to seeing you during the tax season.

Sincerely,

Kevin Breard

Kevin G. Breard, CPA
Managing Partner

KGB:lrb

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