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Tips and Updates for 2013 Taxpayers

Exemptions - The exemption amount for 2013 has increased to $3,900 for yourself, your spouse, and each qualifying dependent.

Unreimbursed Medical Expenses - Starting in 2013 the Adjusted Gross Income (AGI) starting point after which you can claim unreimbursed medical expenses increased from 7.5% to 10% of your AGI. There is an exemption till 2016 for individuals age 65 and older and their spouses, allowing them to continue using the 7.5% AGI limits.

Standard Deductions - The standard deduction amounts have increased marginally for 2013 to $6,100 for single, or married filing separately, $12,200 for married filing jointly or qualifying widow(er), and $8,950 for head of households. For individuals claimed as a dependent on another's tax return, the 2013 standard deduction is the greater of $1,000, or $300 plus earned income.

IRAs - $5,500, a slight increase over last year, may be contributed to a traditional or Roth IRA in 2013, by April 15, 2014. Those 50 or older at year-end can make an additional catch-up contribution of $1,000. Contributions to traditional IRAs may be deductible, depending on several factors and are phased out at higher AGI levels. Distributions continue to be fully taxable as ordinary income, unless there were historical nondeductible contributions.

Employer-Sponsored 401(k) – Pretax contributions to traditional 401(k) reduce taxable wages, additionally matching contributions and earned income within your plan are tax-deferred until distributed. The employee contribution limit for 2013 is $17,500. Employees age 50 or older by year-end may make an additional catch-up contribution of $5,500. Distributions continue to be fully taxable as ordinary income.

Roth 401(k) - Contributions are made with after tax funds, while the earning are tax-deferred. Taxpayers are allowed to roll over certain traditional IRAs and 401k's into a Roth, but the pretax contributions are taxable for this transaction.

You should consult with your CPA, to better understand the rules related to retirement account distributions if you are about to retire.

Child & Education Tax Considerations

Child Tax Credit - $1000 tax credit for each qualifying dependent, under the age of 17, is still intact for 2013.

Child & Dependent Care Credit – Parents that work and engage in hired childcare inside or outside of the home, for dependents under the age 13 are eligible for a tax credit between 20% to 35% of qualifying expenses, based on income level. For 2013, the maximum amount of qualifying expenses on which the credit can be claimed is the lesser of the amount of qualifying expenditures, $3,000 for the care of one dependent or $6,000 for at least two qualifying children, or the taxpayer's earned income.

Earned Income Credit – If a taxpayer has any earned income, whether there is a qualifying child or not, there may be a refundable earned income credit of up to $6,044, depending on filing status, number of qualifying children, amount of earned income and AGI amount.

Higher Education Tax Credits – A tax credit of up to $2,500 per student for qualifying expenditures is available for the first four years of college. Or a Lifetime Learning Credit of 20% up to $10,000 if eligible expenses per year is available for undergraduate, graduate, and professional degree courses. However, both credits phase out for higher income individuals, and you cannot claim both credits for the same student in the same tax year.