Tax Tidbits

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A Tax History From 1984 to 2014

In the years before 1986, the individual income tax code included 25 marginal tax rates. On October 22, 1986, President Reagan signed the Tax Reform Act of 1986 (TRA86) into law. This law was one of the most extensive reforms of the United States tax code since income taxes were instituted. The top tax rate on individual income was lowered from 50% to 28%, the lowest it had been since 1916. Tax "preferences" were eliminated to make up for most of the lost revenue. In an attempt to remain revenue neutral, the Act called for a $120 billion decrease in individual taxation over a five year period and a corresponding increase in business taxation.

Following what seemed to be a yearly tradition of new tax acts that began in 1986, the Revenue Reconciliation Act of 1990 was signed into law on November 5, 1990. As with the '87, '88 and '89 Acts, the 1990 act, while providing a number of substantive provisions, was small in comparison to the 1986 Act. The focus of the 1990 Act was increased taxes on the wealthy.

On August 10, 1993, President Clinton signed the Revenue Reconciliation Act of 1993 into law. The Act's purpose was to reduce the federal deficit by approximately $496 billion, which would have accumulated in fiscal years 1994 through 1998. In 1997, Clinton signed another tax act. This act, which cut taxes by $152 billion, included a cut in the capital gains tax for individuals, a $500 per child tax credit and tax incentives for education.

President George W. Bush signed a series of tax cuts into law. The largest was the Economic Growth and Tax Relief Reconciliation Act of 2001, which was estimated to save taxpayers $1.3 trillion over ten years, making it the third largest tax cut since World War II. The Bush tax cut created a new minimum rate of 10% for the first several thousand dollars earned. It also established a gradual schedule of incremental tax cuts that doubled the child tax credit from $500 to $1000, adjusted brackets so that middle-income couples owed the same as comparable singles and reduced the top four tax rate brackets from 28% to 25%, 31% to 28%, 36% to 33% and 39.6% to 35%.

The Jobs and Growth Tax Relief and Reconciliation Act of 2003 accelerated the tax rate cuts that had been enacted in 2001 and temporarily reduced the tax rate on capital gains and dividends to 15%. In 2004, the U.S. was forced to eliminate a corporate tax provision that had been ruled illegal by the World Trade Organization. Along with that tax hike, Congress passed a plethora of tax breaks, which, for individuals, included an option to deduct the payment of whichever state tax, sales or income tax that was higher. This brought back the sales tax deduction that the TRA86 eliminated.

Two tax bills signed in 2005 and 2008 extended through 2010 the favorable rates on capital gains and dividends that had been enacted in 2003. The bills also raised the exemption levels for the Alternative Minimum Tax and enacted new tax incentives designed to encourage individuals to save more for retirement.

In 2010, a sweeping new health reform law was put into place. It is the law that we have come to know as the Affordable Care Act. Not only did this law mandate that all U.S. residents obtain health insurance coverage, but it enacted several new sections of the law, taking effect in 2013, to raise money to fund this reform. Those sections include the Net Investment Income Tax, revised Medicare Tax, itemized deductions limitations, personal exemptions phaseout and more. At this time, we are waiting for Congress to extend tax provisions that expired on December 31, 2013.

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Please note that our Tax and Business Services Department, our Insurance Division and our Investment Advisors are available to answer any questions that you may have regarding the articles in this publication. We look forward to hearing from you.

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When To File Form 709 - United States Gift Tax Return

A common misconception is that if you receive a gift, it is taxable to you. A gift may be money, a car, a house, stock certificates, etc. The person giving the gift is responsible for paying any gift tax that is due. For 2014, each person can give up to $14,000 “present interest” to as many individuals as he/she wants, without paying gift tax. “Present interest” gifts are gifts that the recipient can use immediately. A Form 709-United States Gift (and Generation-Skipping Transfer) Tax Return is not required to be filed.

You are required to file Form 709 for gifts of more than $14,000 or gifts of future interest of any amount. You have a basic exclusion from gift or estate tax of $5.34 million for 2014. Filing a gift tax return notifies the IRS how much of the $5.34 million tax–free amount you have used. Once you exceed the basic exclusion amount, you could owe up to 40% in gift tax.

The good news is that limits on lifetime gifts do not apply to married couples, providing your spouse is a U.S. citizen. If your spouse is not a U.S. citizen, only $145,000 per year is excluded. If the gift is over the $145,000 to a non-citizen spouse, Form 709 would have to be filed.

Married couples may use the annual exclusion to gift split. A couple can give up to $28,000 combined. For example, a married couple gives their grandchild $25,000. If one spouse writes the check, that spouse is deemed to have made the gift. Form 709 would have to be filed to make a gift split election. The gift would be neither taxable nor would it reduce the lifetime exclusion. It is recommended that the couple write separate checks to avoid having to file a gift tax return. If you failed to file a gift tax return for a prior year, file it as soon as possible. Once the IRS has issued a notice of deficiency, it is too late to make a gift splitting election.

Payments made directly to an institution for tuition expenses do not count against the annual or lifetime exclusion amounts. The same applies to payments made directly to service providers for medical or dental expenses. Form 709 does not have to be filed.

Special rules apply for gifts to a section 529 college savings plan for a family member. The law allows lump-sum deposits into a section 529 college savings plan of as much as $70,000 per person ($140,000 for married couples) at one time without paying any gift tax or using the lifetime exclusion. Form 709 would have to be filed electing to treat the gift as if it had been spread over five years.

If required to be filed, gift tax returns are due by April 15. If the IRS catches up with you, back taxes, interest and penalties will be assessed for not filing.

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Health Care & Advance Premium Tax Credit

As of January 1, 2014, under the Affordable Care Act, most legal residents of the United States were required to obtain qualified health insurance or pay a penalty. In an effort to assist individuals and families help pay for qualified health coverage, the Advance Premium Tax Credit was introduced. This credit became immediately available upon enrollment in a qualified health plan in the newly established Health Insurance Marketplace. Payments of the premium tax credits may be applied to the monthly health insurance premiums and payable to the insurers or individuals may claim all of the credit when filing his/her tax return for the year.

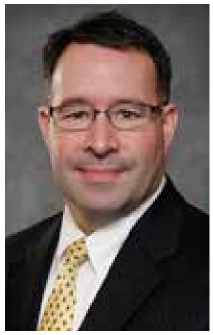
You are eligible for the premium tax credit if you meet all of the following requirements:

- Purchase coverage through the Marketplace
- Are not able to obtain affordable coverage through an eligible employer plan that provides minimum value
- Have household income that falls within a certain range
- Are not eligible for coverage through a government program like Medicaid, Medicare, CHIP or TRICARE
- Do not file a Married Filing Separately tax return
- Cannot be claimed as a dependent by another person

Individuals and families whose household income for the year is between 100% and 400% of the federal poverty level for their family size may be eligible for the premium tax credit. For purposes of calculating the premium tax credit, your household income is your modified adjusted gross income plus that of every other individual in your family for which you can claim a personal exemption deduction and who is required to file a federal income tax return.

*See **Health Care** on Page 4*

Emergency Economic Stabilization Act of 2008-Bond Amortization



The Emergency Economic Stabilization Act of 2008 included new tax reporting requirements that dramatically changed the way investors and advisors think about cost basis. The Act's goal is to ensure that investors accurately report investment gains and losses in their annual tax filings. To achieve this objective, custodians and brokers are required to report the adjusted cost basis of covered securities (including whether the gain or loss is short term or long term) to taxpayers and the IRS on Form 1099-B.

Now, advisors must prepare their clients for Phase III, which will cover fixed income securities and options. Given the complexity of these investments, the IRS will stagger the reporting requirements to cover the following:

• Less complex fixed income and options securities acquired on or after January 1, 2014 such as:
 ~ Treasury notes and bonds
 ~ Fixed-rate corporate bonds
 ~ Municipal bonds

• More complex fixed income securities and options issued as part of a fixed income instrument acquired on or after January 1, 2016

Under the final regulations, our custodian's cost basis reporting will assume that clients have elected to amortize bond premiums. To conform to the new reporting rules, our custodian is making changes to the amortization rules in its cost basis software systems. If amortization is currently turned off on a client's account, the custodian will enable it for the 2014 tax year (Chart 1).

The requirements were originally scheduled to be phased in from 2011 to 2013, but the varying complexities of the affected securities caused the IRS to extend the time frame through January 1, 2016 (Chart 2).

Upon request, custodians will support up to five different client elections. Clients must make their elections for the 2014 tax year by December 31, 2014. If they elect to opt out of the default, they must do so in writing using the election form.

Bonds	Amortization/Accretion Rule Type	Yield Method	Apply "de minimis" Rule
Original Issue Discount	Constant Yield	Yield to Maturity[1]	Yes
Market Discount			
Premium			

Chart 1

Cost Basis Reporting Effective Dates by Security Type		
Phase I	Phase II	Phase III
Equities	Mutual Funds, ETFs, and DRIPs	Fixed Income and Option Securities
Acquired on or after January 1, 2011	Acquired on or after January 1, 2012	Acquired on or after January 1, 2013 **Delayed to 2014 – 2016**

Chart 2

They may elect to:

• Accrue market discount using constant yield
• Include market discount in current income
• Treat all interest as Original Issue Discount (OID)
• Turn off taxable bond premium amortization
• Use the spot rate for interest accruals if currency is denominated in non-U.S. dollars (This will not become effective until 2016.)

Covered Fixed Income Securities purchased and sold on or after January 1, 2014, will have their adjusted cost basis reported to the IRS. Our custodian will not report adjusted cost to the IRS for those Fixed Income Securities purchased prior to January 1, 2014.

Joesph M. Valicenti
President/CEO

Retirement Account Thresholds

The deduction phaseouts for contributions to regular IRAs begin at higher levels from AGIs of $96,000 to $116,000 for couples and $60,000 to $70,000 for singles. If one spouse is covered by a plan, the phaseout for deducting a contribution for the uncovered spouse begins at $181,000 of AGI and ends at $191,000.

The income ceilings on Roth IRA contributions rise. Contributions phase out at AGIs of $181,000 to $191,000 for couples and $114,000 to $129,000 for singles.

The contribution limitation for defined contribution plans increases to $52,000. Therefore, there is a $1,000 increase for Keogh plans, profit sharing plans and similar retirement plans.

Retirement plan contributions can be based on up to $260,000 of salary. Additionally, the benefit limit for pension plans rises to $210,000 in 2014. The 401(k) deferral cap remains at $17,500, plus $5,500 more for people 50 and up.

IRA and Roth contribution limits remain at $5,500, plus $1,000 extra for people born before 1965.

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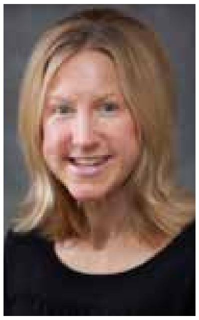
The Net Investment Income Tax and the Additional Medicare Tax



The Net Investment Income Tax (NIIT) went into effect on January 1, 2013 and will continue to impose an additional tax bite on many Americans for tax year 2014 and beyond. The NIIT is a 3.8% surtax on certain net investment income of individuals, estates and trusts. The tax is calculated on a base of income that is either one's modified adjusted gross income over a threshold amount or net investment income, whichever is less. In general, investment income for the purposes of the NIIT includes, but is not limited to, interest, dividends, capital gains, rental and royalty income and income from non-qualified annuities. Taxpayers can reduce their net investment income by certain expenses, such as investment interest expense, investment advisory and brokerage fees, expenses related to rental and royalty income and tax preparation fees appropriately allocated to this income. Individuals will owe the NIIT if they have net investment income and also have modified adjusted gross income over the following thresholds:

Filing Status	Threshold Amount
Married Filing Jointly	$250,000
Married Filing Separately	$125,000
Single	$200,000
Head of Household with Qualifying Person	$200,000
Qualifying Widow(er) with Dependent Child	$250,000

Individuals, estates and trusts will use Form 8960 Net Investment Tax-Individuals, Estates, and Trusts to calculate their NIIT. The tax will then be reported on Form 1040 for individuals or Form 1041 for estates and trusts.

The Additional Medicare Tax, which also became effective on January 1, 2013, is a 0.9% surtax on wages, compensation and self-employment income above certain thresholds based on a person's filing status. The Additional Medicare surtax is assessed only on the amount of income above the threshold, not on total earned income. These thresholds are the same as those for the NIIT above, with the exception of the Qualifying Widow(er) with Dependent Child, which is $200,000.

An employer is responsible for withholding the Additional Medicare Tax from wages it pays in excess of $200,000 in a calendar year. A taxpayer may owe more than the amount withheld based on the individual's filing status and total earned income. Form 8959 Additional Medicare Tax is used to calculate this surtax. The tax, like the NIIT is reported on Form 1040.

Important to note: Both the NIIT and the Additional Medicare Tax are subject to the estimated tax provisions. As such, those who expect to be subject to these taxes should adjust their income tax withholding or estimated tax payments to account for this increase in tax. Since these two surtaxes are based on modified adjusted gross income, it would be financially wise for those who expect to be impacted by these surtaxes to meet with a tax advisor in our Tax Department.

Kathleen O'Herron, CPA
Staff Accountant

Health Care

(Continued from Page 2)

In 2015, eligible employer coverage includes health insurance plans for which the annual premium for single coverage does not exceed 9.56% of your household income. The affordability test applies only to the portion of the annual premiums for self only coverage and does not include any additional cost for family coverage.

It is important to note that the actual premium tax credit for the year will differ from the advance credit amount estimated by the Marketplace if your family size and household income, as estimated at the time of enrollment, are different from the family size and household income you report on your return. If your actual allowable credit on your return is less than your Advance Premium Tax Credit, the difference will be subtracted from your refund or added to your balance due. In reverse, if your actual allowable credit is more than your advance premium tax credit, the difference will be added to your refund or subtracted from your balance due. If there are sizable fluctuations in income or family size, it is important to notify the Marketplace as soon as possible.

The penalty continues for individuals and families who elect to remain uninsured for the 2015 plan year. For those uninsured in a qualified health plan that meets minimum essential coverage, you will pay either a percentage of your household income (2% in 2015) or $325 per person for the year ($162.50 per child under 18). The maximum penalty per family using this method is $975.

Suzanne Valicenti
VP/Director of Insurance Services

Valicenti Insurance Services, Inc.

This document was not intended or written to be used and it cannot be used for the purpose of avoiding tax penalties that may be imposed on the taxpayer.