

The Washington Post

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A guide to 2013 tax changes

By Carole Feldman, Published: January 22

Higher-income Americans and some legally married same-sex couples are likely to feel the biggest hits from tax law changes when they file their federal returns in the next few months. The threshold for medical deductions has also risen.

In other changes for the 2013 tax year, the Alternative Minimum Tax has been patched — permanently — to prevent more middle-income people from being drawn in, and there's a simpler way to compute the home office deduction.

Tax rate tables and the standard deduction have been adjusted for inflation, as has the maximum contribution to retirement accounts, including 401(k) plans and individual retirement accounts.

Taxpayers must also remember that filing season is delayed because of the two-week government shutdown last October. The Internal Revenue Service says it needs time to ensure that systems are in place and working. Returns can be filed starting Jan. 31. The original starting date had been Jan. 21, or Tuesday.

“People who are used to filing early in order to get a quick refund are just going to have to wait,” said Barbara Weltman, a contributing editor to “J.K. Lasser’s Your Income Tax 2014.”

No change in the April 15 deadline, however. That’s set by law and will remain in place, the IRS says.

Higher-income taxpayers

The tax legislation passed at the start of 2013 permanently extended the George W. Bush-era tax cuts for most people, but also added a top marginal tax rate of 39.6 percent for those at higher incomes — \$400,000 for single filers, \$450,000 for married couples filing jointly and \$425,000 for heads of household.

Also, higher-income taxpayers could see their itemized deductions and personal exemptions phased out and pay higher capital gains taxes — 20 percent for some taxpayers. And there are new taxes for them to help pay for health-care reform.

There are different income thresholds for each of these new taxes. An additional 0.9 percent Medicare tax, for example, kicks in on earnings over \$250,000 for married couples filing jointly and \$200,000 for singles and heads of household. Same for a 3.8 percent tax on investment income.

But the phase-out of personal exemptions and deductions doesn’t begin until \$300,000 for married couples filing jointly and \$250,000 for singles.

Taxpayers who didn’t plan could face big tax bills — and perhaps penalties for under-withholding.

Confused?

“The complexities of the tax code are only affecting those of us trying to read it,” National Taxpayer Advocate Nina Olson said in an interview. Tax software makes a lot of those complexities invisible to most people.

As a result, taxpayers might not realize they’re being helped by a wide array of deductions and credits. “They have no idea of the benefits they are getting through the tax code,” she said.

Stock sales

A simplification: Many investors will find it easier to report stock sales if the 1099-B forms they receive contain key details of the sale and the correct basis for computing gains and losses.

Who’s filing

The IRS processed more than 147 million tax returns in 2013, a slight drop from 2012. More than 109 million taxpayers received refunds that averaged \$2,744, also slightly less than in 2012.

The IRS is continuing to offer its Free File option, which is available to taxpayers with adjusted gross incomes of \$58,000 or less. These taxpayers can use brand-name software to file their taxes at no cost. Some states also participate. The agency also has an option for taxpayers of all incomes — Free File Fillable Forms — which does basic calculations but does not offer the guidance that a software package would.

For the 2013 tax year, the personal exemption is \$3,900. The standard deduction is \$12,200 for married taxpayers filing jointly, \$6,100 for singles and \$8,950 for heads of household.

Education

Many credits and deductions were extended for 2013, including several for education. Among them: the American Opportunity Credit of up to \$2,500 a student for tuition and fees and deductions for student loan interest and tuition-related expenses. Many of these are phased out at higher-income levels.

Schoolteachers will still be able to deduct up to \$250 in out-of-pocket expenses for supplies.

Medical expenses

The threshold for deducting medical expenses now stands at 10 percent of adjusted gross income, up from 7.5 percent.

There’s an exception for those older than 65. The old rate is grandfathered in until 2017.

Home office deduction

Taxpayers who work at home will have a simplified option for the home office deduction.

“You can claim this deduction for the business use of a part of your home only if you use that part of your home regularly and exclusively,” the IRS says.

But, if you sit at your kitchen table and check work e-mail, it doesn’t qualify.

The IRS said that for tax year 2011, the most recent year for which numbers are available, more than 3.3 million people claimed nearly \$10 billion in home office deductions using Schedule C. The number does not include the home office deduction taken by farmers, which is taken on a different form.

Most taxpayers claiming the deduction are self-employed, the IRS said.

“Starting with 2013 returns, if you’re eligible for the deduction, you can take a standard deduction of \$5 per square foot, up to 300 square feet,” Weltman said. The maximum deduction using this method is \$1,500.

The IRS says people who take the simplified option will have to fill out one line on Schedule C, as opposed to a 43-line form.

Same-sex marriage

Beginning this year, same-sex couples who are legally married will for the most part have to choose married filing jointly or married filing separately on their tax returns. That’s even if they live in a state that does not recognize gay marriage.

Many of these couples will now find themselves hit by the marriage penalty, especially if both spouses work.

For example, with their incomes combined, they might hit the threshold for the extra Medicare taxes, or the beginning of the phase-out of deductions and the standard exemption.

But on matters such as estate taxes, the federal recognition of same-sex marriage will help couples. That was the issue in the Supreme Court decision in the case of Edith Windsor, who had to pay estate taxes after her lesbian spouse died.

Also, health insurance bought from an employer for a same-sex spouse can be paid pre-tax and excluded from income.

“Like opposite-sex couples, gay and lesbian married couples can qualify to use the head-of-household status, when kids are involved, where the spouses are living apart,” the IRS says.

Same-sex married couples also have the option of filing amended returns going back to 2010, using the married-filing-jointly status.

When it comes to filing state returns, same-sex married couples living in states that don't recognize gay marriage most likely will have to file as singles. Since federal returns often are used as a starting point for state returns, that could force them to calculate their federal taxes twice, once for filing the federal return and once for figuring out their state taxes.

Energy efficiency

If you made energy-efficiency improvements to your home, such as installing new windows or a qualifying furnace or heat pump, you might earn an energy credit of 10 percent of the cost up to a lifetime maximum of \$500.

But of that total, the IRS says, “only \$200 can be for windows, \$50 for any advanced main air circulating fan, \$150 for any qualified natural gas, propane, or oil furnace or hot water boiler, and \$300 for any item of energy-efficient building property.”

There are additional credits for solar.

The credit for plug-in electric vehicles has expired.

The IRS is also reminding taxpayers to make sure their Social Security numbers are correct and their returns are signed.

Those who need more time can apply for an extension, until Oct. 15. But remember to estimate and pay any taxes due — or face a possible penalty.

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