



December 2013

Dear Clients and Friends:

As 2013 draws to a close, there is still time to reduce your 2013 tax bill and plan ahead for 2014. This letter highlights several potential tax-saving opportunities for you to consider. Contact your Denman tax professional to discuss specific strategies.

### **Basic Numbers You Need to Know**

Because many tax benefits are tied to or limited by adjusted gross income (AGI) a key aspect of tax planning is to estimate both your 2013 and 2014 AGI. Also, when considering whether to accelerate or defer income or deductions, you should be aware of the impact this action may have on your AGI and your ability to maximize itemized deductions that are tied to AGI. Your 2012 tax return and your 2013 pay stubs and other income and deduction related materials are a good starting point for estimating your AGI.

Another important number is your "tax bracket," i.e., the rate at which your last dollar of income is taxed. Due to legislation in early 2013, the tax rates for 2013 changed from 2012 and are 10%, 15%, 25%, 28%, 33%, 35% and 39.6%. Although tax brackets are indexed for inflation, if your income increases faster than the inflation adjustment, you may be pushed into a higher bracket. If so, your potential benefit from any tax-saving opportunity is increased (as is the cost of overlooking an opportunity).

### **Gift Giving**

*Annual Gift Tax Exclusion:* The most commonly used method for gift tax-free giving is the annual gift tax exclusion, which, for 2013, allows a person to give up to \$14,000 to each donee without reducing the giver's estate and lifetime gift tax exclusion amount. A person is not limited as to the number of donees to whom he or she may make such gifts. Thus, if an individual makes \$14,000 gifts to 10 donees, he or she may exclude \$140,000 from tax. In addition, because spouses may combine their exemptions in a single gift from either spouse, married givers may double the amount of the exclusion to \$28,000 per donee. A person may not carry over his or her annual gift tax exclusion amount to the next calendar year. Also, qualifying tuition payments and medical payments do not count against this limit.

### **IRA, Retirement Savings Rules for 2013**

Tax-saving opportunities continue for retirement planning due to the availability of Roth IRAs, changes that make regular IRAs more attractive, and other retirement savings incentives.

*Traditional IRAs:* Individuals who are not active participants in an employer pension plan may make deductible contributions to an IRA. The annual deductible contribution limit for an IRA for 2013 is \$5,500. For 2013, a \$1,000 "catch-up" contribution is allowed for taxpayers age 50 or older by the close of the taxable year, making the total limit \$6,500 for these individuals. Individuals who are active participants in an employer pension plan also may make deductible contributions to an IRA, but their contributions are limited in amount depending on their AGI. For 2013, the AGI phase-out range for deductibility of IRA contributions is between \$59,000 and \$69,000 of modified AGI for single persons (including heads of households), and between \$95,000 and \$115,000 of modified AGI for married filing jointly. Above these ranges, no deduction is allowed.

In addition, an individual will not be considered an "active participant" in an employer plan simply because the individual's spouse is an active participant for part of a plan year. Thus, you may be able to take the full deduction for an IRA contribution regardless of whether your spouse is covered by a plan at work, subject to a phase-out if your joint modified AGI is \$178,000 to \$188,000 (\$0 - \$10,000 if married filing separately) for 2013. Above this range, no deduction is allowed.

*Spousal IRA:* If an individual files a joint return and has less compensation than his or her spouse, the IRA contribution is limited to the lesser of \$5,500 for 2014 plus age 50 catch-up contributions, or the total compensation of both spouses reduced by the other spouse's IRA contributions (traditional and Roth).

*Roth IRA:* This type of IRA permits nondeductible contributions of up to \$5,500 for 2013. Earnings grow tax-free, and distributions are tax-free provided no distributions are made until more than five years after the first contribution and the individual has reached age 59<sup>1/2</sup>. Distributions may be made earlier on account of the individual's disability or death. The maximum contribution is phased out in 2013 for persons with an AGI above certain amounts: \$178,000 to \$188,000 for married filing jointly, and \$112,000 to \$127,000 for single taxpayers (including heads of households); and between \$0 and \$10,000 for married filing separately.

*Roth IRA Conversion Rule:* Funds in a traditional IRA (including a SEP and SIMPLE IRA), §401(a) qualified retirement plan, §403(b) tax-sheltered annuity or §457 government plan may be rolled over into a Roth IRA. Such a rollover, however, is treated as a taxable event, and you will pay tax on the amount converted. No penalties will apply if all the requirements for such a transfer are satisfied.

In past years, a taxpayer's AGI (whether married filing jointly or single) was limited to \$100,000 to make such a conversion and the taxpayer must not be a married individual filing a separate return. The AGI limitation does not apply to conversions from a Roth designated account in a §401 or §403(b) plan. For 2013, the \$100,000 income limit on Roth IRA conversions also does not apply, and taxpayers will be able to make Roth IRA conversions without regard to their AGI. If you convert to a Roth IRA in 2013, the tax on the converted amount will have to be paid in the year of conversion. Also, if you already made a conversion earlier this year, you have the option of undoing the conversion. This is a useful strategy if the investments have gone down in value so that if you were to do the conversion now, your taxes would be lower. This is a complicated calculation and we should meet to determine what your best options are.

In addition, for 2013, if your §401(k) plan, §403(b) plan, or governmental §457(b) plan has a qualified designated Roth contribution program, a distribution to an employee (or a surviving spouse) from such account under the plan that is not a designated Roth account is permitted to be rolled over into a designated Roth account under the plan for the individual.

*401(k) Contribution:* The §401(k) elective deferral limit is \$17,500 for 2013. If your §401(k) plan has been amended to allow for catch-up contributions for 2013 and you will be 50 years old by December 31, 2013, you may contribute an additional \$5,500 to your §401(k) account, for a total maximum contribution of \$23,000 (\$17,500 in regular contributions plus \$5,500 in catch-up contributions).

*SIMPLE Plan Contribution:* The SIMPLE plan deferral limit is \$12,000 for 2013. If your SIMPLE plan has been amended to allow for catch-up contributions for 2013 and you will be 50 years old by December 31, 2013, you may contribute an additional \$2,500.

*Catch-Up Contributions for Other Plans:* If you will be 50 years old by December 31, 2013, you may contribute an additional \$5,500 to your §403(b) plan, SEP or eligible §457 government plan.

*Saver's Credit:* A nonrefundable tax credit is available based on the qualified retirement savings contributions to an employer plan made by an eligible individual. For 2013, only taxpayers filing joint returns with AGI of \$59,000 or less, head of household returns with AGI of \$44,250 or less, or single returns (or separate returns filed by married taxpayers) with AGI of \$29,500 or less, are eligible for the credit. The amount of the credit is equal to the applicable percentage (10% to 50%, based on filing status and AGI) of qualified retirement savings contributions up to \$2,000.

*Required Minimum Distributions:* For 2013, taxpayers must take their required minimum distribution from IRAs or defined contribution plans (§401(k) plans, §403(a) and (b) annuity plans, and §457(b) plans that are maintained by a governmental employer).

*Maximize Retirement Savings:* In many cases, employers will require you to set your 2014 retirement contribution levels before January 2014. If you did not elect the maximum 401(k) contribution for 2013, you can increase your amount for the remainder of 2013 to lower your AGI in order to take advantage of some of the tax breaks described above. In addition, maximizing your contribution is generally a good tax-saving move.

### **Deferring Income to 2014**

If you expect your AGI to be higher in 2013 than in 2014, or if you anticipate being in the same or a higher tax bracket in 2013, you may benefit by deferring income into 2014. Deferring income will be advantageous so long as the deferral does not bump your income to the next bracket. Some ways to defer income include:

*Delay Billing:* If you are self-employed and on the cash-basis, delay year-end billing to clients so that payments will not be received until 2014.

*Interest and Dividends:* Interest income earned on Treasury securities and bank certificates of deposit with maturities of one year or less is not includible in income until received. To defer interest income, consider buying short-term bonds or certificates that will not mature until next year. If you have control as to when dividends are paid, arrange to have them paid to you after the end of the year.

### **Accelerating Income into 2013**

In limited circumstances, you may benefit by accelerating income into 2013. For example, you may anticipate being in a higher tax bracket in 2014, or perhaps you will need additional income in order to take advantage of an offsetting deduction or credit that will not be available to you in future tax years. Note, however, that accelerating income into 2013 will be disadvantageous if you expect to be in the same or lower tax bracket for 2014. In any event, before you decide to implement this strategy, we should "crunch the numbers."

If accelerating income will be beneficial, here are some ways to accomplish this:

*Accelerate Collection of Accounts Receivable:* If you are self-employed and report income and expenses on a cash basis, issue bills and attempt collection before the end of 2013. Also see if some of your clients or customers might be willing to pay for January 2014 goods or services in advance. Any income received using these steps will shift income from 2014 to 2013.

*Year-End Bonuses:* If your employer generally pays year-end bonuses after the end of the current year, ask to have your bonus paid to you before the beginning of 2014.

*Retirement Plan Distributions:* If you are over age 59<sup>1/2</sup> and you participate in an employer retirement plan or have an IRA, consider making any taxable withdrawals before 2014.

You may also want to consider making a Roth IRA rollover distribution, as discussed above.

### **Deduction Planning**

#### *Individual Deductions*

Deduction timing is also an important element of year-end tax planning. Deduction planning is complex, however, due to factors such as AGI levels, Alternative Minimum Tax (AMT), and filing status. If you are a cash-method taxpayer, remember to keep the following in mind:

*Deduction in Year Paid:* An expense is only deductible in the year in which it is actually paid. Under this rule, if your tax rate is going to increase in 2014, it is a smart strategy to postpone deductions until 2014.

*Payment by Check:* Date checks before the end of the year and mail them before January 1, 2014.

*Promise to Pay:* A promise to pay or providing a note does not permit you to deduct the expense. But you can take a deduction if you pay with money borrowed from a third party. Hence, if you pay by credit card in 2013, you can take the deduction even though you won't pay your credit card bill until 2014.

*AGI Limits:* For 2013, the overall limitation on itemized deductions ("Pease" limitation) applies for taxpayers whose AGI exceeds an "applicable amount." For 2013, the applicable amount is \$300,000 for a married couple filing a joint return or a surviving spouse, \$275,000 for a head of household, \$250,000 for an unmarried individual, and \$150,000 for a married individual filing a separate return. In addition, certain deductions may be claimed only if they exceed a percentage of AGI: 10% for medical expenses (7.5% for certain older taxpayers), 2% for miscellaneous itemized deductions, and 10% for casualty losses.

*Standard Deduction Planning:* Deduction planning is also affected by the standard deduction. For 2013 returns, the standard deduction is \$12,200 for married taxpayers filing jointly, \$6,100 for single

taxpayers, \$8,950 for heads of households, and \$6,100 for married taxpayers filing separately. As you can see from the numbers, for 2013, the standard deduction for married taxpayers is twice the amount as that for single taxpayers. If your itemized deductions are relatively constant and are close

to the standard deduction amount, you will obtain little or no benefit from itemizing your deductions each year. But simply taking the standard deduction each year means you lose the benefit of your itemized deductions. To maximize the benefits of both the standard deduction and itemized deductions, consider adjusting the timing of your deductible expenses (using the above techniques) so that they are higher in one year and lower in the following year.

*Medical Expenses:* For 2013, medical expenses, including amounts paid as health insurance premiums, are deductible only to the extent that they exceed 10% of AGI (7.5% for taxpayers age 65 or older). This is an increase from 2012 when it was 7.5% for all taxpayers.

*State Taxes:* If you anticipate a state income tax liability for 2013 and plan to make an estimated payment most likely due in January, consider making the payment before the end of 2013. However, too high a payment could lead towards being subject to the AMT. Note that the election to deduct as an itemized deduction state and local sales taxes instead of state and local income taxes is scheduled to expire at the end of 2013.

*Charitable Contributions:* Consider making your charitable contributions at the end of the year. This will give you use of the money during the year and simultaneously permit you to claim a deduction for that year. You can use a credit card to charge donations in 2013 even though you will not pay the bill until 2014. A mere pledge to make a donation is not deductible, however, unless it is paid by the end of the year. Note, however, for claimed donations of cars, boats and airplanes of more than \$500, the amount available as a deduction will significantly depend on what the charity does with the donated property, not just the fair market value of the donated property. If the organization sells the property without any significant intervening use or material improvement to the property, the amount of the charitable contribution deduction cannot exceed the gross proceeds received from the sale.

To avoid capital gains, you may want to consider giving appreciated property to charity.

Regarding charitable contributions please remember the following rules: (1) no deduction is allowed for charitable contributions of clothing and household items if such items are not in good used condition or better; (2) the IRS may deny a deduction for any item with minimal monetary value; and (3) the restrictions in (1) and (2) do not apply to the contribution of any single clothing or household item for which a deduction of \$500 or more is claimed if the taxpayer includes a qualified appraisal with his or her return. Charitable contributions of money, regardless of the amount, will be denied a deduction, unless the donor maintains a written communication from the donee organization showing the name of the donee organization, and the date and amount of the contribution.

A special provision gives taxpayers the ability to distribute tax-free to charity up to \$100,000 from a traditional or Roth IRA maintained for an individual whose has reached age 70 ½. This provision is scheduled to expire at the end of 2013.

#### *Business Deductions*

*Equipment Purchases:* If you are in business and purchase equipment, you may make a "Section 179 Election," which allows you to expense (i.e., currently deduct) otherwise depreciable business property. For 2013, you may elect to expense up to \$500,000 of equipment costs (with a phase-out for total purchases in excess of \$2,000,000) if the asset was placed in service during 2013. Note that for assets placed in service in 2013 (2015 for certain longer-lived and transportation property), taxpayers can expense 50% of their business equipment purchases under §168(k), a provision giving taxpayers bonus depreciation. Bonus depreciation may mitigate the need for the §179 election.

In 2014, the dollar amounts for §179 expensing are scheduled to be \$25,000, with a phase-out amount after total purchases of \$200,000. Although there is a chance the 2014 figures will go up if Congress acts, it would be wise to place more assets in service in 2013 if you have yet to hit the \$500,000 figure.

One thing to keep in mind. In general, under the "half-year convention," you may deduct six months of depreciation for equipment that is placed in service on or before the last day of the tax year. (If more than 40% of the cost of all personal property placed in service occurs during the last quarter of the year, however, a "mid-quarter convention" applies, which lowers your depreciation deduction.) A popular strategy in recent years is to purchase a vehicle for business purposes that exceeds the depreciation limits set by statute (i.e., a vehicle rated over 6,000 pounds). Doing so would not subject the purchase to the statutory dollar limit, \$11,160 for 2013 (due to bonus depreciation rules); \$11,360 in the case of vans and trucks (due to bonus depreciation rules). Therefore, the vehicle would qualify for the full equipment expensing dollar amount. However, for SUVs (rated between 6,000 and 14,000 pounds gross vehicle weight) the expensing amount is limited to \$25,000.

*NOL Carryback Period:* If your business suffers net operating losses for 2013, you generally apply those losses against taxable income going back two tax years. Thus, for example, the loss could be used to reduce taxable income and thus generate tax refunds for tax years as far back as 2011. Certain "eligible losses" can be carried back three years; farming losses can be carried back five years.

*Capitalization v. Expensing for Materials and Supplies and Repairs:* Effective for taxable years beginning on or after January 1, 2014, the IRS finalized regulations that determine when taxpayers should capitalize or deduct as a current expense repairs on tangible property, plus the deductibility of materials and supplies. A deduction for materials and supplies is allowed under a de minimis rule that includes property that has an acquisition or production cost of \$200 or less. Also, another de minimis safe harbor states that for repairs to be deductible, among other requirements, the unit of property must cost less than \$5,000 per invoice or item substantiated by the invoice (for taxpayers with so-called applicable financial statements) and \$500 per invoice (for taxpayers without applicable financial statements).

### **Education and Child Tax Benefits**

*Child Tax Credit:* A tax credit of \$1,000 per qualifying child under the age of 17 is available on this year's return. In order to qualify for 2013, the taxpayer must be allowed a dependency deduction for the qualifying child. Another qualifying determination is that the qualifying child must be younger than you. The credit is phased out at a rate of \$50 for each \$1,000 (or fraction of \$1,000) of modified AGI exceeding the following amounts: \$110,000 for married filing jointly; \$55,000 for married filing separately; and \$75,000 for all other taxpayers. A portion of the credit may be refundable. For 2013, the threshold earned income level to determine refundability is set by statute at \$3,000. Legislation in early 2013 made the per child credit amount of \$1,000 permanent.

*Credit for Adoption Expenses:* For 2013, the adoption credit maximum is \$12,970 depending on the aggregate expenditures for each child. For an adoption of a child with special needs the credit is deemed to be \$12,970 regardless of the amount of expenses. The credit ratably phases out for taxpayers whose income is between \$194,580 and \$234,580. Legislation in early 2013 made the adoption credit permanent for all types of adoptions.

*Education Credits:* Back in 2009, significant changes were put in place for the Hope credit, including a name change to the American Opportunity Tax Credit. Due to legislation in early 2013, these changes continue through 2017. The maximum credit for 2013 is \$2,500 (100% on the first \$2,000, plus 25% of the next \$2,000) for qualified tuition and fees paid on behalf of a student (i.e., the taxpayer, the taxpayer's spouse, or a dependent) who is enrolled on at least a half-time basis. The credit is available for the first four years of the student's post-secondary education. For 2013, the credit is phased out at modified AGI levels between \$160,000 and \$180,000 for joint filers, and between \$80,000 and \$90,000 for other taxpayers. Forty percent of the credit is refundable, which means that you can receive up to \$1,000 even if you owe no taxes. The term "qualified tuition and related expenses" includes expenditures for "course materials" (books, supplies, and equipment needed for a course of study whether or not the materials are purchased from the educational institution as a condition of enrollment or attendance). One way to take advantage of the credit for 2013 is to prepay the spring 2014's tuition. In addition, if your child's books for the spring semester are known, those can be bought and the costs qualify for the credit.

The Lifetime Learning credit maximum in 2013 is \$2,000 (20% of qualified tuition and fees up to \$10,000). A student need not be enrolled on at least a half-time basis so long as he or she is taking post-secondary classes to acquire or improve job skills. As with the Hope (American Opportunity Tax Credit in 2013) credit, eligible students include the taxpayer, the taxpayer's spouse, or a dependent. For 2013, the Lifetime Learning credit is phased out at modified AGI levels between \$107,000 and \$127,000 for joint filers, and between \$53,000 and \$63,000 for single taxpayers.

*Coverdell Education Savings Account:* For 2013, the aggregate annual contribution limit to a Coverdell education savings account is \$2,000 per designated beneficiary of the account. The limit is phased out for individual contributors with modified AGI between \$95,000 and \$110,000 and joint filers with modified AGI between \$190,000 and \$220,000. The contributions to the account are nondeductible but the earnings grow tax-free. Legislation in early 2013 made the contribution amount and AGI phase-out amounts permanent.

*Student Loan Interest:* You may be eligible for a deduction for student loan interest paid on any "qualified education loan." The maximum deduction is \$2,500. The deduction for 2013 is phased out at a modified AGI level between \$125,000 and \$155,000 for joint filers, and between \$60,000 and \$75,000 for individual taxpayers. Legislation in early 2013 made certain rules permanent the keep the student loan interest deduction at its current levels.

## Energy Incentives

*Residential Energy Efficient Property Credit:* Until 2016, tax incentives are available to taxpayers who install certain energy efficient property, such as photovoltaic panels, solar water heating property, fuel cell property, small wind energy property and geothermal heat pumps. A credit is available for the expenditures incurred for such property up to a specific percentage, except that a cap applies for fuel cell property. The property purchased cannot be used to heat swimming pools or hot tubs. If you have made improvements to your home or plan to by the end of 2013, please contact us to discuss the amount of your potential credit.

## Business Credits

*Small Employer Pension Plan Startup Cost Credit:* For 2013, certain small business employers that did not have a pension plan for the preceding three years may claim a nonrefundable income tax credit for expenses of establishing and administering a new retirement plan for employees. The credit applies to 50% in qualified expenses for each of the first three plan years. However, the maximum credit is \$500 per year.

*Employer-Provided Child Care Credit:* For 2013, employers may claim a credit of up to \$150,000 for supporting employee child care or child care resource and referral services. The credit is allowed for a percentage of "qualified child care expenditures" including for property to be used as part of a qualified child care facility, for operating costs of a qualified child care facility and for resource and referral expenditures. Legislation in early 2013 made this credit permanent.

*Work Opportunity Credit:* The work opportunity credit is an incentive provided to employers who hire individuals in groups whose members historically have had difficulty obtaining employment. This gives your business an expanded opportunity to employ new workers and be eligible for a tax credit against the wages paid. The credit is determined based on first-year wages paid for employees hired on or before December 31, 2013.

## Investment Planning

The following rules apply for most capital assets in 2013:

- Capital gains on property held one year or less are taxed at the ordinary income tax rate.
- Capital gains on property held for more than one year are taxed at a maximum rate of 20% (0% if an individual is in the 10% or 15% marginal tax bracket; 15% for individuals in the 25%, 28%, 33% and 35% brackets). These changes in rates from earlier years are due to legislation enacted in early 2013.

Beginning in 2013, a 3.8% surtax is levied on certain unearned income. The tax is levied on the lesser of net investment income or the amount by which modified AGI exceeds certain dollar amounts (\$250,000 for joint returns and \$200,000 for individuals). Investment income is: (1) gross income from interest, dividends, annuities, royalties, and rents (other than from a trade or business); (2) other gross income from any business to which the tax applies; and (3) net gain attributable to property other than property attributable to an active trade or business. Investment income does not include distributions from a qualified retirement plan or amounts subject to self-employment tax. This rule applies mostly to passive businesses and the trading in financial instruments or commodities. With this additional tax, the maximum net capital gains rate is 23.8% in 2013.

*Timing of Sales:* You may want to time the sale of assets so as to have offsetting capital losses and gains. Capital losses may be fully deducted against capital gains and also may offset up to \$3,000 of ordinary income (\$1,500 for married filing separately). In general, when you take losses, you must first match your long-term losses against your long-term gains, and short-term losses against short-term gains. If there are any remaining losses, you may use them to offset any remaining long-term or short-term gains, or up to \$3,000 (or \$1,500) of ordinary income.

*Dividends:* Qualifying dividends received in 2013 are subject to rates similar to the capital gains rates. Therefore, qualifying dividends are taxed at a maximum rate of 20% (23.8% is subject to the net investment tax). Qualifying dividends include dividends received from domestic and certain foreign corporations.

*Selling Your (Underwater) Home:* If you currently owe more on your home than your home is worth and you are considering selling or getting a loan modification, you absolutely should get this done in 2013. Legislation in early 2013 allows qualified mortgage debt relief from your lender discharged in 2013 to not be considered income. However, if Congress fails to extend this tax benefit, any debt discharged on or after January 1, 2014, might be considered taxable income.

*Social Security:* Depending on the recipient's modified AGI and the amount of Social Security benefits, a percentage – up to 85% – of Social Security benefits may be taxed. To reduce that percentage, it may be beneficial to defer receipt of other retirement or other income using the strategies discussed above.

### **Health Care Planning**

*Individual Mandate:* Under the 2010 Affordable Care Act, beginning in 2014, there is an individual mandate requiring individuals and their dependents to have health insurance that is minimum essential coverage or pay a penalty unless they are exempt from the requirement. Rules and regulations continue to be issued with respect to this requirement.

*Health Care Savings Accounts:* A new law that began in 2013 requires cafeteria plans to provide that employees may elect no more than \$2,500 (adjusted for inflation after 2013) in salary reduction contributions.

*Self-Employed Health Insurance Premiums:* Self-employed individuals are allowed to claim 100% of the amount paid during the taxable year for insurance that constitutes medical care for themselves, their spouses and dependents as an above-the-line deduction, without regard to the general 10% of AGI floor.

*Credit for Employee Health Insurance Expenses of Small Employers:* For tax years beginning after 2009, eligible small employers are allowed a credit for certain expenditures to provide health insurance coverage for their employees. Generally, employers with 10 or fewer full-time equivalent employees (FTEs) and an average annual per-employee wage of \$25,000 or less are eligible for the full credit. The credit amount begins to phase out for employers with either 11 FTEs or an average annual per-employee wage of more than \$25,000. The credit is phased out completely for employers with 25 or more FTEs or an average annual per-employee wage of \$50,000 or more. The credit amount is 35% of certain contributions made to purchase health insurance (25% for a tax-exempt eligible small employer). Beginning in 2014, the credit is only allowable if the health insurance is purchased through the so-called SHOP Exchange and is only available for two consecutive taxable years.

### **Alternative Minimum Tax**

For 2013, due to legislation in early 2013, the alternative minimum tax exemption amounts retain their increased amount to help individuals avoid being subject to the AMT. The exemption amounts in place for 2013 are: (1) \$80,800 for married individuals filing jointly and for surviving spouses; (2) \$51,900 for unmarried individuals other than surviving spouses; and (3) \$40,400 for married individuals filing a separate return. Also, for 2013, because Congress acted to extend the previous years' rules, nonrefundable personal credits can offset an individual's regular and alternative minimum tax, and capital gains will be taxed at lower favorable rates for AMT.

If you have a stock holding due to the exercise of an incentive stock option during this year that is now below the value at the exercise date (underwater), consider selling the shares before the end of the year to avoid the AMT tax due on the original exercise of the option.

Some of the standard year-end planning ideas will not reduce tax liability if you are subject to the alternative minimum tax (AMT) because different rules apply. Because of the complexity of the AMT, it would be wise for us to analyze your AMT exposure.

We hope this overview will help you in your tax planning for 2013 and beyond. If you have any questions, please do not hesitate to call. We would be happy to meet with you at your convenience to discuss the strategies outlined above. While we are getting very close to the end of the year, there is still time to implement these strategies to minimize your 2013 tax liability.

Sincerely,

Denman & Company, LLP