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## T<sub>AX AND</sub> B<sub>USINESS</sub> Alert™

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The annual inflation adjustments have been made for the various social security amounts and thresholds. So, we thought it would be a good time to update you for 2013.

The social security wage base, for computing the social security tax (OASDI only), increases to \$113,700 in 2013, up from \$110,100 for 2012. The additional \$3,600 for 2013 represents an increase of 3.3% in the wage base. There is no taxable earnings limit for Medicare (HI only) contributions.

New for 2013, the 0.9% Medicare Surtax is imposed on wages and self-employment (SE) income in excess of the following modified adjusted gross income (MAGI) threshold amounts: \$250,000 for joint filers, \$125,000 for married separate filers, and \$200,000 for all other taxpayers. The employer portion of the tax is not increased. This new tax is a provision of the Patient Protection and Affordable Care Act.

For social security beneficiaries under the full retirement age, the annual exempt amount increases to \$15,120 in 2013 up from \$14,640 in 2012. These beneficiaries will be subject to a \$1 reduction in benefits for each \$2 they earn in excess of \$15,120 in 2013. However, in the year beneficiaries reach their full retirement age, earnings above a different annual exemption amount (\$40,080 in 2013, up from \$38,880 in 2012) are subject to \$1 reduction in benefits for


## Social Security and Medicare Update

each \$3 earned over this exempt amount. Social security benefits are not reduced by earned income beginning with the month the beneficiary reaches full benefit retirement age. But remember, social security benefits received may be subject to federal income tax.



Individuals may have to pay federal income taxes on up to 85% of their benefits. Inclusion within taxable income can occur if you have substantial income from wages, self-employment, interest, dividends, and other taxable income, in addition to your benefits. However, no one pays federal income tax on more than 85% of his or her benefits.

The Social Security Administration estimates the average retired worker will receive \$1,261 monthly in 2013. The average monthly benefit for an aged couple where both are receiving monthly benefits is \$2,048. These amounts reflect a 1.7% cost of living adjustment (COLA).

The maximum 2013 social security benefit for a worker retiring at full retirement age is \$2,533 per month, up from \$2,513 in 2012. 



## Standard Mileage Rates for 2013

The 2013 standard mileage rates for use of an automobile are 56.5¢ per mile for business miles driven (an increase of 1¢ from 2012), and 24¢ per mile for medical or moving purposes (up 1¢ from 2012). The rate for rendering gratuitous services to a charitable organization remains unchanged at 14¢ per mile.



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The standard mileage rate for business is based on an annual study of the fixed and variable costs of operating an automobile. The rate for medical and moving expenses is based on variable costs. Taxpayers always have the option of calculating the actual costs of using their vehicle rather than using the standard mileage rate.

A taxpayer may not use the business standard mileage rate for any vehicle after using any depreciation method under the Modified Accelerated Cost Recovery System (MACRS) or claiming a Section 179 deduction for that vehicle, or for more than four vehicles used simultaneously.

## Patron's Gifts and Athletic Tickets

Subject to Congress changing the law, the cost of tickets to a charitable event is eligible for a contribution deduction to the extent the purchase price exceeds the fair market value of admission and privileges associated with the event.

Tickets to a charitable event are not necessarily deductible simply because they are not used by the taxpayer, even if the donor had no intention of using the tickets upon purchasing them. However, certain unused tickets (e.g., a single theater or symphony ticket by the holder of

season tickets) may qualify as charitable contributions if returned for resale to the sponsoring charitable organization. The purchase of raffle, bingo, or lottery tickets is not a charitable contribution.

A special exception exists for sports fans. They can deduct 80% of donations to colleges or universities for the right to buy tickets to an athletic event in the institution's stadium, regardless of whether the tickets would have been readily available without the payment. However, the amount paid for other benefits (such as the cost of the tickets, the right to use the skybox, guest passes to visit the skybox, and reserved parking privileges) are not deductible as charitable contributions.

## Tax Rules for Gamblers

Whether the economy is expanding or contracting, gambling remains a popular pastime. So, if you are an amateur (nonprofessional) gambler, you may need to know the applicable federal income tax rules that follow.

Whether you play cards, roll dice, bet the ponies, or enjoy the slots as a casual gambler, your gambling winnings are fully taxable and must

be reported on your tax return. You can also deduct your gambling losses, but only up to the extent of your winnings. Note that any excess losses cannot be carried over to future years.

If you qualify as a professional gambler, your wagering winnings and losses are reported as a profit or loss from a business on your tax return. However, your deductions for wagering losses are limited to your winnings, and any excess wagering losses cannot be carried over

*(Continued on Page 4.)*



**B**ecause limited liability companies (LLCs) provide flexibility in allocating rights to profits and capital, they are frequently used to shift income and property appreciation from higher bracket, older generation taxpayers to lower bracket children and grandchildren. Family LLCs are created by the transfer of property from one or more individuals to the LLC for the common benefit of the family members. The transferred assets are titled in the name of the LLC. Typically, the senior family members (parents) transfer assets to a family LLC in exchange for membership interests, which, under the terms of the operating agreement, carry certain rights, such as management control and income distributions. This initial capitalization of the LLC is generally a tax-free event.

If you are interested in gradually transferring partial ownership of assets to your children, a good method might be to transfer them to a family LLC and subsequently gift membership interests in the LLC to your children. With that in mind, here is some information about using a family LLC to transfer ownership of assets.

Using a family LLC to own a family's assets, whether it be business or investment assets, can be beneficial. One reason is that consolidation in one entity simply makes it easier to manage the assets compared to individual ownership by you and your children or by you and trusts for your children. Consolidation may also allow you to take advantage of investment or diversification opportunities based on the size of the combined assets held by the LLC.

Another advantage of holding assets in a family LLC is to protect the assets from creditors. The creditor of an LLC member generally cannot access the assets of the LLC or participate in management. Instead, the creditor can only receive distributions to which the member would have been entitled. Additionally, your children, as LLC members, could not reach the assets of the LLC or compel the LLC to make distributions. A buy/sell agreement between LLC members can also be used to prevent the

## Benefits of Using a Family LLC


membership interests from being sold or transferred outside the family group, such as a transfer resulting from the divorce of a child.



Since an LLC is governed by an operating agreement that can be amended as needed, it offers a great deal of operating flexibility to help you respond to changing circumstances. In contrast, an irrevocable trust document cannot be amended. Additionally, if you have concerns over giving your children immediate access to the transferred assets, the operating agreement can contain provisions to prevent members from easily converting their interest to cash and to control the extent and timing of distributions. An operating agreement can also be used to require arbitration of family and business disputes, as well as to establish other ground rules, such as the sharing of expenses involved in a dispute.

A family LLC also offers the advantage of simplifying the process of making gifts to your children. The gift of an interest in the LLC is much easier than gifting undivided interests in each asset to your children and can be accomplished by a simple assignment form.

All of these are excellent business reasons to consider using a family LLC. Additionally, a family LLC offers some estate and gift tax advantages such as permitting a reduction in the value of your estate, having a lack of marketability and, where applicable, allowing for a minority interest. However, these tax advantages should be secondary to the economic, legal, or family reasons we discussed as the basis for creating the family LLC.

Please contact us if you would like to learn more about family LLCs and how this structure can be used to meet your specific needs. 



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## Tax Rules for Gamblers

(Continued from Page 2.)

to future years (same as for amateurs). You may also be able to deduct travel expenses and other out-of-pocket costs of being a professional gambler. Note that it is extremely difficult to qualify as a professional gambler.



In any case, you must adequately document wagering losses (and out-of-pocket non-wagering expenses if you are a pro) to keep the IRS happy. The government says you must compile the following information in a log or similar record:

1. The date and type of specific wager or wagering activity.
2. The name and address or location of the gambling establishment.

3. The names of other persons (if any) present with you at the gambling establishment. (Obviously, this is not possible when the gambling occurs at a public venue such as a casino, race track, or bingo parlor.)
4. The amount won or lost.

For example, the IRS says you can document income and losses from wagering on table games by recording the number of the table that you played and by keeping statements showing casino credit that was issued to you. For lotteries, your wins and losses can be documented by winning statements and unredeemed tickets.

Last but not least, be aware that amounts you win may have to be reported to you (specific minimums apply) on IRS Form W-2G (Certain Gambling Winnings) by the gambling establishments. In some cases, federal income tax may have to be withheld, too. Anytime a Form W-2G is issued to you, the IRS gets a copy. 