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The *WRNewswire* is created exclusively for AALU Members by insurance experts led by Steve Leimberg, Lawrence Brody and Linas Sudzius. The *WRNewswire* provides timely reports and commentary on tax and legal developments important to AALU members, clients and advisors, delivered to your inbox as they happen.



IRS Issues 2014 Inflation Adjustments

Cites: [Rev. Proc. 2013-35](#); 2013-47 IRB 1; [IR-2013-86](#)

Summary: Each year at this time, the IRS releases cost of living adjustments. For estate planners, the key figures for 2014 are the new transfer tax exemption – which will be \$5.34 million, up from \$5.25 million. The annual exclusion for 2014 lifetime gifts has not changed—it’s still \$14,000 for 2014. In addition to the estate and gift tax figures above, there is a new tax rate schedule, and other tax changes as discussed below. We also list some of the 2014 key cost-of-living adjustments affecting dollar limitations for pension plans and other retirement-related items.

Tax Rates: The tax rate of 39.6 percent affects singles whose income exceeds \$406,750 (\$457,600 for married taxpayers filing a joint return).

Standard Deduction: The standard deduction: \$6,200 for singles and married persons filing separate returns, \$12,400 for married couples filing jointly, \$9,100 for heads of household.

Itemized Deduction Limitation: The limitation for itemized deductions for individuals begins with incomes of \$254,200 or more (\$305,050 for married couples filing jointly).

Personal Exemption: The personal exemption will be \$3,950 - subject to a phase-out that begins with adjusted gross incomes of \$254,200 (\$305,050 for married

couples filing jointly) and phases out completely at \$376,700 (\$427,550 for married couples filing jointly.)

AMT: The alternative minimum tax (AMT) exemption amount for tax year 2014 is \$52,800 (\$82,100, for married couples filing jointly).

Earned Income Credit: The maximum earned income credit amount is \$6,143 for taxpayers filing jointly who have 3 or more qualifying children.

Transfer Tax Exemption: The exemption equivalent of the transfer tax applicable credit amount for lifetime gifts, transfers at death, and lifetime or death time GST transfers for 2014 is increased to \$5,340,000.

Annual Gift Tax Exclusion: The gift tax annual exclusion remains at \$14,000.

FSA Limits: The annual dollar limit on employee contributions to employer-sponsored healthcare flexible spending arrangements (FSA) remains unchanged at \$2,500.

Foreign Earned Income Exclusion: The foreign earned income exclusion rises to \$99,200.

Small Employer Health Insurance Credit: The maximum credit is phased out based on the employer's number of full-time equivalent employees in excess of 10 and the employer's average annual wages in excess of \$25,400.

Unchanged Contribution Limits: The elective deferral limit for employees who participate in 401(k), 403(b), most 457 plans, and thrift savings plans (TSPs) is unchanged at \$17,500. The catch-up contribution limit for employees aged 50 and over who participate in 401(k), 403(b), most 457 plans, and TSPs remains unchanged at \$5,500. The limit on annual contributions to an Individual Retirement Arrangement (IRA) remains unchanged at \$5,500. The additional catch-up contribution limit for individuals aged 50 and over is not subject to an annual cost-of-living adjustment and remains \$1,000.

IRA Deductions: The deduction for taxpayers making contributions to a traditional IRA is phased out for singles and heads of household who are covered by a workplace retirement plan and have modified adjusted gross incomes between \$60,000 and \$70,000. For married couples filing jointly, in which the spouse who makes the IRA contribution is covered by a workplace retirement plan, the income phase-out range is \$96,000 to \$116,000. For an IRA contributor who is not covered by a workplace retirement plan and is married to someone who is covered, the deduction is phased out if the couple's income is between \$181,000 and \$191,000. For a married individual filing a separate return who is covered by a workplace retirement plan, the phase-out range is not subject to an annual cost-of-living adjustment and remains \$0 to \$10,000.

IRA AGI Phase-In. The AGI phase-out range for taxpayers making contributions to a Roth IRA is \$181,000 to \$191,000 for married couples filing jointly. For singles and heads of household, the income phase-out range is \$114,000 to \$129,000. For married individuals filing separate returns, the phase-out range remains \$0 to \$10,000.

Saver's Credit AGI Phase-In: AGI limit for the saver's credit (retirement savings contribution credit) for low and moderate-income workers - \$60,000 for married couples filing jointly; \$45,000 for heads of household; \$30,000 for married individuals filing separately and singles.

Defined Benefit Plan Dollar Limits: The limitation on the annual benefit under a defined benefit plan under Section 415(b)(1)(A) will be \$210,000. For a participant who separated from service before January 1, 2014, the limitation is computed by multiplying the participant's compensation limitation, as adjusted through 2013, by 1.0155.

Defined Contribution Plans Limit: The limitation for defined contribution plans under Section 415(c)(1)(A) is increased to \$52,000. The limitation under Section 402(g)(1) on the exclusion for elective deferrals remains unchanged at \$17,500. The annual compensation limit under Sections 401(a)(17), 404(l), 408(k)(3)(C), and 408(k)(6)(D)(ii) is increased to \$260,000.

Top Heavy Limit: The dollar limitation under Section 416(i)(1)(A)(i) concerning the definition of key employee in a top-heavy plan is increased to \$170,000.

ESOP Limits: The dollar amount for determining the maximum account balance in an employee stock ownership plan subject to a 5-year distribution period will be \$1,050,000. The dollar amount to determine the lengthening of the 5-year distribution period will be \$210,000.

Definition of Highly Compensated: The limitation used in the definition of highly compensated employee under Section 414(q)(1)(B) remains unchanged at \$115,000.

Catch-Up Contributions: The dollar limitation for catch-up contributions to an applicable employer plan other than a plan described in Section 401(k)(11) or Section 408(p) for individuals aged 50 or over remains unchanged at \$5,500. The dollar limitation under Section 414(v)(2)(B)(ii) for catch-up contributions to an applicable employer plan described in Section 401(k)(11) or Section 408(p) for individuals aged 50 or over remains unchanged at \$2,500.

SEP Limits: The compensation amount under Section 408(k)(2)(C) regarding simplified employee pensions (SEPs) remains unchanged at \$550.

SIMPLE LIMITS: The limitation under Section 408(p)(2)(E) regarding SIMPLE retirement accounts remains unchanged at \$12,000.

Section 457 Deferrals: The limitation on deferrals concerning deferred compensation plans of state and local governments and tax-exempt organizations remains unchanged at \$17,500.

Control Employee: The compensation amount under Section 1.61-21(f)(5)(i) concerning the definition of “control employee” for fringe benefit valuation purposes will be \$105,000. The compensation amount under Section 1.61-21(f)(5)(iii) will be \$210,000.

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WRNewswire # – 13.11.05 was written by Steve Leimberg of [Leimberg and LeClair, Inc.](#) and [Leimberg Information Services, Inc. \(LISI\)](#).



Michael Fliegelman

CLU, ChFC, AEP, RFC

631-262-9254

Michael@SwanWealth.com

www.SwanWealth.com



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