

Solutions for Taxing Times

Help business owners
help themselves using
retirement plans



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Congress Letting 55 Tax Breaks Expire at End of Year

Associated Press, 12/20/2013

Fed To Start Withdrawing Stimulus from US Economy

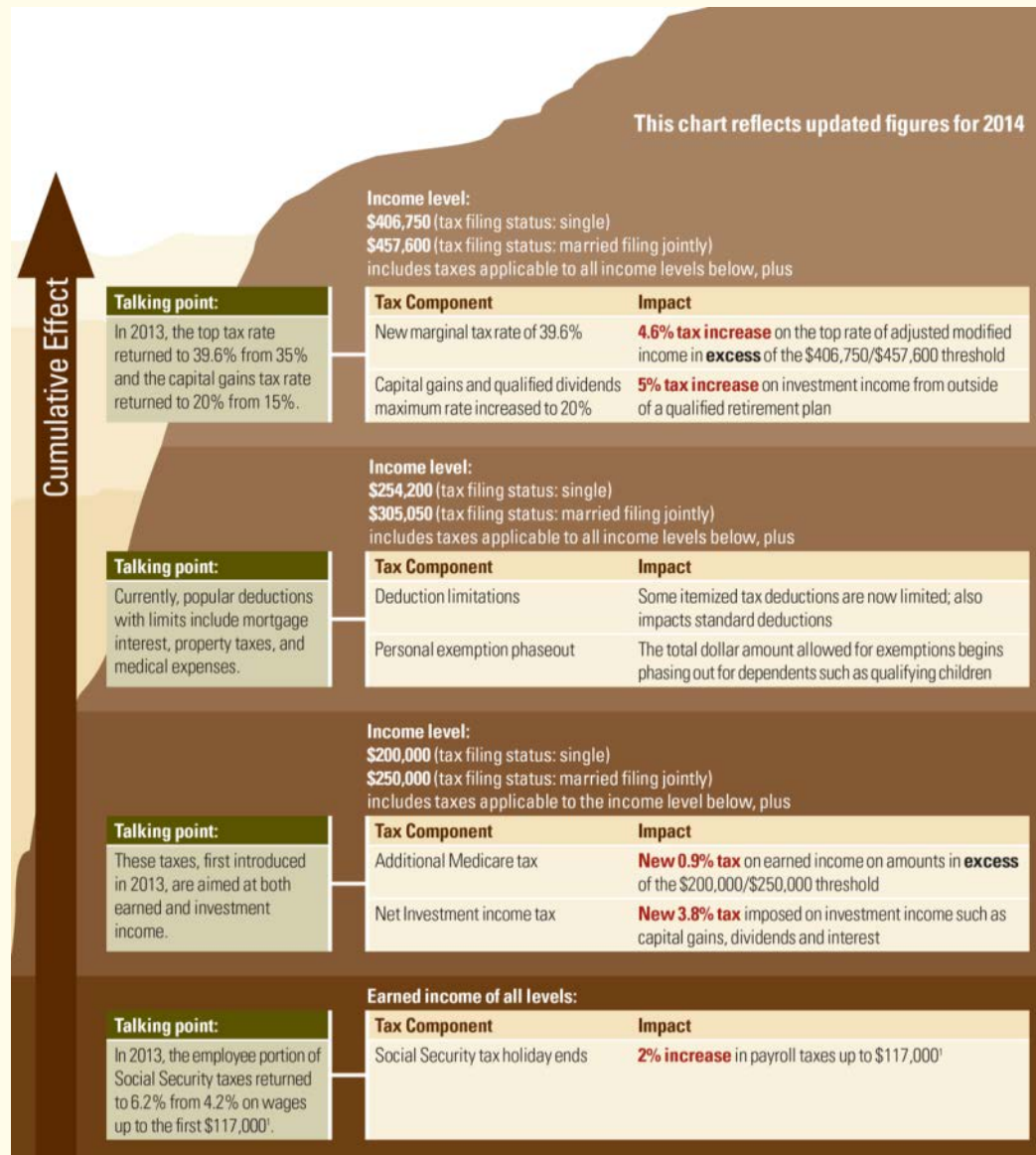
CBS News, 12/18/2013

Economists Spar Over US Recovery

The Wall Street Journal, 1/6/2014

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Taxes are creating an uphill battle for businesses



Source: irs.gov, The American Taxpayer Relief Act, Patient Protection and Affordable Care Act

Earned income all levels

This chart reflects updated figures for 2014

Income level:
\$406,750 (tax filing status: single)
\$457,600 (tax filing status: married filing jointly)
includes taxes applicable to all income levels below, plus

Tax Component	Impact
New marginal tax rate of 39.6%	4.6% tax increase on the top rate of adjusted modified income in excess of the \$406,750/\$457,600 threshold
Capital gains and qualified dividends maximum rate increased to 20%	5% tax increase on investment income from outside of a qualified retirement plan

Earned income of all levels:

Tax Component	Impact
Social Security tax holiday ends	2% increase in payroll taxes up to \$117,000 ¹

includes taxes applicable to the income level below, plus

Tax Component	Impact
Additional Medicare tax	New 0.9% tax on earned income on amounts in excess of the \$200,000/\$250,000 threshold
Net Investment income tax	New 3.8% tax imposed on investment income such as capital gains, dividends and interest

Earned income of all levels:

Tax Component	Impact
Social Security tax holiday ends	2% increase in payroll taxes up to \$117,000 ¹

¹Subject to annual wage base limit changes

\$200,000/\$250,000 income level

This chart reflects updated figures for 2014

Income level:
\$406,750 (tax filing status: single)
\$457,600 (tax filing status: married filing jointly)
includes taxes applicable to all income levels below, plus

Tax Component	Impact
New marginal tax rate of 39.6%	4.6% tax increase on the top rate of adjusted modified income in excess of the \$406,750/\$457,600 threshold
Capital gains and qualified dividends	5% tax increase on investment income from outside

Income level:
\$200,000 (tax filing status: single)
\$250,000 (tax filing status: married filing jointly)
includes taxes applicable to the income level below, plus

Tax Component	Impact
Additional Medicare tax	New 0.9% tax on earned income on amounts in excess of the \$200,000/\$250,000 threshold
Net Investment income tax	New 3.8% tax imposed on investment income such as capital gains, dividends and interest

Net Investment income tax

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New 3.8% tax imposed on investment income such as capital gains, dividends and interest

Earned income of all levels:

Tax Component	Impact
Social Security tax holiday ends	2% increase in payroll taxes up to \$117,000*

\$254,200/\$305,050 income level

This chart reflects updated figures for 2014

Income level:
\$406,750 (tax filing status: single)
\$457,600 (tax filing status: married filing jointly)
includes taxes applicable to all income levels below, plus

Tax Component	Impact
New marginal tax rate of 39.6%	4.6% tax increase on the top rate of adjusted modified income in excess of the \$406,750/\$457,600 threshold
Capital gains and qualified dividends	5% tax increase on investment income from outside

Income level:
\$254,200 (tax filing status: single)
\$305,050 (tax filing status: married filing jointly)
includes taxes applicable to all income levels below, plus

Tax Component	Impact
Deduction limitations	Some itemized tax deductions are now limited; also impacts standard deductions
Personal exemption phaseout	The total dollar amount allowed for exemptions begins phasing out for dependents such as qualifying children

Additional Medicare tax	New 0.9% tax on earned income on amounts in excess of the \$200,000/\$250,000 threshold
Net Investment income tax	New 3.8% tax imposed on investment income such as capital gains, dividends and interest

Earned income of all levels:

Tax Component	Impact
Social Security tax holiday ends	2% increase in payroll taxes up to \$117,000 ¹

\$406,750/\$457,600 income level

This chart reflects updated figures for 2014

Income level:

\$406,750 (tax filing status: single)

\$457,600 (tax filing status: married filing jointly)

includes taxes applicable to all income levels below, plus

Tax Component	Impact
New marginal tax rate of 39.6%	4.6% tax increase on the top rate of adjusted modified income in excess of the \$406,750/\$457,600 threshold
Capital gains and qualified dividends maximum rate increased to 20%	5% tax increase on investment income from outside of a qualified retirement plan

Income level:

\$406,750 (tax filing status: single)

\$457,600 (tax filing status: married filing jointly)

includes taxes applicable to all income levels below, plus

Tax Component	Impact
New marginal tax rate of 39.6%	4.6% tax increase on the top rate of adjusted modified income in excess of the \$406,750/\$457,600 threshold
Capital gains and qualified dividends maximum rate increased to 20%	5% tax increase on investment income from outside of a qualified retirement plan

Additional Medicare tax	New 0.9% tax on earned income on amounts in excess of the \$200,000/\$250,000 threshold
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Earned income of all levels:

Tax Component	Impact
Social Security tax holiday ends	2% increase in payroll taxes up to \$117,000

Hypothetical illustration



Dr. Pat Smith, M.D.

Age: 45

Tax Status: Married filing jointly, 1 child

Self-Employment Income: \$500,000¹

Single Employer, No Employees

¹ Assumes one income household, self-employment income of \$500,000 prior to any contributions to a qualifying tax-deferred retirement plan.

This hypothetical illustration covers tax impacts to Dr. Smith's household income

	2014
Earned income	Without a qualifying plan contribution
Taxable self-employment income	\$500,000
Social Security tax on self-employment income	\$14,508 (12.4% on first \$117,000)
Medicare tax on self-employment income	\$14,500 (2.9% rate)
Additional Medicare tax on self-employment income	\$2,016 (0.9% above \$250,000)
Income tax and AMT on self-employment income	\$134,479 (39.6% rate)
Total federal taxes on self-employment income	\$165,503

¹Based on standard deduction limitation of 3% of adjusted gross income in excess of \$300,000 and personal exemption phased out, as introduced in 2013.

This hypothetical illustration covers tax impacts to Dr. Smith's household income

	2014
Earned income	With a qualifying plan contribution (\$52,000)
Taxable self-employment income	\$448,000
Social Security tax on self-employment income	same
Medicare tax on self-employment income	\$12,992 (decrease of \$1,508) ↓ (2.9% rate)
Additional Medicare tax on self-employment income	\$1,555 (decrease of \$461) ↓ (0.9% above \$250,000)
Income tax and AMT on self-employment income	\$115,765 (decrease of \$18,714) ↓ (35% rate)
Total federal taxes on self-employment income	\$144,820 ↓

BOTTOM LINE:

\$20,683 (12.5%) savings by using the power of a tax-deferred qualified plan

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