

Excerpt from eBook

Expatriation: The IRS and U.S. Taxes

U.S. Income, Estate & Gift Tax (2014)

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Gary S. Wolfe has over 34 years of experience, specializing in IRS Tax Audits and International Tax Matters including: International Tax Planning/Tax Compliance, and International Asset Protection.

As of July 2016, Gary Wolfe has internationally published 15 books and 28 articles. Gary has received 14 international tax awards from five different Global expert societies in LONDON/UK including being voted one of the 100 leading world's law firms with votes from over 150,000 voters in over 160 countries with the following award: Global 100 (2016) (KMH Media Group) - CA/US International Tax Planning Law Firm of the Year.

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Chapter 4 - U.S. Income, Estate & Gift Tax (2014)

Estate & Gift Tax

1. Estate and Gift Tax Exemption increases from \$5,250,000 to \$5,340,000, tax rate: 40% (excess over \$5,340,000)
2. Gift Tax Exclusion: \$14,000 per donee
3. Up to \$1,090,000 of farm or business realty can receive discount estate valuation
4. Estate Tax Deferral (Installments)

If one or more closely-held businesses make up greater than 35% of an estate, as much as \$580,000 of tax can be deferred, and the IRS will charge 2% interest (15 year tax deferral)

Pensions/Retirement Plans (2014)

1. Pay-in limitation for defined contribution plans increase to \$52,000 (based on up to \$260,000 in salary), which is a \$1,000 increase (for profit-sharing plans, KEOGH plans, et al)
2. Benefit limit for Defined Pension Benefit Plans is \$210,000.
3. 401(K) limit remains \$17,500

Social Security

Social Security wage base increases in 2014 to \$117,000 (up \$3300 from 2013 cap). The tax rate imposed on employers and employees remains 6.2% and the employer share of Medicare tax stays at 1.45%. The employee's share is 1.45%, but the 0.9% Medicare surtax kicks in for singles with wages exceeding \$200,000 and couples earning over \$250,000.

Income Taxes

US Taxpayers working abroad have a larger exclusion \$99,200 (2014).

2014 Top Tax Rates

Taxable Income / Over / Tax Rate

1. Married / \$457,600 / 39.6%
2. Singles / \$406,750 / 39.6%

Standard Deductions

1. Married: \$12,400
with one spouse over 65: \$13,600
with both spouses over 65: \$14,800
2. Singles: \$6,200
over 65: \$7,750

Itemized Deductions

High Income Earners have phase-out of itemized deductions 3% of the excess of AGI over:

1. Singles: \$254,200
2. Married: \$305,050

Total deduction can't exceed 80% of itemizations. Medicals, investment interest, casualty loss, are exempted.

Dividends/Capital Gains

20% top tax rate on dividends and long-term gains 2014; on taxable income in excess:

1. Singles: \$406,750
 2. Married: \$457,600
- 3.8% Medicare surtax boosts the rate to 23.8%

AMT

AMT exemptions increase for 2014

1. Singles: \$52,800
2. Married: \$82,100

AMT phase-outs start at income levels

1. Singles: \$117,300
 2. Couples: \$156,500
- 28% AMT tax bracket begins above \$182,500.

2014 U.S./California Income Tax

In 2014, the highest income tax rate is 51.7% (Federal tax rate: 44.3%, California tax rate: 13.3%). The 51.7% tax rate applies to wage earners.

For investors the top rate on net investment income is 50.92% (Federal tax rate: 43.4%, California tax rate: 13.3%).

The top tax rates apply to U.S. taxpayers who earn income over certain levels, see below. These top tax rates apply to international investors who are classified as U.S. tax residents under either the "Green Card Test" or the "Substantial Presence Test".

California Income Tax

Income over \$250,000 is taxed at 12.3%. Income over \$1m is taxed at 13.3% (additional 1% mental health tax). These tax rates apply through 2018.

2014 Highest California Tax Rate: 13.3%

U.S. Income Tax (2014): Income/Medicare Tax

1. Income Tax

Individuals (over \$406,750); Married (over \$457,000) Tax: 39.6%

2. Medicare Surtax

Net Investment Income

Individuals/Heads of Household

(Modified Adjusted Gross Income ("AGI") over \$200,000)

Married Taxpayers (over \$250,000)

Married filing separately (over \$125,000) Tax: 3.8%

The 3.8% Medicare surtax on net investment income is levied on the lesser of:

1. Taxpayer's net investment income; or

2. The excess of modified adjusted gross income over the applicable dollar threshold (modified AGI is AGI plus any tax-free foreign earned income).

Investment income includes: interest, dividends, capital gains, annuities, royalties and passive rental income. Tax-free interest is exempted, along with pay-outs from retirement plans such as 401(k)s, IRAs, deferred pay plans and pension plans.

Earned Income

(Wages and Self-Employment Income)

Individuals/Heads of Household

(Total Earnings over \$200,000)

Married Couples

Joint Returns/Earnings over \$250,000

Filing Separately/Earnings over \$125,000; Tax: 0.9%

This surtax applies only to the employee's share of Medicare tax.

Employers don't owe it. Employers will withhold the surtax once an employee's wages exceed \$200,000. Employees will then calculate the actual tax due on their Form 1040 tax returns.

2014 Highest U.S. Tax Rate (44.3%)

(Includes Medicare Surtaxes on Net Investment Income and Earned Income)

Summary 2014/Combined U.S./California Tax (Top Rates: 57.6%)

"Blended" U.S./California Tax (Top Rates: 51.7%)

For taxpayers (individual) who have income over \$406,750, including net investment income over \$200,000 (modified adjusted gross income), and earned income over \$200,000 (wages and self-employment income), the combined top tax rate is 57.6%, the "blended" top tax rate is 51.7%.

For investors (who do not have wages and self-employment income) the combined top tax rate is 56.7%; the "blended" top tax rate is 50.92%.

