

RIVERWOODS, Ill., Sept. 17, 2013 /PRNewswire/ -- Although slow rises in prices have been paired with only modest wage increases in many sectors of the current economy, taxpayers will at least receive some relief in 2014, thanks to the mandatory annual inflation-adjustments provided under the Tax Code, according to CCH, part of Wolters Kluwer and a leading global provider of tax, accounting and audit information, software and services (CCHGroup.com).

Today, Wolters Kluwer, CCH released estimated ranges for each 2014 tax bracket as well as projections for a growing number of inflation-sensitive tax figures, such as the personal exemption and the standard deduction.

"Indexing for inflation has become an established part of our tax system, and it's likely to be a

part of the tax law for the foreseeable future – even as Congress debates changes to the tax rates themselves," said George Jones, JD, LLM and CCH Senior Federal Tax Analyst. "Most taxpayers benefit from inflation adjustments since the adjustments tend to preserve the value of most, but not all, of the dollar-based benefits under the Tax Code year after year."

The uncertainty that has previously hindered projections at this time for the past several years does not apply this fall, thanks to the American Taxpayer Relief Act of 2012 (ATRA), signed into law on January 2, 2013. This new law permanently extended the Bush-era tax cuts and other provisions that previously hinged on Congressional action, such as the Alternative Minimum Tax (AMT) exemptions. ATRA also set forth the income thresholds for the top 39.6-percent marginal rate bracket and provided for inflation indexing for tax years after 2013.

When there is inflation, indexing of brackets lowers tax bills by including more of people's incomes in lower brackets – in the existing 15-percent bracket, for example, rather than the existing 25-percent bracket. The formula used in indexing showed a relatively higher amount of inflation this year over last, just over 1.5 percent. This increase is slightly above the 2.5 percent amount used last year and far below the 3.8 percent inflation factor used to set 2012 tax amounts. Although so-called "rounding conventions" keep some tax amounts for 2014 the same as they are for 2013, such as the \$14,000 gift tax annual exclusion and the \$5,500 limit on IRA contributions, most 2014 figures will move higher.

Most taxpayers will experience modest savings generated by indexing of the 2014 individual income tax rate brackets for taxpayers.

- Because of inflation adjustments, a married couple filing jointly with a total taxable income of \$100,000 should pay \$145 less income taxes in 2014 than they will on the same income for 2013 because of indexing of their tax bracket for 2014.

- A single filer with taxable income of \$50,000 should owe \$72.50 less next year due to the adjustments to the income tax rate brackets between 2013 and 2014.

Add to those savings the additional tax savings realized in most cases by slightly higher 2014 standard deduction and personal exemption amounts, as well as amounts that might be claimed from an increase in the income ceilings imposed on tax benefits such as education credits, individual retirement account (IRA) contributions and more. Combined, inflation-based tax savings for the 2014 tax year can become substantial.

Higher Taxes for Higher-income Taxpayers

New for the 2013 tax year is the 39.6 tax bracket for higher-income taxpayers, enacted by ATRA. For 2013 the bracket affects married joint filing taxpayers and surviving spouses with taxable income of \$450,000 or more. The 2013 bracket begins at \$425,000 for taxpayers filing as head of household. For single filers, the amount is

\$400,000

; and for married couples filing separately, the amount is

\$225,000

. For 2014, Wolters Kluwer, CCH projects that these amounts will rise to

\$457,600

,
\$432,200

,
\$406,750

, and
\$228,800

, respectively.

These inflation-adjusted amounts also trigger a 20-percent tax on that portion of taxable income attributable to net capital gains and qualified dividends that exceed these bracket amounts.

"Higher-income" taxpayers also must face two new "Medicare" taxes that started in 2013. They are the 3.8-percent surtax on net investment income and a 0.9-percent Medicare contributions tax on earned income. The net investment income tax is triggered when adjusted gross income exceeds: \$250,000 (married joint filers and qualifying widowers), \$200,000 (for heads of household and single filers), and

\$125,000

(for married single filers). The additional Medicare contributions tax is triggered when a taxpayer's wages, compensation, or self-employment income exceed these same threshold amounts. These amounts, however, are

not

adjusted for inflation and therefore remain the same for 2014.

Inflation Adjustments

Since the late 1980s, the U.S. Tax Code has required that federal income tax brackets be adjusted for inflation annually, and inflation adjustments have been inserted into the Internal Revenue Code in recent years with increasing frequency.

For example, the Code now requires over 50 other inflation-driven computations to determine deduction, exemption and exclusion amounts in addition to the 40 separate computations needed to inflation-adjust the tax bracket tables each year. In fact, the Patient Protection and Affordable Care Act added an even greater number of inflation-adjustments to the tax code, including figures affecting the Code Sec. 36B premium assistance tax credit, the income level under which an individual may not be penalized for failure to comply with the individual mandate, and the amount of salary reductions that can be made through a flexible spending arrangement. Some of these health-related inflation adjustments, however, have been delayed for tax years after 2014 or beyond.

Notable as one of the provisions that ATRA now requires to be permanently adjusted for annual inflation is the estate and gift tax applicable exemption. Set at a \$5 million level for 2011, the amount was adjusted for inflation by Congress to \$5,120,000 for 2012, \$5,250,000 for 2013, and now, automatically under ATRA, to \$5,340,000 for 2014. A spousal portability election can now effectively protect double that amount against estate and gift tax (\$10,680,000 for 2014).

Most adjustments are based on Consumer Price Index for all urban consumers' figures for September through August immediately prior to the adjusted year. However, some inflation-adjusted figures are computed earlier and some later. For example, amounts such as the 2014 vehicle depreciation limits won't be available until later in 2013, while the standard business mileage rate (that is currently set at 56.5 cents for 2013) isn't expected to be computed for 2014 and released until December 2013.

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Wolters Kluwer, CCH's projections for other indexed amounts are based on the relevant inflation data released September 17, 2013, by the U.S. Department of Labor. The IRS usually releases official numbers by December each year.

Wolters Kluwer, CCH tax bracket projections are provided for illustrative purposes only, and should not be used for income tax returns or other federal income tax related purposes until confirmed by the IRS later this year.

AMT Exemptions Indexed

Jones observed that ATRA provided for annual inflation adjustments to the exemptions from the AMT. Previously, Congress was required to explicitly increase the amounts by statute every time the so-called "AMT patch" was set to expire.

Before ATRA, Congress relied on one- or two-year AMT patches to account for inflation from the initially set amounts of \$33,750 and \$45,000, respectively. However, the new law provides for base exemption amounts of \$78,750 for married joint filers and surviving spouses, \$50,600 for single taxpayers, and \$56,000 for heads of household.

Wolters Kluwer, CCH projects that for 2014, the AMT exemption for married joint filers and surviving spouses will be adjusted upward to \$82,100, up from \$80,800 in 2013. For unmarried single filers, the 2014 exemption will be \$52,800, up from \$51,900 in 2013; and for heads of household, the exemption will increase to \$52,800, up from \$51,900 in 2013.

Standard Deduction, Personal Exemption Rise

The standard deduction and personal exemption amounts are also subject to indexing. Projections for 2014 indicate that the trend will continue, with increases across the board. The standard deduction for single taxpayers, heads of households and married couples filing jointly will all show increases for 2014, by \$100, \$150 and \$200, respectively.

The standard deduction for joint filers, for example, would rise from \$12,200 to \$12,400 in 2014. Any increase in the standard deduction, of course, can produce lower taxes by decreasing the taxpayer's taxable income.

The additional standard deduction for those age 65 or older or who are blind will stay at its present \$1,200 level in 2014 for married individuals and surviving spouses because of "rounding down," but will increase to \$1,550 for single aged 65 or older or blind filers. The personal exemption amount gets bumped up by inflation by \$50, to \$3,950 in 2014 after having increased \$100 between 2012 and 2013.

Taxpayers for many years have had to lose a good portion of the value of personal exemptions and itemized deductions when their incomes rise above certain levels, which have also been adjusted for inflation. Starting in 2010, these "phase-outs" disappeared from the Tax Code, but ATRA reintroduced them in 2013 for certain higher-income taxpayers. ATRA set forth base amounts for the phase out ranges, which represented increases from their pre-2010 levels, even before inflation-adjustments.

The 2014 phase out range for personal exemptions begins at \$305,050 for joint filers and \$254,200 for single filers. The same income ranges apply to the phase-out of itemized deductions.

"Bringing back the reduction in itemized deductions and personal exemptions for higher-income

individuals exposes more income to the higher 39.6 percent rate, therefore compounding bottom-line tax liability for this group. The projected inflation-factor that cuts back on this reduction for 2014 from 2013 levels helps, if only just a bit," Jones said.

For a complete look at how income ranges for each tax bracket are projected to shift next, see the Wolters Kluwer, CCH tables below.

"Kiddie" Deduction, Gift Tax Exemption

In general, inflation adjustments are rounded to the next-lower multiple of \$50, so if the adjustment produces an increase of less than \$50

, no increase is made. The "kiddie" deduction, used on the returns of children claimed as dependents on their parents' returns, increased only six times in the years 2001 through 2013. It last rose for the 2013 tax year. For 2014 the deduction will remain at that \$1,000 level.

The Code only allows the gift tax exemption to rise when the inflation adjustment would produce an increase of \$1,000 or more. The last increase occurred in 2013, when it rose to \$14,000. It remains there for 2014.

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Wolters Kluwer, CCH 2014 Tax Projections*

Married Filing Jointly (& Surviving Spouse)

Tax Rate

2014 Taxable Income

2013 Taxable Income

10%

\$0–\$18,150

\$0–\$17,850

Taxpayers Will See Relief By Way of Inflation-Adjusted Indexing for 2014 -- Wolters Kluwer, CCH Says

Written by Australian Business

15%

\$18,150–\$73,800

\$17,850–\$72,500

25%

\$73,800–\$148,850

\$72,500–\$146,400

28%

\$148,850–\$226,850

\$146,400–\$223,050

33%

\$226,850–\$405,100

Written by Australian Business

\$223,050–\$398,350

35%

\$405,100–\$457,600

\$398,350–\$450,000

39.6%

\$457,600+

\$450,000+

Unmarried Individuals (Other Than Surviving Spouses and Heads of Households)

Tax Rate

2014 Taxable Income

2013 Taxable Income

10%

\$0-\$9,075

\$0-\$8,925

15%

\$9,075-\$36,900

\$8,925-\$36,250

25%

\$36,900-\$89,350

\$36,250-\$87,850

28%

Taxpayers Will See Relief By Way of Inflation-Adjusted Indexing for 2014 -- Wolters Kluwer, CCH Says

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\$89,350–\$186,350

\$87,850–\$183,250

33%

\$186,350–\$405,100

\$183,250–\$398,350

35%

\$405,100–\$406,750

\$398,350–\$400,000

39.6%

\$406,750+

\$400,000+

Head of Household

Tax Rate

2014 Taxable Income

2013 Taxable Income

10%

\$0-\$12,950

\$0-\$12,750

15%

\$12,950-\$49,400

\$12,750-\$48,600

Taxpayers Will See Relief By Way of Inflation-Adjusted Indexing for 2014 -- Wolters Kluwer, CCH Says

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25%

\$49,400–\$127,550

\$48,600–\$125,450

28%

\$127,550–\$206,600

\$125,450–\$203,150

33%

\$206,600–\$405,100

\$203,150–\$398,350

35%

\$405,100–\$432,200

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\$398,350–\$425,000

39.6%

\$432,200+

\$425,000+

Married Individuals Filing Separate Returns

Tax Rate

2014 Taxable Income

2013 Taxable Income

10%

\$0–\$9,075

Taxpayers Will See Relief By Way of Inflation-Adjusted Indexing for 2014 -- Wolters Kluwer, CCH Says

Written by Australian Business

\$0-\$8,925

15%

\$9,075-\$36,900

\$8,925-\$36,250

25%

\$36,900-\$74,425

\$36,250-\$73,200

28%

\$74,425-\$113,425

\$73,200-\$111,525

33%

Taxpayers Will See Relief By Way of Inflation-Adjusted Indexing for 2014 -- Wolters Kluwer, CCH Says

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\$113,425–\$202,550

\$111,525–\$199,175

35%

\$202,550–\$228,800

\$199,175–\$225,000

39.6%

\$228,800

\$225,000+

Standard Deduction Amounts

Filing Status

Taxpayers Will See Relief By Way of Inflation-Adjusted Indexing for 2014 -- Wolters Kluwer, CCH Says

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2014

2013

Increase

Married Filing Jointly (& Surviving Spouse)

\$12,400

\$12,200

\$200

Married Filing Separately

\$6,200

\$6,100

\$100

Single

\$6,200

\$6,100

\$100

Head of Household

\$9,100

\$8,950

\$150

Standard Deduction for Dependents ("Kiddie" Standard Deduction)

2014

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2013

Increase

\$1,000

\$1,000

\$0

Personal Exemption Amounts

2014

2013

Increase

\$3,950

\$3,900

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\$50

Gift Tax Exclusion

2014

2013

Increase

\$14,000

\$14,000

\$0

* These numbers are projected for the 2014 tax year and have not been confirmed by the Internal Revenue Service.

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