



INNOVATIVE THINKING. EFFECTIVE SOLUTIONS.

Mellon Johnson Reardon, LLP  
Certified Public Accountants & Advisors



3270 Inland Empire Blvd, Ste 300  
Ontario, CA 91764-5580  
Tel: (909) 985-7286  
Fax: (909) 982-0487  
info@mjrccpas.com  
www.mjrccpas.com

## February 2012 - Tax Update...What you need to know.

**If you're a high-income tax earner you can expect a tax increase next year. This is expected even though by year-end lawmakers may vote to extent the Bush tax cuts through 2013.**

The prime reason are two Medicare surtaxes. Enacted back in 2010 to help cover the cost of health care reform take effect next year. They are not expected to be delayed when Congress agrees to extend expiring tax breaks. They could be eliminated if the Supreme Court puts an end to the entire health care law this spring but that is a real long shot. It's best to start planning to see how you will be affected.

The first levy is a special 3.8% Medicare surtax on unearned income of single filers with modified adjusted gross income over \$200,000 and joint filers above \$250,000. This surtax boosts the top rate on capital gains and dividends to 18.8% which includes the 15% nominal maximum rate expected for 2013, plus 3.8%.

The second levy is a 0.9% surtax on earned income...wages and income from self-employment. Singles will owe the extra 0.9% Medicare tax once total earnings are more than \$200,000. For couples it's over \$250,000. The effective Medicare tax rate on earnings over the thresholds will be 3.8% which includes the usual 2.9% rate plus an extra 0.9%. Just another reason you may not want to defer compensation into 2013.

### **Selling your primary residence?**

Only the portion of the profit over the \$250,000 or \$500,000 exclusion will be subject to the tax if your AGI is high enough to trigger. The full profit on sales of rental properties and second homes can be hit by the surtax. It's important to remember that taxable gains may push your income over the surtax thresholds. That being said, consider selling highly appreciated assets in 2012 instead of 2013.

Deferring compensation beyond 2012 may also end up triggering the surtax.

### **Should I convert my Roth IRA this year or next?**

It may pay off to convert a Roth this year instead of next. The payouts are exempt from the surtax but they can boost your AGI and trigger the surtax on your investment income after 2012. Income from converting raises your AGI. Roth payouts are typically tax free.

### **1099-MISC for Frequent Flyer miles, do I owe taxes?**

The IRS isn't changing the rules but some credit institutions are now issuing 1099s to customers. One bank says that if the miles are worth \$600 or more it issues a 1099-MISC because the miles are given as a premium and are taxed as income. The IRS gave up on taxing the value of free personal flights received for miles earned on company-paid travel back in 2002. Since then the IRS has not asserted that taxpayers owe tax on mileage earned through credit card purchases either. The 2002 ruling doesn't exempt miles received as a premium from a bank but the IRS reiterates that miles earned on employer-paid travel and on purchases that are made with credit cards are not taxed as income.

### **Follow MJR:**



**IRS Circular 230 Disclosure** - Pursuant to U.S. Treasury Department Regulations, we are now required to advise you that any federal tax advice contained in this communication, including attachments and enclosures, is not intended by the Sender or [Mellon Johnson Reardon, LLP](#) to constitute a covered opinion pursuant to regulation section 10.35 or to be used for the purpose of (i) avoiding tax-related penalties under Internal Revenue Code or (ii) promoting, marketing, or recommending to another party any tax-related matters addressed herein.