Tax Tips

Key Tax Developments During the First Quarter of 2013-Part 2

The following is part two of a two part summary of the most important tax developments that have occurred in the first three months of 2013 that may affect you, your family, your investments, and your livelihood. You may want to review these developments to determine the steps you should implement to take advantage of the favorable ones and to minimize the impact of those that are unfavorable.

Regulations on noncompensatory partnership options. The IRS has issued regulations on the tax treatment of noncompensatory options issued by a partnership. A partner's contribution to a partnership, whether being formed or operating, in exchange for a partnership interest usually doesn't result in recognized gain or loss to any partner or to the firm. In a variety of situations, partnerships issue options or convertible instruments that allow the holder to acquire, by purchase or conversion, an equity interest in the partnership. The regulations describe the income tax consequences of issuing, transferring, and exercising noncompensatory partnership options. In addition, capital accounts and allocations among partners must be adjusted for noncompensatory partnership options. The regulations generally provide that the exercise of a noncompensatory option doesn't cause recognition of gain or loss to either the issuing partnership or the option holder. The regulations apply only if the call option, warrant, or conversion right grants the holder the right to acquire an interest in the issuer (or cash measured by the value of the interest).

Supreme Court decision in DOMA case could have significant tax consequences. Recently, the Supreme Court heard oral arguments on the constitutionality of the Defense of Marriage Act (DOMA) in an estate tax case that could have far reaching tax implications for affected couples. Section 3 of DOMA defines marriage for purposes of administering Federal law as the “legal union between one man and one woman as husband and wife.” The pending case concerns a surviving same-sex spouse who is seeking an estate tax refund based on the IRS's DOMA-based disallowance of the marital deduction for her spouse's estate. If the Supreme Court strikes down Section 3 of DOMA, many tax provisions beyond the marital deduction at issue in this case would be affected. Same-sex couples would be required to file as couples, either jointly or separately, and would likely be subject to a “marriage penalty” or “marriage bonus” (i.e., higher or lower tax liability), depending on the particular couple's earnings. In general, two-earner couples, especially those with higher incomes, are more likely to be subject to a marriage penalty. For instance, under the 2012 Taxpayer Relief Act, the top 39.6% rate kicks in for joint filers when income exceeds $450,000, but only applies to single filers when income exceeds $400,000.

Luxury auto depreciation limits for 2013. Under special “luxury automobile” rules, a taxpayer's otherwise available depreciation deduction for business autos, light trucks, and vans is subject to additional limits, which operate to extend depreciation beyond its regular period. The IRS has released the inflation-adjusted depreciation limits for business autos, light trucks and vans placed in service in 2013. The depreciation deduction limits for 2013 are the same as in 2012 for a passenger auto, while the limits (other than the first-year limits, which are the same) are $100 higher for a light truck or van. The first-year depreciation limit is $3,160 for autos and $3,360 for light trucks or vans first placed in service in 2013. However, if the bonus depreciation rules apply, these first-year limits are increased by $8,000 to $11,160 for autos and $11,360 for light trucks or vans.

IRS guidance issued on various aspects of health care law. The IRS has issued proposed regulations on the health care law's post-2013 employer mandate, the post-2013 90-day waiting period for employer health coverage, and the post-2012 compensation deduction limit for health insurance providers. The regulations generally would be effective after they are issued as final, but taxpayers may rely on them until that time.

The employer mandate essentially imposes a penalty on employers if one or more of their full-time employees obtains a premium tax credit through the newly established insurance exchange. The new regulations would clarify the rules for determining whether the mandate applies to any given employer, and also provide transitional relief. The 90-day waiting period rule sets out a maximum waiting period that can be applied by a group health plan or group health insurance issuer, and the regulations explain certain eligibility requirements and how the period is computed. Finally, the regulations on the $500,000 deduction limit clarify which issuers are subject to the limit and how it is applied, notably excluding employers that maintain self-insured medical reimbursement plans.

If you have any questions regarding the above discussed topic or any other tax matter, please feel free to give me a call at (562) 698-9891.

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