The tax law is not static, and there have been a number of changes affecting 2013 returns that were made after the book was printed. Fortunately, there are no major changes. However, there have been some developments that could impact your 2014 withholding and estimated taxes.

Here are the key developments, some of which can apply to your 2013 return and your 2014 withholding and estimated taxes. The changes presented in this Supplement are tied to the chapters in the book.

Introduction

Limits on qualifying for tax-favored items. The above-the-line deductions for educator expenses of up to $250 and tuition and fees expired at the end of 2013. They could be extended retroactively for 2014.

Standard deduction amounts. The basic standard deduction amounts for 2014 have been increased for all filing statuses:

- Married filing jointly and surviving spouses: $12,400
- Heads of households: $9,100
- Singles and married filing separately: $6,200

Additional standard deduction amounts. The additional standard deduction amounts for age and/or blindness has increased for single filers to $1,550 but not for joint filers, which remains at $1,200.

Overall limit on itemized deductions. High-income taxpayers lose a portion of their itemized deductions due to a phase-out. For planning purposes, the phase-out in 2014 begins when adjusted gross income exceeds $254,200 for singles, $279,650 for heads of households, $305,050 for married filing jointly and surviving spouses, and $152,525 for married filing separately.

Chapter 1—Your Family

Personal and dependency exemptions. The exemption amount has increased for 2014 to $3,950. Exemptions are phased out beginning at the same threshold as shown above for the itemized deduction phase-out.

Earned income credit. The earned income credit amounts, including adjusted gross income limits, have been increased for 2014.

Adoption credit. The adoption credit limit for 2014 increases to $13,190.

Chapter 2—Medical Expenses

Itemized medical expenses. For 2014, the rate for medical driving is 23.5 cents per mile (a half penny less than in 2013).
Long-term care coverage. The portion of long-term care insurance premiums that are treated as a deductible medical expense has increased slightly in 2014 for each age group.

Flexible spending arrangements (FSAs). In 2014, the maximum salary contribution to an FSA is capped at $2,500 (the same as in 2013).

FSAs can offer a modified carryover of up to $500 per year. The carryover is not cumulative, so no more than $500 can be carried forward in any year (unless the IRS increases this carryover cap). The plan may choose to offer a grace period or carryover, but not both. Check with your plan administrator to see whether you have the carryover option.

Health savings accounts and Archer medical savings accounts. The contribution limits for HSAs and MSAs in 2014 have been increased.

Medicare. Self-employed individuals who pay Medicare premiums may treat them as 100% deductible from gross income rather than as part of the itemized medical deduction subject to the applicable adjusted gross income (AGI) floor.

Accelerated death benefits. For chronically ill individuals, the daily dollar limit excludable from gross income for 2014 is $330; excess amounts are taxable to the extent they exceed actual long-term care costs.

Individual health care mandate for 2014. Individuals who fail to maintain minimum essential health coverage can be subject to a tax penalty in 2014. However, the penalty does not apply to anyone with a government-approved exemption. Because of the widespread cancellations of individual health insurance policies, Secretary of Health and Human Services Kathleen Sebelius has issued a blanket exemption. Anyone who had a policy canceled has a temporary hardship exemption from the individual mandate for 2014 and will not be penalized for lack of coverage.

Chapter 3—Education Costs

Tuition and fees deduction. The above-the-line deduction for tuition and fees of up to $4,000 also expired at the end of 2013. As yet, it has not been extended but could be extended retroactively for 2014.

Chapter 4—Your Home

Mortgage insurance. The ability to treat mortgage interest as deductible mortgage interest applied only for homes purchased through 2013. As yet, it has not been extended but could be extended retroactively for 2014.

Cancellation of mortgage debt. The exclusion for income resulting from the cancellation of debt on a principal residence expired at the end of 2013. As yet, it has not been extended but could be extended retroactively for 2014.

Home sale exclusion. Foreclosure on the sale of a principal residence may result in a gain, which can be excluded. The payment of up to $1,480 from the Mortgage Settlement Program’s Borrower’s Fund to homeowners who were foreclosed upon in 2008 through 2011 by lenders that used abusive lending and foreclosure practices is treated as an amount realized on the foreclosure. It can increase the gain that is excluded or be part of
the loss that is not recognized. Homeowners with multifamily units allocate the payment to the unit used as their principal residence.

**Moving expenses.** Use of a vehicle for deductible moving purposes in 2014 is figured at the rate of 23.5 cents per mile (a half penny less than in 2013).

**Energy improvements.** The residential energy property credit for making certain improvements, such as adding insulation or installing energy-efficient windows and exterior doors, expired at the end of 2013. As yet, it has not been extended but could be extended retroactively for 2014.

## Chapter 5—Retirement Savings

**Traditional IRAs and Roth IRAs.** The modified adjusted gross income (MAGI) limits on eligibility to make contributions have increased for 2014. There is no change to the basic contribution limit of $5,500 and the additional “catch-up” contribution limit of $1,000 for those who are at least 50 years old by the end of 2014.

**401(k) and similar plans.** The elective deferral contribution limit of $17,500 and the additional contribution limit of $5,500 for those age 50 or older by the end of the year remain unchanged.

**In-plan rollovers to designated Roth accounts.** If the plan has a designated Roth account option to which after-tax contributions can be made, then you can convert amounts in your traditional 401(k) and similar plans to a designated Roth account. The converted amounts are currently taxable, but there is no 10% early distribution penalty even if you are under age 59 1/2.

**Self-employed retirement plans.** Contribution, benefit, and other limits for these plans have been increased for 2014.

**Simplified Employee Pension plans (SEPs).** Contribution limits for these plans have been increased for 2014.

**Savings Incentive Match Plans for Employees (SIMPLEs).** The contribution limit for SIMPLEs of $12,000 and the additional contribution limit of $2,500 for those age 50 or older by the end of the year remain unchanged.

**Retirement saver’s credit.** The MAGI limits on eligibility to claim the retirement saver’s credit for contributions to IRAs, 401(k)s, and similar plans have been increased for 2014.

**Correction:** Table 5.2 should have shown MAGI for a head of household subject to the 50% credit percentage of $0 to $26,625.

**Charitable transfers of IRA distributions.** Those age 70 1/2 and older were able to transfer up to $100,000 of IRA funds directly to a public charity tax free in 2013. This avoided paying tax on required minimum distributions to the extent they are part of this tax-free transfer. However, this option expired at the end of 2013. As yet, it has not been extended but could be extended retroactively for 2014.

## Chapter 6—Charitable Giving

**Real estate donated for conservation purposes.** The favorable percentage limitations on donations of realty for conservation purposes (50% of the contribution base, or 100% for
farmers and ranchers) expired at the end of 2013. As yet, it has not been extended but could be extended retroactively for 2014.

**IRA transfers to charity.** See Chapter 5.

**Chapter 7—Your Car**

**Business use of your personal car.** The IRS announced the standard mileage rate, used in lieu of deducting the actual costs of business driving, for business driving in 2014 is 56 cents per mile (a half penny less than in 2013).

The dollar limits on depreciating passenger cars, trucks, and vans when the standard mileage rate is not used have not yet been announced for 2014. However, the $8,000 additional dollar limit for the first-year limit for vehicles qualifying for bonus depreciation (i.e., new vehicles) expired at the end of 2013; it could be extended retroactively for 2014.

**Electric vehicles.** The credit for qualified 2- and 3-wheel vehicles expired at the end of 2013. As yet, it has not been extended but could be extended retroactively for 2014.

**Correction.** The reference to the credit for buying a plug-in electric vehicle in 2012 should have been referenced to 2013.

**Chapter 8—Investing**

**Gain on the sale of small business stock.** The exclusion on gain from the sale of qualified stock acquired after 2013 is set to revert to 50% (instead of the 100% exclusion for qualified stock acquired in 2013). As yet, the 100% exclusion has not been extended but could be extended retroactively for stock acquired in 2014.

**Gain on empowerment zone assets.** The rollover of gain from empowerment assets expired at the end of 2013. As yet, it has not been extended but could be extended retroactively for 2014.

**Chapter 9—Travel**

**Business travel per diem rates.** The maximum federal per diem rate for travel starting October 1, 2013, through September 30, 2014, covering lodging and meals and incidental expenses (M&IE) within the continental United States (CONUS) in most locations is $129 per day ($83 for lodging and $46 for M&IE). A number of the rates to certain areas have changed. These rates can be found at [www.gsa.gov](http://www.gsa.gov) (click on “Per Diem Rates”).

The high-low substantiation rates for high-cost and all other areas within CONUS for the period October 1, 2013, through September 30, 2014, are slightly higher than those for the previous 12-month period. The rates are $251 for travel to high-cost localities and $170 for travel to all other areas within CONUS. Of these rates, the meal portion is $65 for high-cost areas and $52 for all other areas within CONUS (these amounts are unchanged). Note that there are new areas added to the high-cost list, listed in Notice 2013-65.

**Medical and moving for work with your car.** The IRS standard mileage rate for 2014 is 23.5 cents per mile.
Chapter 10—Entertainment

Standard meal allowance. The rates can be reset for the government’s fiscal year beginning October 1, 2013, through September 30, 2014:

- Maximum allowance for meals and incidental expenses. The maximum federal allowance for travel in CONUS remain unchanged for the period October 1, 2013, through September 30, 2014, at the daily rate of $46 ($51, $56, 66, and $71 for higher-cost areas).
- High-low substantiation rate. The IRS set rates for meal and incidental costs within CONUS from October 1, 2013, through September 30, 2014, remain unchanged at $65 per day for high-cost areas and $52 per day for other areas.
- Meal allowance for transportation industry workers. The IRS set rate for CONUS remains at $59 per day; the rate for travel outside of CONUS remains at $65 per day.

Chapter 11—Real Estate

Mortgage insurance. The deduction for mortgage insurance obtained after 2013 expired. As yet, it has not been extended but could be extended retroactively for 2014.

Cancellation of mortgage debt. The exclusion for the cancellation of mortgage debt on a principal residence up to $2 million expired at the end of 2013. As yet, it has not been extended but could be extended retroactively for 2014.

Deduction for energy-efficient commercial buildings. The ability to deduct up to $180 per square foot for an energy-efficient building expired at the end of 2013. As yet, it has not been extended but could be extended retroactively for 2014.

Special breaks for certain disaster victims. Unfortunately, natural and other disasters continue to occur. There are no special breaks for certain disaster victims in 2013 as there were in the past for victims of Hurricane Katrina and other specified disasters.

Chapter 13—Insurance and Catastrophes

Disaster losses. Find a list of all federal disaster areas for 2013 from FEMA at www.fema.gov/disasters/grid/year/2013.

Accelerated death benefits. For chronically ill individuals, the daily dollar limit excludable from gross income for 2014 is $330; excess amounts are taxable to the extent they exceed actual long-term care costs.

Chapter 14—Your Job

Educator expenses. See the Introduction.

Fringe benefits. A couple of benefits have been impacted for 2014:

Transportation fringe benefits. Parity between the exclusion free parking and commuter passes and vanpooling (collectively called transportation fringe benefits) expired at the end of 2013. This means that the exclusion is $250 per month in 2014 for parking and $130 per month for transit passes and vanpooling. As yet, parity has not been extended but could be extended retroactively for 2014.
Adoption assistance. The exclusion amount for 2014 is $13,190.

Income earned abroad. The foreign earned income exclusion for 2014 has been increased to $99,200.

Chapter 15—Your Business

Equipment purchases. Two key changes impact write-offs for equipment purchases in 2014:

• First-year expensing. The dollar limit for the Section 179 deduction is $25,000. The dollar limit starts to phase out when equipment purchases exceed $200,000. However, Congress could reinstate the dollar limit to the 2013 level of $500,000 (with the phase-out starting at $2 million). As yet, this has not been done.
• Bonus depreciation. For 2014, there is no bonus depreciation; it expired at the end of 2013. However, Congress could reinstate it retroactively for 2014; as yet, it has not been done.

Employment-related tax credits. A number of these credits expired at the end of 2013:

• Work opportunity credit
• Empowerment zone credit
• Indian employment credit
• Wage differential payment credit (for payments to certain activated reservists)

As yet, these credits have not been extended but could be extended retroactively for 2014.

Self-employment tax. The wage base for the Social Security portion of the self-employment tax in 2014 is $117,000 (up from $113,700 in 2013).

Standard mileage rate. The IRS announced the standard mileage rate, used in lieu of deducting the actual costs of business driving, for 2014; it is 56 cents per mile (a half penny less than in 2013).

Those who own their vehicles and use the standard mileage rate for 2013 must reduce the vehicle’s basis by 22 cents per mile (the rate in 2013 was 23 cents per mile).

Business-related tax credits. The following credits expired at the end of 2013:

• Credit for wages paid in an empowerment zone
• Energy-efficient appliance credit
• Energy-efficient home credit
• Indian employment credit
• New markets credit
• Research credit
• Work opportunity credit

As yet, these credits have not been extended but could be extended retroactively for 2014.

Chapter 16—Miscellaneous Items

State and local sales taxes. For those who itemize their personal deductions, the option to deduct state and local sales taxes instead of state and local income taxes expired at the
end of 2013. As yet, it has not been extended but could be extended retroactively for 2014.

**Gifts you receive.** The annual exclusion amount for 2014 is $14,000 per recipient (the same as in 2013). Of course, the recipient can receive any amount tax free (the exclusion impacts only the gift tax, if any, owed by the person making the gift).

**Alternative minimum tax (AMT).** The AMT exemption amounts are:

<table>
<thead>
<tr>
<th>Filing status</th>
<th>2014 exemption</th>
<th>2013 exemption</th>
</tr>
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<tbody>
<tr>
<td>Married filing jointly/surviving spouse</td>
<td>$82,100</td>
<td>$80,800</td>
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<tr>
<td>Single/head of household</td>
<td>$52,800</td>
<td>$51,900</td>
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<tr>
<td>Married filing separately</td>
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<td>$40,400</td>
</tr>
</tbody>
</table>

*Exemption phase-out.* The exemption amounts for 2014 start to phase out when alternative minimum taxable income (AMTI) exceeds $117,300 for singles and heads of households, $156,500 for married filing jointly and surviving spouses, and $78,250 for married filing separately.

*Start of 28% rate.* The 26% AMT rate for 2014 applies to alternative minimum taxable income up to $182,500 ($91,250 for married persons filing separately); the 28% rate applies to excess taxable income over these amounts.

**Bonus—Checklist of Expired Provisions**

On December 31, 2013, the following tax rules (as well as dozens more not listed here) expired. They may be extended retroactively for 2014 if Congress enacts “extender legislation.” The following have been referenced within the chapters to which they relate. They are included here for a handy checklist.

1. Bonus depreciation—50% deduction
2. Cancellation of home mortgage interest on a principal residence—exclusion
3. Certain electric vehicles—tax credit for 2- and 3-wheeled vehicles
4. Conservation easements—enhanced charitable deduction
5. Educator expenses up to $250—deductible as an adjustment to gross income
6. Energy-efficient buildings—deduction up to $1.80 per square foot
7. First-year expensing—enhanced deduction
8. Indian employment credit
9. IRA transfers directly to charity by those age 70 1/2—tax free up to $100,000
10. Mortgage insurance premiums—deduction for premiums as mortgage interest
11. New markets credit
12. Nonbusiness energy improvements for a principal residence—tax credit
13. Research credit
14. Small business stock—100% exclusion
15. State and local sales taxes—deductible as an itemized deduction instead of state and local income taxes
16. Tuition and fees—deductible as an adjustment to gross income
17. Wage differential credit for payments to reservists
18. Work opportunity credit