

This update covers some of the provisions being suggested in the President's new budget for fiscal year 2013 as well as new tax legislation for 2012.

The 2013 Budget By-The-Numbers

The proposed budget for 2013 has total expenditures of \$3.803 trillion with government revenues of \$2.902 trillion. That is a net deficit spending of \$901 billion dollars. The breakdown of the expenditures are as follows: Security - \$851 billion, Discretionary Spending - \$410 billion, Social Security - \$820 billion, Medicare - \$523 billion, Medicaid - \$283 billion, TARP - \$12 billion, Other Programs - \$654 billion, Interest - \$248 billion and Disaster Costs - \$2 billion. Collections for the government are: Individual Income Taxes - \$1,359 trillion, Corporate Income Taxes - \$348 billion, Social Security Payroll Taxes - \$677 billion, Medicare and Unemployment Taxes - \$282 billion, Excise Taxes - \$88 billion, Deposits of Earnings - \$80 billion, Customs Duties - \$33 billion, Estate and Gift Taxes - \$13 billion and Other - \$21 billion.

Internal Revenue Service Budget Funding

The Obama Administration has set an IRS budget request with an increase of \$945 million over last year's enacted amount. The increase will set the IRS budget at over \$12.8 billion for the 2013 fiscal year. The increase will be used for enforcement programs to handle new information reporting requirements and enforce return preparer compliance. The additional resources will address the underreporting of income connected to international activities and expand enforcement efforts to target noncompliance among corporate and high-wealth taxpayers, according to the budget.

Renewal of Administration's Tax Priorities For 2013

The 2012 budget proposal will raise taxes by \$1.7 trillion over the next ten years mainly by ending the Bush-era tax cuts for families earning more than \$250,000, restoring the estate tax to its 2009 level of 45 percent and limiting other deductions.

Here are some of the more important changes being considered:

- Elimination of the Alternative Minimum Tax (AMT) with a 30% minimum tax on individuals earning at least \$1 million.
- Eliminating the capital gain tax rate for qualified dividends received, effectively raising taxes on all recipients of dividends from 15% to a maximum of 39.6%.
- Itemized deductions for middle income families earning \$250,000 or more will be capped at the 28% rate in addition to retaining the deduction phase outs which are currently in place.
- Tax breaks currently received by high income workers will be reduced by the new budget proposal. Benefits such as deferrals for income contributed to retirement plans, health benefits, cafeteria plan benefits and cost reimbursements are all being considered.

Department of Defense Budget

The new budget plan for 2013 has some sharp declines in the funding anticipated for the military. The 2013 plan has spending at a rate of \$525 billion. In 2012 the budget was approximately \$553 billion. Several major programs are being reduced or cut altogether. The major cuts come for the Marine Corps Expeditionary Fighting Vehicle, the Army's Surface Launched Medium Range Air-to-Air Missile, deferral on acquisition of the F-35 Joint Strike Fighter and completely eliminating the purchase of a second engine for the F-35.

Corporate Tax Law Changes

Treasury Secretary Timothy Geithner has stated that a framework for corporate tax reform will be released the week of February 20th. The proposal is expected to lower corporate tax rates and eliminate incentives that appear to incentivize the exporting of jobs overseas. This could be a major change that small business owners have feared. One of the items being considered deals with taxation of S-Corporations and Partnerships at the business level. Stay tuned for further news next week.

Payroll Tax Cut Extension

The House and Senate have finally agreed to a payroll tax cut extension for the remainder of 2012. Under the new agreement an extension of the 2 percentage point payroll tax cut, as well as a provision to prevent payments to Medicare providers from being cut for the remainder of the year, and an extension of unemployment insurance benefits was agreed to late on February 15.

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