TAX UPDATES

Table 1. Standard Deduction Amounts		
Basic Standard Deduction		
	Year	
	2013	**2014**
Filing Status	Amount	Amount
Single / Married Filing Separate	$6,100	$6,200
Head of Household	$8,950	$9,100
Married Filing Jointly	$12,200	$12,400
Qualifying Widow (er)	$12,200	$12,400
Additional Amount for Elderly and Blind Taxpayers		
Married	$1,200	$1,200
Unmarried	$1,500	$1,550
Dependent Standard Deduction		
Base Amount	$1,000	$1,000
Additional Amount	$300	$350

Table 2. Exemption Amount and Related AGI Phaseout Thresholds		
Exemption	Year	
	2013	**2014**
Personal Exemption	$3,900	$3,950
	Phaseout Amount	
Single	$250,000	$254,200
Married Filing Jointly	$300,000	$305,050
Married Filing Separate	$150,000	$152,525
Qualifying Widow(er)	$300,000	$305,050
Head of Household	$275,000	$279,650

Table 3. Income Tax Filing Requirements

Filing Status	Age	2013	2014
Single	Under 65	$10,000	$10,150
	65 or older	$11,500	$11,700
Married Filing Jointly	Under 65 (both spouses)	$20,000	$20,300
	65 or older (one spouse)	$21,200	$21,500
	65 or older (both spouses)	$22,400	$22,700
Married Filing Separately	Any Age	$3,900	$3,950
Head of Household	Under 65	$12,850	$13,050
	65 or older	$14,350	$14,600
Qualifying Widow(er)	Under 65	$16,100	$16,350
	65 or older	$17,300	$17,550

Table 4. Additional Medicare Tax Thresholds	
Married Filing Jointly (MFJ)	$250,000
Married Taxpayers Filing Separately (MFS)	$125,000
All except: MFJ and MFS	$200,000

PREMIUM TAX CREDIT AND THE INDIVIDUAL SHARED RESPONSIBILITY PAYMENT

GENERAL INFORMATION AND EXAMPLES

Eligibility for the Premium Tax Credit - The refundable premium assistance credit is available to eligible taxpayers with the following requirements:

1. Whose household income for the taxable year is at least 100% but not more than 400% of the federal poverty level ("FPL"). The term household income includes the modified adjusted gross income (MAGI) of the taxpayer plus the sum of MAGIs of all individuals that were taken into account when determining the taxpayerọs family size and were required to file a tax return.
2. Purchase qualified health care insurance through a government-sponsored marketplace (the insurance **MUST** be purchased through an Exchange to qualify for the credit).
3. Who **CANNOT** be claimed as a dependent by another,
4. Who are **NOT** eligible for minimal essential coverage through Medicaid (Medi-Cal in California), Medicare, employer-sponsored insurance, or other acceptable types of coverage (Preamble to Prop Regs, 8/17/2011),
5. Who, if married, must file a joint tax return (but see special rules for victims of domestic violence), and
6. Who are **NOT** employees that are offered minimum essential coverage under an employer-sponsored plan. An individual is eligible for employer-sponsored minimum essential coverage only if the employee's share of premiums is "affordable" and the coverage provides "minimum value." The final regulations did not include the proposed regulationọs definition for affordability. The IRS has stated that it will issue regulations in the future that will further define this term.

Terms

Family Size - The family size is the same as the number of individuals for which the taxpayer is allowed an exemption deduction for the tax year.

Modified Adjusted Gross Income (MAGI) – The term MAGI for purposes of this credit means adjusted gross income increased by any foreign earned income exclusion, the excluded portion of

Social Security and Railroad Retirement benefits, and tax-exempt interest income. (IRC Sec 36B(d)(2)(B))

Eligibility for Government Plans ï Solely for purposes of determining whether an individual is eligible (see #4 above in determining an applicable individual) for government plans such as Childrenôs Health Insurance Program (CHIP) or Medicaid, Notice 2013-41 provides the following guidance:

- If an individual loses CHIP coverage and is locked out for a period of time (lockout period) due to failure to pay premiums, the individual is treated as eligible for CHIP and eligible for qualified health plan coverage subsidized by the premium tax credit during the lockout period.

- An individual who may not enroll in CHIP during a pre-enrollment waiting period is treated as not eligible for CHIP coverage during the waiting period. Accordingly, the individual may be eligible for qualified health plan coverage subsidized by the premium tax credit during this period.

- An individual who is terminated from Medicaid or CHIP for failure to pay premiums is treated as eligible for Medicaid or CHIP during any period for which the individual would be eligible for Medicaid or CHIP except for the failure to pay premiums.

Initial Eligibility ï Since an individualôs income for the year cannot be determined in advance, eligibility for the premium assistance credit will be based on the individual's income for the **tax year ending two years before the enrollment period** (Committee Report). However, it should be emphasized that the credit is determined based on the taxpayerôs current year income and excess credit used to subsidize the insurance premium may have to be repaid. The Secretary of Health and Human Services (HHS Secretary) must establish procedures for determining whether an individual who is applying for coverage in the individual market by a qualified health plan (QHP) offered through *a marketplace*, or who is claiming a premium assistance credit or reduced cost-sharing, meets the necessary eligibility requirements. (Health Care Act Sec. 1411)

Premium Subsidy or 1040 Credit – The credit can be used to:
- Reduce the monthly insurance premiums,
- Claim a credit on the 1040 tax return, or
- Some combination of both.

Making the choice ï The credit is based upon income and family size. Thus changes in those two items can increase or lower the amount of the credit. Immediately reporting changes to the marketplace administration ensures the correct credit being used as a subsidy for the insurance premiums. Failure to notify, as no doubt will happen frequently, could cause too large of a subsidy to be applied, with the result being the taxpayer will have to repay a portion of the credit when they file their tax return. Either way, the credit for the year must be reconciled on the tax return for the year.

Poverty Guidelines - The Federal Poverty Guidelines are posted annually in the Federal Register. The numbers change periodically and the ones shown in the table are based on the guidelines that were in effect for 2014. These are provided to give students a rough idea of what the dollar amounts are for certain health care provisions, keeping in mind the actual poverty guidelines in effect at the time the provisions kick in will be required to be used.

How to Calculate the Percentage of Federal Poverty

To calculate the percentage of taxpayersô poverty, divide their income by the poverty guideline for their household size. Carry the decimal two places in the result; add a percentage sign, and the percentage of poverty will be found.

Percentage of Taxpayer's Poverty Formula

Income ÷ Poverty guideline for household size = Percentage of Poverty guideline

Examples of Poverty Guideline ï Taxpayer is single with an income of $20,000. The 2014 poverty guideline for one-person household is $11,670.

$20,000 ÷ $11,670 = 1.71

Taxpayer is at 171 percent of the federal poverty guidelines.

- Taxpayers are married with 3 kids, and their householdôs annual income is $150,000. The 2014 poverty guideline for a five-person family or household is $27,910.

  $150,000 ÷ $27,910 = 5.37

They are at 537 percent of the federal poverty guidelines.

2014 Federal Poverty Guidelines							
Household Size	**100%**	**133%**	**150%**	**200%**	**250%**	**300%**	**400%**
1	11670	15521	17505	23340	29175	35010	46680
2	15730	20921	23595	21460	39325	47190	62920
3	19790	26321	29685	39580	49475	59370	79160
4	23850	31,721	35775	47700	59625	71550	95400
5	27910	37120	41865	55820	69775	83730	111640
6	31970	42520	47955	63940	79925	95910	127880
7	36030	47920	54045	72060	90075	108090	144120
8	40090	53320	60135	80180	100225	120270	160360

Source: Version of the [U.S.] Federal Poverty Measure. Department of Health and Human Services under the authority of 42 U.S.C. 9902(2)

Subsidy Payments - Upon the purchase of qualifying coverage by the eligible individual through *a marketplace*, the *marketplace* makes a subsidy payment to the qualified health plan on behalf of the individual.

The subsidy payments are the "**Monthly Premium Tax Credits**." This amount is calculated as **the lesser of:**

- The monthly premium for the qualified health plan in which the taxpayer or family member enrolls, or
- Excess of the cost of **Silver insurance** for the family over 1/12 of household income x **applicable percentage**.

The table below is condensed and the actual percentage will need to be extrapolated. As example, the familyôs poverty level is 275%. Their applicable percentage would be 8.55 determined as follows: 275 is midway between the 250 to 300 range. Therefore the applicable % would be midway between 8.05 and 9.05.

Threshold for the Monthly Premium Assistant Tax Credit	
Income relative to FPL:	**Premiums limited to:**
100% to 133% of FPL	2% of income
133% to 150% of FPL	3% to 4% of income
150% to 200% of FPL	4% to 6.3% of income
200% to 250% of FPL	6.3% to 8.05% of income
250% to 300% of FPL	8.05% to 9.5% of income
300% to 400% of FPL	9.5% of income

How the Monthly Premium Tax Credit Amount is calculated following step 1 through 5:

1. Determine the taxpayerôs household income
2. Based on the income from Step 1 determine the taxpayerôs guideline percentage from the poverty guidelines table
3. Determine the Premium for the Silver Benchmark Plan divided by 12 (This amount should be included in the year-end report provided by the marketplace).
4. Determine baseline premium using 1/12 of the taxpayerôs household income multiplied by the appropriate percentage from the table above.
5. The monthly Premium Assistance amount would be the difference between the amount determined in Step 4 and the amount determined in Step 3.

Example *– Miguel is single and his household income for the year is $23,581. The Silver benchmark premium for Miguel's age group is $300 per month ($3,600 annually). Miguel's premium assistance credit is determined as follows:*

Step 1. *Miguel's Household Income for the year is $23,581*
Step 2. *From the poverty table we find his income for a family is 202% ($23,581/11,670 x 100) of the federal poverty level.*
Step 3. *Miguel's Silver benchmark premium is $300 per month.*
Step 4. *Using 202% of the federal poverty level we can extrapolate the applicable percentage for Miguel from the table. For 202% poverty level the applicable percentage is 6.37%*. Thus*

Miguel's monthly benchmark premium is $125.18 ($23,581 x 0.0637)/12. This is the amount of the insurance premium that Bob is expected to pay.
Step 5. *Subtract the amount that Miguel is liable for from the monthly insurance premium and find that Miguel's premium assistance credit is $174.82 ($300 - $125.18) per month or $2,097.84 per year.*

Family Size - The family size is the same as the number of individuals for which the taxpayer is allowed an exemption deduction for the tax year.

CREDIT COMPUTATION –Since the allowable credit must be reconciled with the advance subsidy payments made by the Marketplace to the insurance carrier, the correct credit balance or credit repayment must be computed on the 1040. The Marketplace will provide a statement of the subsidies used to the taxpayer in January. Later on the IRS may provide a worksheet to make the reconciliation.

Premium Tax Credit Form 8962

The 2015 filing season is coming and questions arise concerning the Premium Tax Credit and the respectively forms that will be required. First of all there will be Form 8962, Premium Tax Credit (PTC) and Form 1095-A, Health Insurance Marketplace Statement. These forms are important to know how much credit was received for Tax Year 2014. How much tax is going to be received or paid back will depend in the information given in Form1095-A and Form 8962 that are filed in 2015 tax season.

Form 1095-A, Health Insurance Marketplace Statement.

Any taxpayer who obtained their health insurance through a federal or state Marketplace will receive Form 1095-A, Health Insurance Marketplace Statement, in the mail by January 31, 2015. This statement contains taxpayerÕs personal information and the amount of credit given for their health insurance premium.

This form is different from a W-2 or 1099-Misc and it is advisable to ensure that your clients understand that this form is required to file their taxes. Remember this form is only received by those that qualified for the credit. Form 1095-A is necessary to complete Form 8962. If the taxpayer loses the Form 1095-A, a copy may be obtained from the Marketplace where they received their health insurance.

Form 8962, Premium Tax Credit (PCT)

Form 8962 will be used by any taxpayer who received a subsidy to reconcile the premium tax credit received in 2014. The form will be useful to reconcile taxpayerÕs actual 2014 income and family size with the advance premium tax credit (subsidy) that they received during the year. It is important to remember that the subsidy went directly to the insurance company and not the taxpayer.

If the taxpayer is required to include the Form 8962 (Premium Tax Credit) with their return and they do not, the following will occur:

- The IRS will not complete processing the return until they receive the Form 8962. This means their refund will be delayed and they will receive a notice from the IRS requesting the Form 8962 be completed and sent to them.
- The taxpayer can be denied an advance of the premium tax credit (subsidy) in future years.

Failure to Pay the Difference ï When the premium assistance payment is not sufficient to cover the total premium, individuals who fail to pay all or part of the remaining premium amount will be given a mandatory **three-month grace period** before an involuntary termination of their participation in the plan.

Tax Return Reconciliation - The law requires that any advance payment of the credit be made in the form of an advance payment that **is paid directly to the insurer**. When receiving the credit in the form of an advance payment, a taxpayer is required, when filing their individual income tax return, to reconcile the actual credit that he or she is due with the amount that has actually been subsidized by the government through a marketplace.

- *Credit Exceeds Advance Payments* - If the calculated credit amount exceeds the monthly premium assistance amount made on their behalf, **the excess is a refundable tax credit** for the taxpayer.

Example: *During the open enrollment period at the end of 2014, Joe enrolls in a qualified health plan through a marketplace, and determines his premium assistance credit for the upcoming year (2015) is $3,500. He chooses not to have his premium reduced by the premium assistance subsidy. Joe's 2015 tax liability, before application of the credit, is $3,000. The credit reduces his tax to zero. In addition, he will receive a $500 refund ($3,500 credit − $3,000 tax).*

Example: *Luis enrolls in a qualified health plan through a marketplace, and opts to have the premiums reduced by the estimated credit subsidy. During the year, $2,000 of subsidy is applied to reduce his insurance premiums. At the end of the year, and based on his income and family size, Luis' actual premium assistance credit is determined to be $3,500. On his 1040 for the year, reducing the computed credit by the subsidy, he will have a refundable credit balance of $1,500 ($3,500 - $2,000). If his tax liability for the year was $1,000, he would receive a refund of $500 ($1,500 – $1,000).*

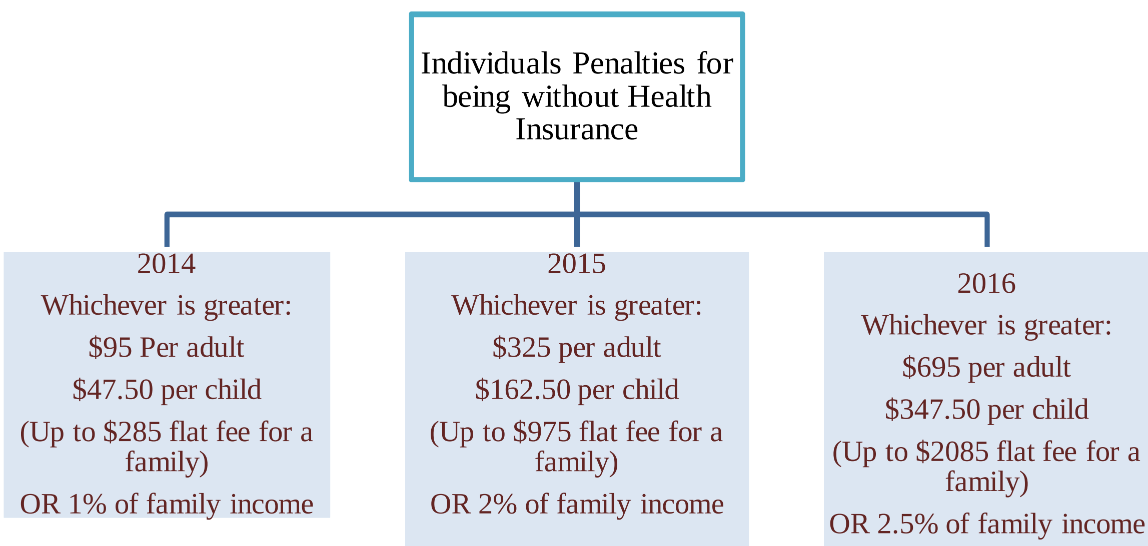
- *Advance Payments Exceed Credit* - If the monthly premium assistance amounts exceed the credit computed on the individual's income tax return, the taxpayer is required to repay the excess as an additional tax on their tax return, **subject to a maximum liability** explained below.

Example: *Luis in the previous example computes his credit at the end of the year and determines it to be $1,250. Because his subsidy payments of $2,000 exceed his credit he will be liable for repayment of a portion of the credit, subject to the maximum liability discussed below.*

Computing The Maximum Credit Repayment - If the premium assistance credit provided by an insurance *marketplace* exceeds the amount the taxpayer qualifies for, then the difference is reconciled on the taxpayerős return for the year and the excess repaid on the tax return. However, the maximum repayment is limited to the amount determined from the table below. For years after 2014, the amounts are inflation adjusted in $50 increments. (IRC 36B(f)(2)(B))

Income, based on federal poverty level	Annual Household Income for an Individual	Individual Payback of Premium Assistance	Annual Household Income for a Family of Four	Family Payback of Premium Assistance
Less than 200%	Under $22,980	Capped at $300	Under $47,100	Capped at $600
From 200% to 300%	$22,980 ï $34,470	Capped at $750	$47,100 - $70,650	Capped at $1,500
From 300% to 400%	$34,470 ï $45,960	Capped at $1,250	$70,650 ï $94,200	Capped at $2,500
Greater than 400%	$45,961 and higher	Full amount received	$94,201 and higher	Full amount received

Example – Computing The Maximum Credit Repayment *– Albert is married with one child and the household income for 2014 is $56,000. Albert purchased his family's Qualified Health Plan (QHP) through his state's insurance marketplace. Using his household income we find from the poverty guideline chart just above that Albert is in the "at least 200% but less than 300%" category. Therefore Albert's maximum repayment would be $1,500 for 2014. If the government credited Albert's insurance carrier with $2,000 more than Albert qualified for, then he, instead of having to repay the $2,000 on his tax return, would only be liable for $1,500. Conversely, if the government's advance payments were less than the allowable credit, Albert would claim the difference as a refundable credit on his tax return.*



2014-15 INDIVIDUAL FILING & EXTENSION DUE DATES

July 31, 2014: Self-Employed Individuals with Pension Plans - For self-employed individuals with a pension or profit-sharing plan, this is the final due date for filing Form 5500 or 5500-EZ for calendar year 2013.

September 15, 2014: *Estimated Tax Payment Due (Individuals*) ï Third quarter estimated tax installment payment for the 2014 tax year is due.

October 15, 2014:

- *Individual Tax Returns* (Form 1040, 1040A, or 1040EZ) ï Last day to file calendar year 2013 returns on extension without penalty.
- *SEP-IRA & Keogh Contributions* **-** Last day to contribute to a SEP-IRA or Keogh retirement plan for calendar year 2013 if the 2013 tax return is on extension through October 15.

November 15, 2014: This is the first day of the open enrollment period to purchase health insurance through a government (federal and state) marketplace for coverage to be effective in 2015. Caution: The provisions of the Affordable Care Act have been frequently altered due to delays in government infrastructure. This date could change.

December 31, 2014:

- *Mandatory IRA Withdrawals* - Last day to withdraw funds from a Traditional IRA Account and avoid a penalty if the taxpayer turned age 70½ before 2014.
- *Last Day to Set Up a Keogh Account for 2014* **-** December 31, is the last day to set up a Keogh Retirement Account for taxpayers who expect to make a 2014 Contribution.

January 15, 2015: Fourth quarter estimated tax installment payment for the 2014 tax year is due.

February 2, 2015: Business owners who paid $600 or more for the services of individuals (other than employees) during 2014 are required to provide Form 1099-MISC to those workers by February 2, 2015. Generally, this due date is January 31, but when the due date falls on a Saturday, Sunday or federal legal holiday, as it does in 2015, it is not due until the next business day. "Services" can mean everything from labor, professional fees and materials, to rents on property. In order to avoid a penalty, copies of the 1099s need to be filed with the IRS by March 2, 2015 (March 31, 2015 if filed electronically). They must be submitted on optically scannable (OCR) forms.

February 15, 2015: This is the last day of the open enrollment period for government health Insurance Marketplaces (state and federal) for coverage to be effective in 2015.

Caution: The provisions of the Affordable Care Act have been frequently altered due to delays in government infrastructure. This date could change.

March 2, 2015: Farmers and Fishermen may file their 2014 income tax return (Form 1040) and pay any tax due and avoid any underpayment of estimated tax penalties. If they paid their 2014 estimated tax by January 15, 2015, they have until April 15 to pay any tax due without penalty.

March 31, 2015:

- **Last Day to Acquire Minimum Essential Health Care Insurance -** This is the last day to acquire minimum essential health care insurance or face a possible penalty.

  Caution: The provisions of the Affordable Care Act have been frequently altered due to delays in government infrastructure. This date could change.

- **Last Day to Withdraw Required Minimum Distribution** - Last day to withdraw 2014ǒs required minimum distribution from Traditional or SEP IRAs for taxpayers who turned 70½ in 2014. Failing to make a timely withdrawal may result in a penalty equal to 50% of the amount that should have been withdrawn. Taxpayers who became 70½ before 2014 were required to make their 2014 IRA withdrawal by December 31, 2014.

April 15, 2015:

- *Individual Tax Returns* - Individual Tax Returns (Form 1040, 1040A, or 1040EZ) are due and the last day to pay any tax due without penalty. An automatic filing extension applies until October 15, 2015. However there are no extensions of time to pay and taxpayers that owe should file Form 4868 and pay any tax liability before the April 15 due date.

- *Household Employer Return Due* ï If the taxpayer paid cash wages of $1,900 or more in 2014 to a household employee, the taxpayer must file Schedule H. If the taxpayer is filing an individual return for the year include the Schedule H with the individual return; otherwise it is filed separately. Schedule H is used to report any household employment taxes. Report any federal unemployment (FUTA) tax on Schedule H if the taxpayer paid total cash wages of $1,000 or more in any calendar quarter of 2014 to household employees. Also, report any income tax that was withheld for the household employees.

- *Estimated Tax Payment Due (Individuals*) - First quarter estimated tax installment payment for the 2015 tax year is due.

- *Last Day to Make IRA Contributions* - Last day to make contributions to Traditional and Roth IRAs for tax year 2014.

June 15, 2015:

- *Estimated Tax Payment Due (Individuals*) ï Second quarter estimated tax installment payment for the 2015 tax year is due.

- *Taxpayers Out of the Country* - Last day for U.S. citizens or resident aliens living and working (or on military duty) on April 15, 2015 outside the United States and Puerto Rico, to file their 2014 returns and to pay any tax due. If the return has not been completed and additional time is needed to file, file Form 4868 to obtain 4 additional months to file. Then, file Form 1040 by October 15.

EARNED INCOME TAX CREDIT AMOUNTS AND PERCENTAGE

Earned Income Tax Credit and Phase Out Amount for 2014					
Filing Status		**No Children**	**One Child**	**Two Children**	**Three or More Children**
Single or Head of Household	Earned Income Level for Max Credit	$6,480	$9,720	$13,650	$13,650
	Maximum Credit	$496	$3,305	$5,460	$6,143
	Income Level When Phase out Begins	$8,110	$17,830	$17,830	$17,830
	Income Level When Phase-out Ends (Credit Equals Zero)	$14,590	$38,511	$43,756	$46,997
	Credit Percentage	7.65%	34.00%	40.00%	45.00%
Married Filing Jointly	Earned Income Level for Max Credit	$6,480	$9,720	$13,650	$13,650
	Maximum Credit	$496	$3,305	$5,460	$6,143
	Earned Income Level When Phase-out Begins	$13,540	$23,260	$23,260	$23,260
	Earned Income Level When Phase out Ends (Credit Equals Zero)	$20,020	$43,941	$49,186	$52,427
	Credit Percentage	7.65%	34.00%	40.00%	45.00%

CHILD TAX CREDIT

The child tax credit is a credit that can reduce the amount of tax by up to $1,000 per child. This credit is a *nonrefundable* credit, so if the taxpayer has a zero tax liability they will not be able to take advantage of this credit. However, they may qualify for the additional child tax credit.

To claim the child tax credit, the taxpayer must have a *qualifying child*.

Qualifying Child - A qualifying child for purposes of the child tax credit is a child who:

(1) Is the taxpayerǿs son, daughter, stepchild, foster child, brother, sister, stepbrother, stepsister, or a descendant of any of them (for example, a grandchild),
(2) Was under age 17 at the end of the tax year,
(3) Did not provide over half of his or her own support for the tax year,
(4) Lived with the taxpayer for more than half of the tax year,

(5) Was a U.S. citizen, a U.S. national, or a resident of the United States, and
(6) Was claimed as the taxpayerøs dependent

Adopted child - An adopted child is always treated as the taxpayerøs own child. An adopted child includes a child lawfully placed with the taxpayer for legal adoption. If the taxpayer is a U.S. citizen or U.S. national and the adopted child lived with the taxpayer all year as a member of the taxpayerøs household during the tax year, that child meets condition (5) above to be a qualifying child for the child tax credit.

Combat Pay - Excluded combat zone pay of military taxpayers is treated as earned income for this computation.

Exceptions to "time lived with the taxpayer" condition - A child is considered to have lived with the taxpayer for all of the tax year if the child was born or died during the year and the taxpayerøs home was this childøs home for the entire time he or she was alive. Temporary absences for special circumstances, such as for school, vacation, medical care, military service, and business, also will count as time lived with the taxpayer. There are also special rules for kidnapped and missing children.

Identification requirement - *In order to claim the child tax credit, the taxpayer must include the qualifying child's name and taxpayer identification number on the tax return.* If claiming the credit for a child identified by an IRS individual taxpayer identification number (ITIN), Part I of Form 8812 must be completed to document that the child meets the substantial presence test and is not otherwise considered a nonresident alien. If the child has a Social Security number or an IRS-issued ATIN (Adoption Taxpayer Identification Number), it is not necessary to complete Part I of the 8812.

Birthdate on January 1 - For this credit, a child attains a given age on the anniversary of the date that the child was born (Rev. Rul. 2003-72). For example, a child born on January 1, 1997 attains age 17 on January 1, 2014 and would be a qualifying child for the child tax credit for 2013 but not for 2014.

Phase out - The credit is reduced by $50 for each $1,000 (or fraction of $1,000) that the modified adjusted gross income (AGI increased by amounts excluded from gross income under foreign income exclusion of Code Sections 911, 931, or 933) exceeds the following threshold amounts:

- Married filing joint: $110,000
- Married filing separate: $55,000
- All Others: $75,000

Example – Phase Out of Regular Child Tax Credit – Miguel *and Selsa, a married couple, have an AGI of $112,001. They had no foreign income exclusions. They have one child eligible for the child credit.*

Modified AGI	*$112,001*
Threshold, Married Joint Taxpayers	*$110,000*
Net Difference	*$ 2,001*
Divide Net Difference by $1,000	*3 (A)*
(Round up to next whole number)	
Maximum credit per child	*$ 1,000 (B)*
Multiply (A) by $50	*$ 150 (C)*
Subtract (C) from (B)	*$ 850*

Don and Mallory get a maximum $850 child tax credit. Notice that modified AGI just $1 above an even $1,000 mark caused this couple to pay $50 additional tax.

Credit Limited To Tax Liability **-** In addition to being limited due to the AGI phase out, the child tax credit is also limited for most taxpayers by the taxpayer's total tax liability (both regular and AMT). However, when the credit is limited by the amount of tax liability, a portion of the credit may be refundable for certain taxpayers (see below). The child tax credit can be used to offset AMT.

Additional Child Tax Credit

A taxpayer, who is unable to claim the full amount of the child tax credit because income tax liability is less than the credit amount, may be allowed to take a portion of the tax credit as a refundable credit, referred to as the additional child tax credit. The combined nonrefundable and refundable credits can't exceed the credit as computed after taking into account the adjustment for the modified AGI limitation. The amount of the refundable credit is based on one of two computations:

- *Earned Income Method* - The refundable child tax credit is the lesser of the balance of the child credit the taxpayer is otherwise entitled to or a percentage of taxable earned income (defined the same as for the earned income credit) in excess of a threshold amount.

- ***Taxpayers with 1 or 2 Qualifying Children*** ï The refundable child tax credit is the lesser of the balance of the child credit the taxpayer is otherwise entitled to or a percentage (15% for 2013 and 2014) of taxable earned income (defined the same as for the earned income credit) in excess of a threshold amount ($3,000 2009 through 2017).

Example – Additional Child Credit – *Cesar and Ruth file a married joint return and claim their 9-year-old son as a dependent. Their AGI of $30,000 consists solely of Cesar's wages (no modifications). Their income tax is $310 and child credit is $1,000. The first $310 of the credit is used to offset the tax to zero. The balance, $690, is refundable; it is less than the result using the earned income formula ((30,000 – 3,000) x 15% = $4,050). If, instead of $30,000 of wages, the Cesar's only income had been $30,000 of interest from investments, none of the child credit would be refundable. It would be limited to $310, the amount of their tax.*

CALIFORNIA TAX UPDATES

Individual tax rates

- The maximum rate for individuals is 12.3%
- The AMT rate for individuals is 7%
- The Mental Health Services Tax Rate is 1% for taxable income in excess of $1,000,000.

Exemption credits

Filing Status/Qualification	**Exemption amount**
Married/Registered Domestic Partner (RDP) filing jointly or qualifying widow(er)	$216
Single, married/RDP filing separately, or head of household	$108
Dependent	$333
Blind	$108
Age 65 or older	$108

Phaseout of exemption credits

Higher-income taxpayers' exemption credits are reduced as follows:

Filing status	**Reduce each credit by:**	**For each:**	**Federal AGI exceeds:**
Single	$6	$2,500	$176,413
Married/RDP filing separately	$6	$1,250	$176,413
Head of household	$6	$2,500	$264,623

Filing status	Reduce each credit by:	For each:	Federal AGI exceeds:
Married/RDP filing jointly	$12	$2,500	$352,830
Qualifying widow(er)	$12	$2,500	$352,830

When applying the phaseout amount, apply the $6/$12 amount to each exemption credit, but do not reduce the credit below zero. If a personal exemption credit is less than the phaseout amount, do not apply the excess against a dependent exemption credit.

Standard deductions

The standard deduction amounts for:

Filing status	Deduction amount
Single or married/RDP filing separately	$3,992
Married/RDP filing jointly, head of household, or qualifying widow(er)	$7,984
The minimum standard deduction for dependents	$1,000

Reduction in itemized deductions

Itemized deductions must be reduced by the lesser of 6% of the excess of the taxpayer's federal AGI over the threshold amount or 80% of the amount of itemized deductions otherwise allowed for the taxable year.

Filing status	AGI threshold
Single or married/RDP filing separately	$176,413
Head of household	$264,623
Married/RDP filing jointly or qualifying widow(er)	$352,830

Nonrefundable Renter's credit

This nonrefundable, non-carryover credit for renters is available for:

- Single or married/RDP filing separately with a California AGI of $37,768 or less.
  - The credit is $60.
- Married/RDP filing jointly, head of household, or qualifying widow(er) with a California AGI of $75,536 or less.
  - The credit is $120.

Miscellaneous credits

- **Qualified senior head of household credit**
  - 2% of California taxable income
  - Maximum California AGI of $69,005
  - Maximum credit of $1,300
- **Joint custody head of household credit/dependent parent credit**
  - 30% of net tax
  - Maximum credit of $425

California Treatment of the Self-Employed Insurance Deduction Under the New Affordable Care Act

For purposes of the self-employed health insurance deduction, California currently conforms to the federal deduction for self-employed health insurance premiums, including the amount deductible for self-employed taxpayers who are allowed the IRC Section 36B refundable credit for coverage under a qualified health plan. California also conforms to the federal amount deductible on Schedule A for any out-of-pocket costs for health insurance paid or incurred by individuals who are allowed the IRC Section 36B refundable credit.

Due to the complexity of the Affordable Care Act, some initial draft forms and comments by us indicated that the amount of the federal credit could be deducted from California AGI. However, after a complete review of the new federal law, we have determined that there is no difference between federal and state law with respect to the amount that self-employed taxpayers may deduct for health insurance premiums, including taxpayers who are allowed the IRC Section 36B credit.

R&TC Section 17201 conforms to IRC Section 162(l) as of the ñspecified dateò of January 1, 2009. R&TC Section 17201.1 conforms to the IRC Section 162(l) changes to the self-employed health-insurance deduction made in the Health Care and Education Reconciliation Act of 2010 (Public Law 111-152), effective for the same periods as effective for federal purposes. Thus, California follows Treasury Regulation Section 1.162(l)-1T(a)(1), which provides that a self-employed taxpayer is allowed an IRC Section 162(l) deduction for specified health insurance premiums not to exceed an amount equal to the lesser of (1) the specified premiums less the premium tax credit attributable to the specified premiums, and (2) the sum of the specified premiums not paid through the advance credit payments and the additional tax imposed under IRC Section 36B(f)(2)(A) and Treasury Regulation Section 1.36B-4(a)(1) with respect to the specified premiums after the application of the limitation on additional tax in IRC Section 36B(f)(2)(B) and Treasury Regulation Section 1.36B-4(a)(3).

Consequently, the amount of health insurance premiums deductible under IRC Section 162(l) for California income tax purposes is the same as the amount deductible for federal income tax purposes, so no California adjustment is required.

Example: Steve, a self-employed individual, pays the full premium of $300 per month for health insurance coverage during 2014 for a total amount paid during the year of $3,600. When Steve files his 2014 tax returns, he finds that he is entitled to a $600 premium assistance credit. Steve is entitled to an AGI adjustment on Line 29 of his federal 1040 of $3,000 ($3,600 paid less the $600 credit). For California purposes, Steve may deduct the same $3,000; therefore, he makes no adjustment to California AGI.

New College Access Tax Credit

The College Access Tax Credit (CATC) is a new state tax credit for taxpayers who make authorized contributions of money to the CATC Fund. Senate Bill 798, which the governor recently signed, established the credit for both personal and corporate income taxes under California Revenue and Taxation (R&TC) Code Sections 17053.86 and 23686.

The CATC is available for taxable years 2014-2016. The total amount that CEFA can allocate for the CATC each year is $500 million. To claim the credit, a taxpayer must make a contribution to the CATC Fund administered by the California Educational Facilities Authority (CEFA). Taxpayers must receive a certificate from the CEFA documenting the amount of the contribution and the credit amount in order to claim the credit on their state income tax return. The amount of the credit allocated and certified by the CEFA for a taxpayer for each taxable year is:

- 60 percent of the amount contributed by the taxpayer for the 2014 taxable year.
- 55 percent of the amount contributed by the taxpayer for the 2015 taxable year.
- 50 percent of the amount contributed by the taxpayer for the 2016 taxable year.

Taxpayers may claim the CATC on their California tax return. They may also be able to take a charitable deduction for the contribution to CATC Fund on their federal tax return. Any charitable deduction for contributions made to the CATC Fund claimed on a federal tax return must be added back as a state adjustment on the California tax return, as taxpayers are not allowed a deduction and a credit for the same contribution.

CEFA began accepting applications for an allocation of the credit on November 3, 2014. Additional information on making a CATC contribution is available on CEFA’s website.