

IRS Releases 2014 Inflation Adjustments, Tax Rates and Brackets

IRS Revenue Procedure 2013-35 released October 31, 2013

The IRS has recently released new tax rates and brackets with the 2014 inflation adjustments. Below is a summary of those numbers for your use in the coming calendar year.

Applicable Exclusion Amount (IRC §2010): \$5,340,000 (up from \$5,250,000 in 2013) (GSTT Exemption, locked to the applicable exclusion amount, is also \$5,340,000)

Note: Although potential federal estate tax liability is less of a concern for most estates due to the large applicable exclusion amount, many affluent individuals and families could be subject to their respective state's estate/death tax rate (see rates below). Many individuals could benefit from using life insurance to provide the liquidity to pay for such taxes to preserve valuable non-liquid assets.

STATES WITH ESTATE/DEATH TAXES								
State	Exemption	Top Rate	State	Exemption	Top Rate	State	Exemption	Top Rate
CT	2,000,000	12%	MD	1,000,000	16%	NY	1,000,000	16%
DC	1,000,000	16%	MA	1,000,000	16%	OR	1,000,000	16%
HI	5,340,000	16%	MN	1,000,000	16%	RI	910,725	16%
IL	4,000,000	16%	NC	5,340,000	16%	VT	2,750,000	16%
ME	2,000,000	12%	NJ	675,000	16%	WA	2,000,000	19%

Annual Gift Tax Exclusion (IRC §2503): Remains at \$14,000

Annual Gift Tax Exclusion to Noncitizen Spouse (IRC §2523(i)): \$145,000 (up to from \$143,000 in 2013)

Note: Noncitizen spouses create unique estate planning challenges as a result of being deprived of certain transfer tax benefits (e.g., no federal estate tax marital deduction unless assets are transferred to a Qualified Domestic Trust (QDOT), an estate tax exemption of \$60,000, and potential loss of joint tenancy ownership). Life insurance can be very effective in providing liquidity for tax liabilities associated with such challenges.

Income Tax Brackets (IRC §1): While the rates remain the same, some brackets are adjusted for inflation

	Married Joint	Single	T&E
10.0%	18,150	9,075	N/A
15.0%	73,800	36,900	2,500
25.0%	148,850	89,350	5,800
28.0%	226,850	186,350	8,900
33.0%	405,100	450,100	12,150
35.0%	457,600	406,750	N/A
39.6%	Above	Above	Above

Note: Such rates do not take into consideration additional federal tax rates for highly compensated individuals (e.g., the 3.8% Medicare Surtax at \$250,000 and 20% capital gain and dividend rates at \$450,000 for taxpayers married filing jointly). The living tax benefits of annuities and life insurance are even more compelling for highly compensated individuals.

Limitation on Itemized Deductions (IRC §68 (b)): Married filing jointly, \$305,050 (up from \$300,000 in 2013); Single, \$254,200 (up from \$250,000 in 2013)

Eligible Long-term Care Premium (IRC §213(d)(10)):

Age	2014	2013
≤40	\$ 370	\$ 360
41-50	700	680
51-60	1,400	1,360
61-70	3,720	3,640
>70	4,660	4,550

Long-Term Care Per Diem Limitation (IRC §7702B(d)(4)): \$330 (up from \$320 in 2013)

APPLICABLE FEDERAL RATES - DECEMBER 2013

	Annual	Semi-Annual	Quarterly	Monthly
Short-term - Loans (3 years or less)	0.25%	0.25%	0.25%	0.25%
Mid-term - (More than 3 years up to and including 9 years)	1.57%	1.56%	1.56%	1.55%
Long-term - (More than 9 years)	3.32%	3.29%	3.28%	3.27%

Note: Applicable federal rates (AFRs) are still very low. A private financing arrangement is an excellent AFR strategy to use for purchasing large amounts of life insurance for estate and wealth transfer purposes. Loan regime split-dollar arrangements can be a tax efficient way to purchase cash value life insurance on the lives of business owners and can provide a method for retaining key employees.

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