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dramatic reshaping of the tax code will change tax planning according to Grant Thornton LLP.

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The dawn of 2013 brought the biggest tax changes in more than a decade and this dramatic reshaping of the tax code will change tax planning according to Grant Thornton LLP.

The resolution to the fiscal cliff standoff increased taxes by more than $600 billion and rewrote scores of rules. The rates on many types of income have risen in 2013 for high-income taxpayers, and a new Medicare tax on investment income is effective for the first time this year. Grant Thornton's Year-end Tax Guide for 2013 discusses all the issues taxpayers and tax paying entities should be thinking about right now.

"Some strategies that worked for taxpayers in the past won't make sense anymore, and the law created new opportunities that didn't exist previously," said Mel Schwarz, partner in Grant Thornton's Washington National Tax Office. "New planning techniques are needed to address the new taxes, rule changes and rate increases."

Here are some of the most important 2013 tax planning considerations for businesses:

1. **Understand how the new rates affect your business entity.** The 2013 tax increases came on individual income, but they also affect businesses. C corporation rates remain the same at the entity level, but rates are now higher when the corporation distributes its earnings as dividends or the owners sell the stock. Pass-through businesses like partnerships and S corporations are affected more directly by the individual rate increases because these entities are taxed only at the individual

level. Taxpayers should understand how the new rates will affect their entity and

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rules. Important requirements that take effect between 2012 and 2015 include: a $2,500 limit on flexible spending arrangements; a new fee of $1 per person covered by health insurance; and employee disclosure on benefits and coverage. The IRS has delayed until 2015 the "pay or play" mandate that was scheduled to begin imposing penalties for employers with more than 50 full-time equivalent employees who do not offer health insurance that meets certain standards.

4. **Take advantage of business extenders.** Many valuable business tax provisions commonly known as "extenders" were carried forward through the end of 2013. These provisions were put in place retroactively for 2012 and prospectively for 2013 and include: the research credit; 15-year cost recovery for qualified leasehold improvements, qualified restaurant buildings and improvements, and qualified retail improvements; the new markets tax credit; Subpart F exception for active financing income; look-through treatment for payments between related controlled foreign corporations under foreign personal holding company income rules; and the alternative fuel credit.

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Here are some of the most important 2013 tax planning considerations for executives and business owners:

1. **Understand the new investment income rates.** The top tax rate on ordinary income increased from 35 percent to 39.6 percent in 2013. The rate on long-term capital gains and qualifying dividends also increased from 15 percent to 20 percent. But these rates don't tell the whole story. The new 3.8 percent Medicare tax on net investment income can push top tax rates on income like capital gains, dividends and passive business earnings even higher.

2. **Group your business activities.** The new Medicare tax on net investment income

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the investments in your traditional account immediately in exchange for no taxes at withdrawal.

4. **Leverage historically low interest rates.** The past two years presented a historically favorable time for transfer tax planning. Although tax rates are higher and asset values are recovering, the unified gift and estate tax exemption is still very generous, and this may be one of your last opportunities to take advantage of historically low interest rates.

5. **Bunch itemized deductions.** Timing significantly affects your itemized deductions, because many of those deductions have adjusted gross income floors. Bunching these deductions into a single year may allow you to exceed these floors and save more.

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