IRS Releases Official 2014 Tax Rate Brackets, Standard Deductions, Other Inflation-Adjusted Figures

The IRS and the Social Security Administration have released various inflation-adjusted figures for 2014. While delayed slightly by the government shutdown, these figures were released considerably sooner than many of the 2013 figures which were not released until this past January because of the late passage of the American Taxpayer Relief Act of 2012 (“2012 Tax Relief Act”). While most figures will increase slightly in 2014, some, such as the annual gift exclusion and 401(k) deferral limitation, remain unchanged.

Tax Rate Tables
The highest marginal tax rate for individuals of 39.6 percent applies in 2014 to taxable income over $457,600 for married couples filing jointly ($406,750 for single taxpayers). This is an increase of $7,600 ($6,750) over 2013 levels. See the end of this article for all of the individual and estate/trust income tax rate tables for 2014.

The thresholds related to the 3.8% Medicare tax on unearned income and the 0.9% Medicare tax on wages and self-employment income remain unchanged for 2014 ($250,000 for married couples filing jointly; $200,000 for single filers) as these amounts are not indexed for inflation. Estates and trusts enjoy a slight increase in the 3.8% Medicare tax threshold, however, since that threshold is equal to the dollar amount at which the highest income tax bracket begins.

Alternative Minimum Tax (AMT)
The 2012 Tax Relief Act not only permanently increased the AMT exemption, but it also indexed the exemption for inflation for the first time. For 2014, the AMT exemption increases from $80,800 to $82,100 for married couples filing jointly and from $51,900 to $52,800 for single filers. The AMT exemption is reduced by 25 percent of the amount by which alternative minimum taxable income exceeds $156,500 for married couples filing jointly ($117,300 for single taxpayers).

For 2014, the 28 percent AMT rate applies to excess alternative minimum taxable income above $182,500 ($91,250 for married taxpayers filing separately).

Exemptions
The personal exemption and the dependency exemption are $3,950 for 2014. Personal exemptions phase out beginning at an adjusted gross income (AGI) level of $305,050 for married couples filing jointly ($254,200 for single filers) and are completely phased out at an AGI level of $427,550 for married couples filing jointly ($376,700 for single filers).

Overall Limitation on Itemized Deductions
Individuals with adjusted gross income (AGI) in excess of certain thresholds must reduce the amount of allowable itemized deductions by the lesser of 3% of the excess of AGI over those thresholds, or 80% of the total amount of otherwise allowable itemized deductions. For 2014, that threshold is $305,050 for married couples filing jointly ($254,200 for single filers).
**Standard Deduction**
The standard deduction for married couples filing a joint return is $12,400 for 2014. The standard deduction for single individuals and married couples filing separate returns is $6,200 for 2014. The standard deduction for heads of household increases by $150 to $9,100 for 2014.

**Estate and Gift Tax**
The 2012 Tax Relief Act permanently extended the $5,000,000 exclusion from estate and gift tax and indexed this amount for inflation. For 2014, the exclusion has increased from $5,250,000 to $5,340,000.

The annual gift tax exclusion in 2014 remains unchanged at $14,000. Gift splitting allows married couples to give up to $28,000 to a person without making a taxable gift. The exclusion for gifts to a spouse who is not a citizen of the United States increases to $145,000 for 2014.

**Education**
The Hope Scholarship credit (American Opportunity Tax Credit) is equal to 100 percent of the amount of qualified tuition and related expenses not in excess of $2,000, plus 25 percent of those expenses that exceed $2,000 but do not exceed $4,000. The maximum credit for 2014 is $2,500. For tax years beginning in 2014, this credit begins to phase out for single individuals whose modified adjusted gross income (MAGI) exceeds $80,000 and at $160,000 for married couples filing joint returns.

For tax years beginning in 2014, the Lifetime Learning Credit begins to phase out for single individuals whose modified adjusted gross income (MAGI) exceeds $54,000 and at $108,000 for married couples filing joint returns.

For 2014, the $2,500 maximum deduction for interest paid on qualified education loans begins to phase out for single individuals with MAGI in excess of $65,000 and for married couples filing joint returns with MAGI in excess of $130,000. The deduction is completely phased out for single individuals with MAGI of $80,000 or more and for married couples filing joint returns with MAGI of $160,000 or more.

**Children**
For 2014, the amount used to reduce the net earned income reported on a child’s return subject to the kiddie tax remains unchanged at $1,000. The same $1,000 amount is used to determine if a parent may elect to include a child’s gross income in the parent’s income and to calculate the kiddie tax.

**Foreign Earned Income**
For individual taxpayers who work overseas, the amount of foreign earned income that may excluded from taxation increases from $97,600 to $99,200 in 2014.

**COLA Limits for Qualified Plans**
The cost of living adjustments (COLAs) affect the maximum limits for a variety of contributions and distributions for 2014, including defined benefit accounts, 401(k)s, and other defined contribution plans, as well as limits on employee stock ownership plans (ESOPs) and benefits to highly-compensated employees.

**Defined contribution plans**
The limits on elective deferrals to 401(k)s, 403(b)s, certain 457s, and the federal government’s Thrift Savings Plan remain unchanged at $17,500 for 2014. The limit on annual additions to defined contribution plans increases for 2014 from $51,000 to $52,000.
Defined benefit plans and ESOPs
The maximum amount a defined benefit plan may pay a participant each year increases to $210,000 for 2014. The amount for determining the maximum ESOP account subject to a five-year distribution period increases from $1,035,000 to $1,050,000 in 2014. The dollar amount used to determine the lengthening period of the five-year distribution also increases to $210,000 for 2014.

Compensation Related Limits / Definitions
The annual compensation limit relating to the maximum compensation counted for an eligible employee in a qualifying plan increases from $255,000 to $260,000 for 2014. The limitation used in the definition of a highly-compensated employee remains unchanged at $115,000. The dollar limitation concerning the definition of key employee in a top heavy plan increases in 2014 to $170,000 from $165,000. The compensation amount relevant to the definition of control employee for fringe benefit valuation purposes in 2014 increases from $100,000 to $105,000 for officers and from $205,000 to $210,000 for other employees.

Individual Retirement Accounts (IRAs)
For taxpayers who are active participants in an employer-sponsored retirement plan, the deduction for making contributions to a traditional IRA is phased out for single taxpayers who have modified adjusted gross income (MAGI) between $60,000 and $70,000, up from $59,000 and $69,000 in 2013. For married couples filing a joint return, in which the spouse who makes the IRA contribution is an active participant in an employer-sponsored retirement plan, the income phase-out range is $96,000 to $116,000 in 2014, up from $95,000 to $115,000. For married couples filing a joint return, in which the spouse who makes the IRA contribution is not an active participant in an employer-sponsored retirement plan but the other spouse is a participant, the deduction is phased out if the couple’s income is between $181,000 and $191,000, up from $178,000 and $188,000 in 2013.

The MAGI phase-out range for taxpayers making contributions to a Roth IRA in 2014 is $181,000 to $191,000 for married couples filing jointly, up from $178,000 to $188,000. For single taxpayers, the income phase-out range is $114,000 to $129,000, up from $112,000 to $127,000 in 2013.

Catch-up contributions
Eligible individuals age 50 and above may make catch-up contributions to IRAs, 401(k)s and other savings arrangements. The catch-up amount for 401(k)s, 457s, 403(b)s, and SEPs remains unchanged at $5,500 for 2014. The $1,000 catch-up amount for IRAs is not indexed for inflation.

SIMPLE plans
The elective deferral limit for a SIMPLE plan remains unchanged at $12,000 in 2014. The $2,500 catch-up amount for SIMPLE plans is not indexed for inflation.

Social Security Wage Base Increases for 2014
The maximum amount of earnings subject to Social Security will increase in 2014 from $113,700 to $117,000. The Social Security Administration also reported that Social Security and Supplemental Security Income benefits will increase 1.5 percent in 2014.

We have only summarized the most common inflation adjustments here. For more information, please click on the links below.
### 2014 Tax Rate Tables

#### Married Individuals Filing Joint Returns and Surviving Spouses

<table>
<thead>
<tr>
<th>If Taxable Income Is</th>
<th>The Tax Is</th>
</tr>
</thead>
<tbody>
<tr>
<td>Not over $18,150</td>
<td>10% of the taxable income</td>
</tr>
<tr>
<td>Over $18,150 but not over $73,800</td>
<td>$1,815 plus 15% of the excess over $18,150</td>
</tr>
<tr>
<td>Over $73,800 but not over $148,850</td>
<td>$10,162.50 plus 25% of the excess over $73,800</td>
</tr>
<tr>
<td>Over $148,850 but not over $226,850</td>
<td>$28,925 plus 28% of the excess over $148,850</td>
</tr>
<tr>
<td>Over $226,850 but not over $405,100</td>
<td>$50,765 plus 33% of the excess over $226,850</td>
</tr>
<tr>
<td>Over $405,100 but not over $457,600</td>
<td>$109,587.50 plus 35% of the excess over $405,100</td>
</tr>
<tr>
<td>Over $457,600</td>
<td>$127,962.50 plus 39.6% of the excess over $457,600</td>
</tr>
</tbody>
</table>

#### Unmarried Individuals (other than Surviving Spouses and Heads of Households)

<table>
<thead>
<tr>
<th>If Taxable Income Is</th>
<th>The Tax Is</th>
</tr>
</thead>
<tbody>
<tr>
<td>Not over $9,075</td>
<td>10% of the taxable income</td>
</tr>
<tr>
<td>Over $9,075 but not over $36,900</td>
<td>$907.50 plus 15% of the excess over $9,075</td>
</tr>
<tr>
<td>Over $36,900 but not over $89,350</td>
<td>$5,081.25 plus 25% of the excess over $36,900</td>
</tr>
<tr>
<td>Over $89,350 but not over $186,350</td>
<td>$18,193.75 plus 28% of the excess over $89,350</td>
</tr>
<tr>
<td>Over $186,350 but not over $405,100</td>
<td>$45,353.75 plus 33% of the excess over $186,350</td>
</tr>
<tr>
<td>Over $405,100 but not over $406,750</td>
<td>$117,541.25 plus 35% of the excess over $405,100</td>
</tr>
<tr>
<td>Over $406,750</td>
<td>$118,118.75 plus 39.6% of the excess over $406,750</td>
</tr>
</tbody>
</table>

#### Married Individuals Filing Separate Returns

<table>
<thead>
<tr>
<th>If Taxable Income Is</th>
<th>The Tax Is</th>
</tr>
</thead>
<tbody>
<tr>
<td>Not over $9,075</td>
<td>10% of the taxable income</td>
</tr>
<tr>
<td>Over $9,075 but not over $36,900</td>
<td>$907.50 plus 15% of the excess over $9,075</td>
</tr>
<tr>
<td>Over $36,900 but not over $74,425</td>
<td>$5,081.25 plus 25% of the excess over $36,900</td>
</tr>
<tr>
<td>Over $74,425 but not over $113,425</td>
<td>$14,462.50 plus 28% of the excess over $74,425</td>
</tr>
<tr>
<td>Over $113,425 but not over $202,550</td>
<td>$25,382.50 plus 33% of the excess over $113,425</td>
</tr>
<tr>
<td>Over $202,550 but not over $228,800</td>
<td>$54,793.75 plus 35% of the excess over $202,550</td>
</tr>
<tr>
<td>Over $228,800</td>
<td>$63,981.25 plus 39.6% of the excess over $228,800</td>
</tr>
</tbody>
</table>
### Heads of Households

**If Taxable Income Is:** | **The Tax Is:**
--- | ---
Not over $12,950 | 10% of the taxable income
Over $12,950 but not over $49,400 | $1,295 plus 15% of the excess over $12,950
Over $49,400 but not over $127,550 | $6,762.50 plus 25% of the excess over $49,400
Over $127,550 but not over $206,600 | $26,300 plus 28% of the excess over $127,550
Over $206,600 but not over $405,100 | $48,434 plus 33% of the excess over $206,600
Over $405,100 but not over $432,200 | $113,939 plus 35% of the excess over $405,100
Over $432,200 | $123,424 plus 39.6% of the excess over $432,200

### Estates and Trusts

**If Taxable Income Is:** | **The Tax Is:**
--- | ---
Not over $2,500 | 15% of the taxable income
Over $2,500 but not over $5,800 | $375 plus 25% of the excess over $2,500
Over $5,800 but not over $8,900 | $1,200 plus 28% of the excess over $5,800
Over $8,900 but not over $12,150 | $2,068 plus 33% of the excess over $8,900
Over $12,150 | $3,140.50 plus 39.6% of the excess over $12,150