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NQDC Alert: What's New For the 2015 Tax Season

PONTE VEDRA BEACH, FL-- (March 12, 2015) - *This article on tax planning tips for nonqualified deferred compensation plans is reprinted with permission of* **myNQDC.com**, *a respected source of information, content, and tools on nonqualified deferred compensation.*

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As you work on tax returns involving **nonqualified deferred compensation***, here's a quick take on issues to keep in mind.*

1. Remember the increased **tax rates on ordinary income, capital gains, and dividends**, along with the return of phaseouts on personal exemptions and itemized deductions. (See the FAQ on the American Taxpayer Relief Act and ways in which NQDC can help you avoid higher tax rates.) These rate hikes took effect in the 2013 tax year, i.e. on tax returns filed in 2014.

2. The IRS has still not finalized the **Section 409A rules on W-2 reporting**. Therefore, your company does not need to indicate deferred income separately on your Form W-2, though it may do so voluntarily in **Box 14**. (Once the IRS has finalized the 409A rules on W-2 reporting, income deferred during the year will have to be indicated with **Code Y** in **Box 12**.) Distributions from plans usually appear in the W-2 boxes used for wages and other compensation, along with **Box 11** for nonqualified plans (see another FAQ). Distributed amounts are reported on your tax return like any other compensation income: on Line 7 (Wages, Salary) of IRS Form 1040.

3. The IRS has two tax-return forms for the **increases in Medicare tax** stemming from the Affordable Care Act: the additional tax on compensation income (IRS Form 8959) and the surtax on net investment gains (IRS Form 8960). Nonqualified deferred compensation payouts can trigger both of these, while deferrals can keep you under the income thresholds (see the related FAQ).

4. In the unlikely event that the administration of your plan violated the Section 409A regulations and you need to pay a penalty and interest:

- Report this on **Line 62** of IRS Form 1040 (this has changed from Line 60 last year).
- Check **Box _c_**.
- Enter the amount with the code **NQDC.**

The income that is subject to this additional tax will also appear on your Form W-2 or 1099-MISC.

5. All couples who were married in a state that legally recognizes their marriage now must file tax returns under their married status (whether married filing jointly or married filing separately). This is likely to result in a greater amount of tax than would be incurred by the two single filings that these taxpayers had to make in past years. For

more about the impact of the Supreme Court's marriage equality decision on nonqualified plans, see the [related FAQ](#) .

6. The [alternative minimum tax](#) (AMT) income exemption amounts, the point where the AMT exemption phaseout starts, and the threshold for the higher AMT rate have all been indexed for inflation. Nonqualified deferred compensation itself is not an AMT preference item. However, deferrals of income can serve to prevent you from triggering the AMT in a tax year; conversely, income you receive in a distribution can trigger the AMT.

If you need to **file an extension** of your tax-return deadline because of nonqualified deferred compensation, see the [FAQ](#) on mistakes to avoid with extensions.

Did you sell shares acquired from **equity compensation** during the tax year? See [myStockOptions.com](#) for the related changes in tax-return reporting.

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This information comes from [myNQDC.com](#). The goal of this educational resource is to help you, your clients, and/or your executives and key employees make the most of nonqualified deferred compensation. With clear writing and independent, unbiased expertise, the site will make you smarter about NQDC, from the basics to the complex aspects of financial planning, taxation, and legal issues.

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