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# Leslie A. Cesario, Ltd.
# Monthly Newsletter

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## Will the Affordable Care Act Impact Your Tax Return for 2014?

**Article Highlights:**

- Individual health insurance mandate
- Penalty for not being insured
- Premium assistance credit
- Insurance premium subsidies
- Repayment of excessive subsidies

The Affordable Care Act (ACA), also referred to as Obamacare, imposes an individual mandate requiring all non-exempt U.S. Citizens and legal residents to enroll in government-approved health insurance in 2014 or pay a penalty. The penalty will be collected through the individual's income tax returns (Form 1040).

The penalty for not having insurance is generally the greater of $95 per adult ($47.50 per child) or 1% of the family's household income. However, because the penalty is small in comparison to the cost of health insurance, it is estimated that between 8 and 12 million people will opt to pay the penalty rather than buy insurance.

That number would be higher was it not for the fact that undocumented immigrants and very low-income households that are not required to file a tax return are exempt from the insurance mandate. An analysis by the Congressional Budget Office (CBO) estimates that about two-thirds of the uninsured population will be exempt from the mandate.

Families with incomes between 100% and 400% of the Federal poverty level, whom are not covered by a government-approved plan with their employer and purchase their insurance through a state or federal insurance Marketplace, will receive financial aid to help pay for the cost of the insurance.

The financial aid comes in the form of a refundable tax credit called the premium assistance credit. The amount of the credit is based on the family's income for 2014; the lower the income, the greater the credit. For those at the lower end of the poverty level scale, the credit will cover a substantial portion of the cost of the insurance.

The credit can be taken in advance, based upon an estimated income for 2014, in the form of a subsidy to reduce the monthly insurance premiums. However, basing the advance subsidy on estimated income for the year creates a potential tax liability since the credit is based on the year's actual income, and if the estimated income provides a subsidy in excess of the credit, the excess may have to be paid back when the 2014 tax return is filed. Of course, if the subsidy taken during the year was less than the actual credit, the difference is refunded on the tax return.

Those who substantially underestimated their income when signing up for healthcare insurance through one of the Marketplaces and took the advance subsidy may find themselves with a large unexpected tax liability.

## Foreign Banks Forced to Report US Account Owners' Tax Information to IRS

The Foreign Account Tax Compliance Act (FATCA) is a United States law that requires United States persons, including individuals who live outside of the US, to report their financial accounts held outside of the United States to the Treasury Department. This is done by completing and attaching IRS Form 8938, Statement of Foreign Financial Assets, to the individual's income tax return, and is generally required if the value of the foreign accounts exceeds $50,000 (this threshold is higher for US persons residing abroad). In addition, FATCA requires foreign financial institutions to report about their US clients to the IRS. Congress enacted FATCA in order to make it more difficult for US taxpayers to conceal assets held in offshore accounts and shell corporations and thus, recoup federal tax revenues on unreported foreign-source income. The penalties for not reporting the accounts are draconian.

Under FATCA, foreign financial institutions that refuse to share information with the IRS face penalties when doing business in the US. FATCA requires US banks to withhold 30% of certain payments to foreign banks that have refused to comply with the information-sharing program. That is a heavy price to pay for access to the world's largest economy, and it has forced many reluctant countries to comply with the reporting requirement.

As a result, nearly 70 countries, including Switzerland, the Cayman Islands, and the Bahamas—all places where Americans have traditionally hid assets in the past—have agreed to share information from their banks.

Beginning in March 2015, more than 77,000 foreign banks, investment funds, and other financial institutions have agreed to supply the IRS with names, account numbers, and balances for accounts controlled by US taxpayers. Some foreign banks are refusing to accept US citizens as clients because they don't want the paperwork headaches imposed by FATCA and the additional compliance costs. As a result, US persons living abroad may find their banking options curtailed.

Oh, and did we mention that the FATCA filings are in addition to the long-standing Foreign Bank Account Report (FBAR) that US persons must file with the U.S. Treasury when the aggregate value of foreign accounts exceeds $10,000 in a calendar year? This report must now be e-filed using FinCEN Form 114 and is due by June 30 for the prior calendar year—no extensions are available. Heavy penalties apply if a FBAR isn't filed when one is required.

If you have questions related to the individual FATCA or FBAR reporting requirements, please give this office a call.

## A New Twist on Your Favorite Game Show

**Article Highlights:**

- Tax Issues of Being a Game Show Winner
- Setting Aside Winnings For taxes
- Prizes Are Taxed at Retail
- For Non-cash Winnings, The Taxes Come Out of Your Pocket

We all have our favorite game shows such as Wheel of Fortune, The Price is Right, and Lets Make A Deal and we love to have the contestants win big. Often the game show hosts will ask "what you are going to do with the winnings?" The answer is usually "buy this or that" or maybe "go on vacation."

We seldom if ever hear a contestant or the host mention anything about giving the government part of their winnings. But after all the celebrating is over, the game show will issue the winning contestant a 1099 for the amount of the cash and fair market value of the prizes won, which is taxable on the contestant's state and federal tax returns.

If a contestant wins cash they just need to set aside enough of the cash winnings to pay their taxes! The amount of the tax will vary by individual based on their tax bracket and the state they live in. The federal tax can be as high as 39.6% and some states' as high as 13%. Most individuals who are contestants on these programs are probably in the 10-25% federal tax brackets and 2-5% state brackets, making the tax on the winnings around 22%.

But what happens to the contestant that wins a prize? They will be taxed on its fair market value, which is usually full retail value. So they will have to dig into their own pockets to come up with the cash to pay the taxes. And if the contestant wins something they have no use for, they are still stuck with taxes unless they refuse the prize or contribute it to charity. Then think about the individual with limited means that wins an $80,000 vehicle. It might well cost them $17,500 or more (which they probably don't have) just to pay the income taxes on the prize. Or consider the contestant that wins a bunch of expensive trips and will have to dig into their pocket to pay cash for them. Do they even have enough vacation time to take them?

Thinking about how the contestant will deal with taxes can add a new twist to watching your favorite game show. Call this office if you have questions.

## Tax Facts about Summertime Child Care Expenses

**Article Highlights:**

- Day Camps
- Overnight Camps or Tutoring
- School Expenses
- In-Home Care
- Credit Percentages
- Maximum Qualifying Expenses
- Recordkeeping Requirements
- State Tax Credit

Many parents who work or are looking for work must arrange for care of their children during school vacations. If you are one of those, and your children requiring care are under 13 years of age, you may qualify for a tax credit that can reduce your federal income taxes.

Here are some facts you need to know about the tax credit available for child care expenses. The Child and Dependent Care Credit is available for expenses incurred during the lazy, hazy days of summer and throughout the rest of the year. You must claim the qualifying child for whom you pay care expenses as your dependent in order to qualify to claim the credit (but there is an exception for divorced or separated parents).

1. **Day Camps** – The costs of day camp generally count as expenses towards the child and dependent care credit. A day camp or similar program may qualify, even if the camp specializes in a particular activity, such as soccer or computers. The rule that

a dependent care center must comply with applicable state and local laws also applies to a day camp where more than six persons are cared for in return for a fee.

2. **Overnight Camp or Tutoring** – No portion of the cost of an overnight camp or a tutoring program is a qualified expense.
3. **School Expenses** – Only school expenses for a child below the level of kindergarten will qualify for the credit. But expenses paid for before- and after-school care of a child in kindergarten or a higher grade are eligible.
4. **Day Care Facility** – The expenses paid to the day care center qualify. If the day care center cares for more than six persons, it must comply with applicable state and local laws.
5. **In-Home Care** – If your childcare provider is a "sitter" at your home, the sitter is considered your employee, and you may need to pay payroll taxes and file payroll returns.
6. **Credit Percentage** – The actual credit can be between 20 and 35 percent of your qualifying expenses, depending upon your income. The higher your income, the lower the credit percentage.
7. **Maximum Qualifying Expenses** – You may use up to $3,000 of the unreimbursed expenses paid in a year for one qualifying individual or $6,000 for two or more qualifying individuals to figure the credit. This will provide a tax credit of between $600 and $1,050 for one child and $1,200 and $2,100 for two or more, depending upon your income. If the expenses exceed your work earnings, use the earnings to figure the credit. Dependent care benefits received through your employer will also affect the computation of the credit and could result in no credit being allowed.
8. **Records Required** – To claim the credit on your tax return, you will need to provide the care provider's name, address and tax ID number. No credit is allowed without that information, except the tax ID number is not needed if the provider is a tax-exempt organization such as a church or school. You may run across care providers who are reluctant to provide their ID numbers because they don't plan on reporting their income and paying their taxes. Just remember, without the ID number, you cannot claim the credit. Be sure to obtain the required information before you pay the provider.

   If you paid work-related expenses for the care of two or more qualifying persons, the expense dollar limit is $6,000. This $6,000 limit does not need to be divided equally among them. For example, if your work-related expenses for the care of one child are $3,200 and your work-related expenses for another child are $2,800, you can use the total, $6,000, when figuring the credit.
9. **State Child Care Credit** – Some states also allow a similar credit on the state income tax return. If your state is one of those, additional information, such as the care provider's phone number, may be required.

This credit is also available if you are filing a joint return and need to pay for care for your child while you work and your spouse is a full-time student. You can also claim this credit if you are working and care for a spouse that is physically or mentally incapable of self-care.

For more information about how this credit will affect your particular circumstances, or for information about claiming this credit for your spouse or a dependent age 13 or over who is not able to care for himself or herself, please call this office.

## Do You Have An Online Gambling Account?

If so, you should be aware that each United States person who has a financial interest in or signature or other authority over any foreign financial accounts, including bank, securities, or other types of financial accounts, in a foreign country, if the aggregate value of these financial accounts exceeds $10,000 at any time during the calendar year, must report that relationship to the U.S. government each calendar year.

This is done by electronically filing the FinCEN Form 114 (Report of Foreign Bank and Financial Accounts), commonly referred to as the FBAR, on or before June 30 of the succeeding year with the Department of the Treasury. Penalties for failing to comply can be draconian. For non-willful violations, civil penalties up to $10,000 may be imposed; the penalty for willful violations is the greater of $100,000 or 50% of the account's balance at the time of the violation.

You should also be aware that many of the online gaming sites are actually operating from outside of the U.S., and if, at any time during the year, your combined account balances from all of those accounts exceeds the $10,000 reporting threshold, you will have an FBAR reporting requirement.

In a recent case, the court upheld the IRS's imposed penalties for not filing FBARs for an online gaming account with an out-of-the-country online casino (Hom District Court CA 6/4/2014). In that case, the taxpayer gambled online and had accounts worth more than $10,000 during the years in question with two online poker companies, PokerStars and PartyPoker. He used a third company, an online financial organization, FirePay.com, to facilitate the transferring of money to and from his two poker accounts; he also had more than $10,000 in his FirePay account during one of the years in question.

The taxpayer was assessed with 31 penalties for his non-willful failure to submit FBARs, regarding his interest in his FirePay, PokerStars, and PartyPoker accounts.

If you or someone you know has an online gambling account and you need help in determining whether you have a filing requirement and/or you require help with filing the FBAR, please give this office a call.

## Passwords - Why a List Is Important

**Article Highlights:**

- Usernames & passwords
- Problems for caregivers and survivors
- Most overlook this very important issue

We now live in a digital world where we conduct many, if not all, of your financial affairs over the Internet. And we guard against others getting into our Internet accounts with usernames and passwords. We can even use passwords to keep others from accessing our cell phones, tablets and computers.

If you are like most people, you have had to change passwords on some accounts for one reason or another. The result is that you don't have just one password; you have several. In fact, security specialists recommend against using the same password for all online accounts for the obvious reason that if one account is compromised, all others could be hacked as well.

Now consider the problems that will arise if you become incapacitated or, worse yet, pass away. How are your family members or executor going to help manage your affairs? According to a recent survey only about 45% of Internet users have created an up-to-date list of usernames and passwords for all their online accounts. This is very important, as not all companies will provide a family member or personal representative with access to a decedent's accounts. Such situations often prove to be extremely time-consuming and problematic.

If you haven't already done so, we strongly recommend organizing your usernames and passwords as soon as possible, so that your trusted family member, caregiver, trustee or executor can readily access important online accounts if need be. Keep the list in a safe place known and accessible by those individuals you wish to have access to the information.

For each password included on the list, also include the username, device, website login address, and the “secret” security questions/answers, if any, for the account. If you have any questions, please call.

## Tips for Students Planning to Work during the Summer

**Article Highlights:**

- Form W-4
- Watch Out for Payroll Surprises
- Tips
- Odd Jobs
- Self-Employment Tax
- Working for Parents
- ROTC Students
- Newspaper Delivery
- Retirement Contributions

As the summer break from school approaches, many students are looking for part-time summer employment. Both parents and students should be aware of the tax issues that need to be considered when working a summer job. Here is a rundown of some of the more common issues:

- **Completing Form W-4 –** The W-4 form is used by employers to determine the amount of tax that will be withheld from your paycheck. Students with multiple summer jobs will want to make sure that all of their employers are withholding an adequate amount of taxes to cover their total income tax liability. Generally, a student with income only from summer and part-time employment, and who is claimed as a dependent of someone else, can earn as much as $6,200 (the standard deduction amount for 2014) without being liable for income tax. However, if the student has investment income, the tax determination becomes more complicated because, as he or she is a dependent of another, special rules apply.
- **Watch Out for Payroll Surprises** – Some employers may attempt to avoid their payroll tax liabilities by paying the student in cash and incorrectly treating them as an independent contractor, thus leaving the student with the responsibility of paying both the employee’s and employer’s payroll tax liability (see self-employment tax below). If a potential employer intends to do that, they will generally ask the student

to complete a Form W-9 rather than a W-4 or simply ask for their Social Security Number (SSN) without requesting a W-4.

- **Tips –** If the student works as a waiter or a camp counselor, he or she may receive tips as part of his or her summer income. All tip income received is taxable income and is therefore subject to federal income tax. Employees are required to report tips of $20 or more received while working with any one employer in any given month. This reporting should be made in writing to the employer by the tenth day of the month following the receipt of tips. The employer withholds FICA (Social Security and Medicare taxes) and income taxes on these reported tips, then includes the tips and wages on the employee's W-2.
- **Odd Jobs –** Many students do odd jobs over the summer and are paid in cash. Just because it is paid in cash does not mean that it is tax-free. Unfortunately, the income is taxable and may be subject to self-employment taxes (see next). These earnings include income from odd jobs like dog walking, babysitting, and lawn mowing.
- **Self-Employment Tax –** When a student works for an employer, the employer withholds Social Security tax and Medicare tax from his or her pay, matches the amount dollar for dollar, and remits the combined amount to the government. When a student is self-employed, he or she is required to pay the combined employee and employer amounts on their own (referred to as self-employment tax) if the net earnings are $400 or more. This tax pays for his or her benefits under the Social Security system and Medicare Part A. Even if he or she is not liable for income tax, this 15.3% tax may apply to a student's odd jobs.
- **Working for Parents** – A child under the age of 18 working in a business solely owned by his or her parents is not subject to payroll taxes. This saves the child from having to pay the 7.65% payroll taxes and also provides the parent with relief from payroll taxes. The payroll tax exception won't apply if the parent's business is set up as a corporation.
- **ROTC Students –** Subsistence allowances paid to ROTC students participating in advanced training are not taxable. However, active duty pay – such as pay received during summer advanced camp – is taxable.
- **Newspaper Carrier or Distributor –** Special rules apply to services performed as a newspaper carrier or distributor. An individual is a direct seller and treated as self-employed for federal tax purposes if he or she meets the following conditions:
  - They are in the business of delivering newspapers;
  - All of their pay for these services directly relates to sales rather than to the number of hours worked; and
  - They perform the delivery services under a written contract which states that they will not be treated as an employee for federal tax purposes.
- **Newspaper Carriers or Distributors Under Age 18 –** Generally, newspaper carriers or distributors under age 18 are not subject to self-employment tax.
- **Retirement Plan Contributions –** Putting away money for retirement is probably the last thing a student will want to spend their summer earnings on. However, having earned income opens up the opportunity to make traditional and Roth IRA contributions.

If you are a student or the parent of a student with questions about these or other issues associated with student employment, please call this office for assistance.

## The Earned Income Tax Credit: the IRS's Nemesis

**Article Highlights:**

- EITC Fraud and Excess Claims
- IRS Programs to Detect Fraud and Excess Claims
- EITC Qualifications
- Special Military Combat Pay Election

Years ago, Congress created the earned income tax credit (EITC) as a refundable tax credit for people who work but have lower incomes. This credit has been a nemesis for the IRS to administer ever since because, on the one hand, it is the frequent target of fraud and excess credit claims and, on the other hand, 20% to 25% of those who qualify for the credit do not claim it.

A contributing factor to errors in claiming the credit or failure to take the credit when qualified is the complicated rules related to who qualifies for this credit. The rules are quite complex and best addressed by a tax professional.

The government wants those who are entitled to the credit to claim it, and so the IRS widely promotes the credit. On the flip side, the IRS has numerous programs in place to detect fraud and excessive credit claims. The IRS estimates that the dollar value of improper EITC payments for fiscal 2013 was between $13.3 and $15.6 billion.

As an example, the largest credits are paid to individuals with a child. A conflict is created when the parents are divorced or separated. Both may attempt to claim the same child in an effort to qualify for the EITC. In fiscal year 2013, the IRS sent letters to over 110,000 taxpayers alerting them to the fact that another taxpayer also claimed the same qualifying child as they had claimed for EITC purposes.

The IRS is authorized to ban taxpayers from claiming the EITC for two years if it determines during an audit that they claimed the credit improperly due to reckless or intentional disregard of the rules. Last year, there were more than 67,000 two-year bans in effect.

For those entitled to the credit, it could be worth up to $6,143 for 2014. So a taxpayer claiming the credit will pay less federal tax or get a larger refund.

If you are employed for at least part of 2014, you may be eligible for the EITC based on these general requirements:

- You earned less than $14,590 ($20,020 if married filing jointly) and did not have any qualifying children.
- You earned less than $38,511 ($43,941 if married filing jointly) and have one qualifying child.
- You earned less than $43,756 ($49,186 if married filing jointly) and have two qualifying children.
- You earned less than $46,997 ($52,427 if married filing jointly) and have three or more qualifying children.

In addition, you must meet a few basic rules:

- You must have a valid Social Security Number, as must any child in order to qualify for the credit.
- You must have earned income from employment or from self-employment.
- Your filing status cannot be married, filing separately.

- You must be a U.S. citizen or resident alien all year, or a nonresident alien married to a U.S. citizen, or a resident alien and filing a joint return.
- You cannot be a qualifying child of another person.
- If you do not have a qualifying child, you must:
    - be age 25 but under 65 at the end of the year,
    - live in the United States for more than half the year, and
    - not qualify as a dependent of another person.
- You cannot file Form 2555 or 2555-EZ (related to foreign earn income).

Members of the military can elect to treat all or none of their nontaxable combat pay as earned income for the purposes of computing the EITC. The one providing the larger EITC benefit can be used.
If you have questions about how the EITC might apply to you, a family member, or a friend, please call this office for additional information. Please understand that a taxpayer who might not normally be required to file a return might still benefit from filing to claim the EITC.

## 5 Ways You Can Use QuickBooks' Income Tracker

The Income Tracker is one of QuickBooks' more innovative features.

If you're not using it, you should be. One of the reasons that QuickBooks appeals to millions of small businesses is because it offers multiple ways to complete the same tasks, which accommodates different work styles. Say, for example, you wanted to look up a specific invoice. You could:

- Go to the **Customer Center** and select the customer, and then scan through the list of transactions,
- Use the **Find** feature (**Edit | Find**), or
- Create a report.

There's also another way you can get there if you have a recent version of QuickBooks: the **Income Tracker**. *(Note: Only the Administrator or a staff member with the correct permissions can access this feature. Talk to us about whether to allow other employees to use it, and how to set that up.)*


*Figure 1: QuickBooks' **Income Tracker** provides a visual overview of your company's income.*

That's the first thing you can do with QuickBooks' Income Tracker. To get there, either click the link in the vertical navigation bar or go to **Customers | Income Tracker**.

Four colored bars across the top of the screen represent unbilled estimates, open invoices, overdue invoices, and invoices paid within the last 30 days. Each bar contains two numerical values: the number of transactions of that type and the dollar amount involved.

QuickBooks defaults to displaying all types of transactions, but when you click on a bar, the screen changes to show only that type of transaction.

You can also filter the table of transactions using the drop-down lists below the colored bars. Your choices here include Customer:Job, Type, Status (Open, Paid, etc.) and Date (range). Click the arrow to the right of each filter's label to display your options.

The column labels below these lists will change depending on the transaction type that's active.

**More Functionality**
The Income Tracker is great for simply viewing groups of transactions; double-clicking on one will open the original form. You can also open them by selecting an action to take. For example, open your estimates list and click on a transaction to highlight it. Then click the arrow next to Select in the Action column at the far right end of the row.


*Figure 2: You can modify transactions like estimates from within the Income Tracker.*

If you choose the first option here, QuickBooks opens a small window that asks you whether you'd like to create an invoice for 100 percent of the estimate, a percentage of it, specific items, or percentages of each item. When you make your selection and click **OK**, a completed invoice form opens, which you can then check over and save.

As you can see above, you can also mark the estimate as inactive, print it, or email it.

Each transaction type supports a different set of actions. In the open invoice action column, as you'd expect, you can click the option to **Receive Payment**, which opens the **Customer Payment** window with the customer and amount due already filled in. This can be edited to reflect a different amount, or you can just accept it as is, then save it.

**Flexible Forms**
You can even create a new transaction within the Income Tracker. Click on the arrow next to **Manage Transactions** in the lower left corner of the screen and select the form you want.

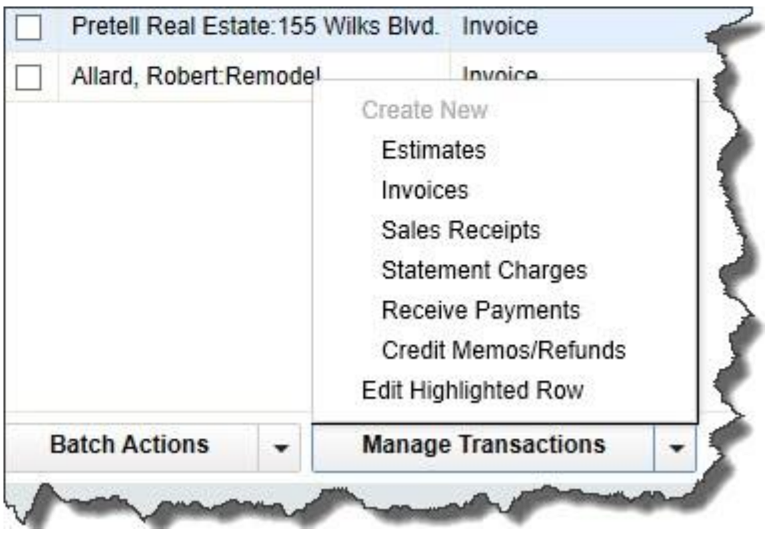


Figure 3: You can open new transaction screens from within QuickBooks' Income Tracker.

The Income Tracker also provides one of the fastest ways to print multiple forms. Just select the transactions you want to print by clicking in the box in front of them, and then click the arrow next to Batch Actions in the lower left corner.

Finally, you can edit transactions from here, too. Either double-click on one or select it and click **Edit Highlighted Row** in the **Manage Transactions** menu.

QuickBooks' Income Tracker doesn't do anything that can't be done another way in the program. But it provides an excellent one-glance view of the current state of your receivables movement.

If you're consistently seeing patterns that you don't like, call us. We can evaluate your receivables process and suggest ways to accelerate it. Even if your sales aren't increasing, getting that "PAID" stamp on invoices quickly will improve your cash flow and strengthen your confidence as a business manager.