Client advisor

CURRENT INFORMATION, NEWS AND TRENDS

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Inside This Issue:

Make the Most of Your Deductions

As you plan for your tax year, keep in mind that you benefit from itemizing your tax deductions if they exceed the standard deduction; sometimes when you are subject to the alternative minimum tax (AMT), it is beneficial to itemize even if the result is less than the standard deduction. The following is a run-down on itemizing your deductions.

Bunching Deductions: If your allowed deductions exceed the standard deduction, you will want to itemize them. Itemized deductions consist of five basic categories, each with its own limitations and special considerations. If your deductions only marginally exceed the standard deduction, consider "bunching" your deductions in one year. You can bunch your deductions by pre-paying some of your expenses in one year, such as your church contributions. This allows you to produce higher than normal itemized deductions that year and then take the standard deduction the other year. Also consider pre-paying your state's January estimated tax payment in December, or paying your property tax in full rather than in installments carrying over to the next year.

Medical Expenses: Deductible medical expenses are limited to unreimbursed expenses for you, your spouse if married, and dependents, that exceed 10% (7.5% if age 65 or older) of your adjusted gross income (AGI) for the year. If you are 65 or older, for AMT purposes, your medical deduction will be lower because only the excess of unreimbursed expenses above 10% of your AGI is deductible.

Don't overlook some less common deductions such as:

– The cost of a weight-loss program (not including food) for the treatment of a specific disease or diseases (including obesity) diagnosed by a physician.

– Medicare-B premium payments and Medicare-D premiums for drug coverage.

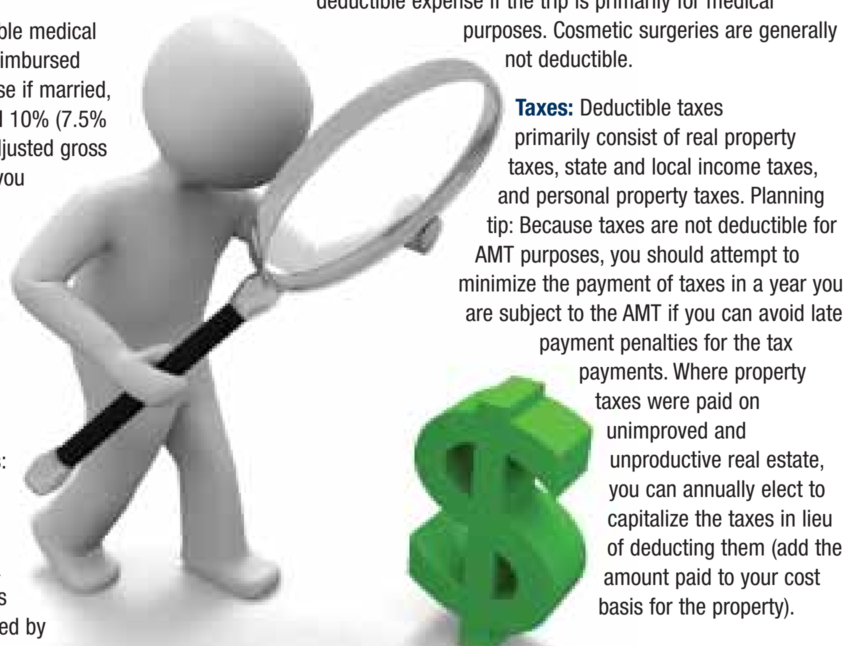
– Participation in smoking-cessation programs and for prescribed drugs (but not non-prescription items such as gum or patches) designed to alleviate nicotine withdrawal.

– Elder care, generally including the entire cost of nursing homes, homes for the aged, and assisted living facilities.

– Medical dependents: For medical purposes, an individual may be a dependent even if his gross income precludes a dependency exemption, thus enabling you to deduct the individual's medical expenses that you paid.

– A child of divorced parents is considered a dependent of both parents for medical expenses purposes (so that each parent may deduct the medical expenses he or she pays for the child.)

Generally, travel costs (not including meals) may be a deductible expense if the trip is primarily for medical purposes. Cosmetic surgeries are generally not deductible.



Taxes: Deductible taxes primarily consist of real property taxes, state and local income taxes, and personal property taxes. Planning tip: Because taxes are not deductible for AMT purposes, you should attempt to minimize the payment of taxes in a year you are subject to the AMT if you can avoid late payment penalties for the tax payments. Where property taxes were paid on unimproved and unproductive real estate, you can annually elect to capitalize the taxes in lieu of deducting them (add the amount paid to your cost basis for the property).

(...Cont'd on Page 3)

Are You Ready For Mandatory Health Insurance in 2014?

Beginning in 2014, the Patient Protection & Affordable Care Act imposes the new requirement that US persons, with certain exceptions, have minimal essential health care insurance. A penalty, payable with the individual's income tax return, may apply to those who don't have the required health care coverage. A minimum essential health care policy is one in which the insurer pays 60% of the average medical expenses incurred by an average person over the course of one year. How this will impact your family will depend upon a number of issues.

Already insured: If you will already be insured through an employer plan, Medicare, Medicaid, the Veterans Administration, or a private plan that provides minimal essential care, then you will not be subject to any penalties under this new law.

Exempt from the mandatory insurance requirement: The following individuals will be exempt from the insurance mandate and will not be subject to a penalty for being uninsured:

- Individuals who have a religious exemption;
- Those not lawfully present in the United States;
- Incarcerated individuals;
- Those who cannot afford coverage based on formulas contained in the law;
- Those who have income below the federal income tax filing threshold;
- Those who are members of Indian tribes;
- Those who were uninsured for short coverage gaps of less than three months; or
- Those who have received a hardship waiver from the Secretary of Health and Human Services, who are residing outside of the United States, or who are bona fide residents of any possession of the United States.

Lower Income Subsidies: Individuals and families whose household income is between 100% and 400% of the federal poverty level will qualify for a varying amount of subsidy to help pay for the insurance in the form of a Premium Assistance Credit. To qualify for that credit, the insurance must be acquired from an insurance exchange operated by the applicant's state or by the Federal Government, and the applicant cannot be eligible for minimal essential coverage through Medicaid, Medicare, employer-sponsored insurance, or other acceptable types of coverage. Exchanges are currently accepting applications for insurance that will become effective January 1, 2014.

It is important to note that the subsidy is really just a tax credit based upon family income. It can be estimated in advance and used to reduce the monthly insurance premiums; it can be claimed as a refundable credit on the tax return for the year; or it can be some combination of both. However, it is based upon the current year's income and must be reconciled on the tax return for the year. If too much was used as a premium subsidy, it must be repaid. If there is excess, it is refundable.

If household income is below 100% of the poverty level, the individual or family qualifies for Medicaid.

Penalty for noncompliance: The penalty for noncompliance will be the greater of either a flat dollar amount or a percentage of income:

- For 2014, $95 per uninsured adult ($47.50 for a child) or 1 percent of household income over the income tax filing threshold.
- For 2015, $325 per uninsured adult ($162.50 for a child) or 2 percent of household income over the income tax filing threshold.
- For 2016 and beyond, $695 per uninsured adult ($347.50 for a child) or 2.5 percent of household income over the income tax filing threshold.

Flat dollar amounts: The flat dollar amount for a family will be capped at 300% of the adult amount. For example, the maximum in 2016 for a family will be $2,085 (300% of $695). The child rate will apply to family members under the age of 18.

Overall penalty cap: The overall penalty will be capped at the national average premium for a minimal essential coverage plan purchased through an exchange. This amount won't be known until a later date.

Don't Overlook the Credit for Small Employer Health Insurance Premiums

The tax law provides a credit for small-business employers who pay the health insurance premiums for their workers. This credit can be as much as 35% (25% for tax-exempt organizations) of the insurance premiums paid by the employer in 2013.

Beginning in 2014, the credit percentage increases to 50% (35% for tax-exempt organizations), and claiming the credit is limited to two consecutive years, but if the credit was claimed for any of years 2010 through 2013, those years aren't counted for the two-year limit. In addition, for 2014 and later years, the insurance must be purchased through a state exchange, and the coverage must be uniform and not less than 50% of the premium cost.

To qualify for the credit, the employer can't have more than 25 full-time equivalent employees, and the average wage of the employees cannot exceed $50,000 for the year. The 25 full-time equivalent employee limit is computed by taking into account both full-time and part-time employees for the year using a formula.

The amount of the credit gradually phases out if the number of full-time equivalent employees exceeds 10 or if the average annual wage of the employees exceeds $25,000. Under the phase-out, the full amount of the credit is available only to an employer with 10 or fewer full-time equivalent employees and whose employees have average annual wages of less than $25,000.

The credit is in lieu of taking a business deduction for the employer-paid premiums used in computing the credit. It is also part of the general business credit, which may exceed the amount of the business' income tax. Any unused credit in the current year can be carried back one year and then forward until used up, but no longer than 20 years.

Please give this office a call if you have questions related to this credit, the pros and cons of offering health insurance to employees, and determining how much your firm can benefit from claiming the credit.

(Make the Most of Your Deductions Cont'd...)

For 2013, you have the option of deducting on Schedule A as part of your itemized deductions the LARGER of: (1) state and local income tax paid, or (2) state and local sales tax you paid during the year.

Interest: The only interest expenses that are deductible as itemized deductions are home mortgage interest and investment interest. Although this category does not have an AGI limitation, each interest type has special limitations. Home mortgage interest is limited to the interest paid on acquisition debt that does not exceed $1 million and home equity debt (not exceeding $100,000) on your main home and a designated second home.

Investment interest is interest on debts incurred to acquire investments such as securities or land. The investment interest deduction is limited to net investment income (investment income less investment expenses), and any excess not deductible in the current year is carried over to future years. Interest on debt to acquire tax-free investment income is not deductible.

Charitable Contributions: All cash contributions, regardless of the amount, must be documented with a written verification from the charity or a bank record. Non-receipted cash contributions are not deductible. Non-cash contributions also require an acknowledgement of the contribution from the qualified charitable organization, except for donations of $250 or less left at unmanned drop points.

Vehicle (including boat and plane) contributions are generally limited to $500 and require a Form 1098-C to verify the deduction. A larger amount can be deducted if certain special conditions are met. Call for additional information.

Miscellaneous Deductions: Miscellaneous deductions fall into two basic categories: those that are reduced by 2% of your AGI and those that are not.

– Those Subject to the 2% Reduction: This category generally includes your investment expenses, costs of having your tax return prepared, and employee business expenses.

– Those NOT Subject to the 2% Reduction: This category includes gambling losses, personal casualty losses, repayments of income reported in prior years, and estate tax deductions.

Overall Itemized Deduction Limitation: If your 2013 adjusted gross income exceeds $300,000 for joint filers or a surviving spouse, $275,000 for heads of household, $250,000 for single filers, and $150,000 for married taxpayers filing separately, your total itemized deductions will be limited, adding another factor to consider for planning purposes. If the limitation applies to you, the total amount of your itemized deductions is reduced by 3% of the amount by which your AGI exceeds your threshold amount listed above, with the reduction not to exceed 80% of your otherwise allowable itemized deductions. The threshold amounts are inflation-adjusted for tax years after 2013.

Don't Get Scammed, They Are Very Clever

While you are thinking about the start of the new year, the scammers are out there figuring ways to dupe you out of your money. They become very active towards the end of the year and during tax season.

What they try to do is trick you into divulging your personal bank account numbers, passwords, credit card numbers, Social Security numbers, and so on.

One of the most popular methods these unscrupulous people use is requesting your personal information by e-mail. And they are pretty good at making their e-mails look as if they came from a legitimate source such as the IRS, your credit card company, your bank, and most recently the new health insurance exchanges.

You need to be very careful when responding to e-mails asking you to update such things as your account information, pin number, password, and so forth. First and foremost, you should be aware that no legitimate company would make such a request by e-mail. If they do, their e-mail should be deleted and ignored just like spam e-mails.

We have seen bogus e-mails that looked like they were from the IRS, well-known banks, credit card companies, and other seemingly legitimate enterprises. The intent is to trick you into clicking through to a website that also appears legitimate, where they have you enter your secure information. Here are some examples:

- E-mails that appear to be from the IRS, indicating you have a refund coming and they need information to process the refund. The IRS never initiates communication via e-mail! Right away, you know it is bogus. If you are concerned, please free to call this office.

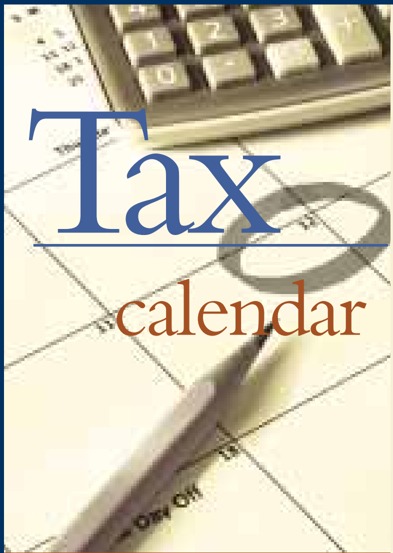
- E-mails from a bank indicating they are holding a wire transfer and they need your bank routing information and account number. Don't respond; if in doubt, call your bank.

- E-mails saying you have a foreign inheritance and they need your bank info so they can wire the funds. The funds that will get wired are yours going the other way. Remember, if it is too good to be true, it generally is not true.

We could go on and on with examples. The key here is for you to be highly suspect of any e-mail requesting personal or financial information.

A good rule of thumb is to: STOP – THINK – DELETE.

If your identity is stolen, your life can become a nightmare. Identity thieves will even file tax returns under your Social Security number claiming huge refunds and leaving you with a horrendous mess to clean up with the IRS. Don't be a victim. Please call this office if you believe your tax ID has been compromised.



Tax calendar

Nov. 2013 – Apr. 2014

November-December 2013:
It's time for 2013 year-end and 2014 tax planning. Call now if you have a substantial increase in income or fewer deductions.

December 31, 2013:
- Last day to pay deductible expenses for the 2013 return. IRA, SEP, or Keogh contributions can be made after Dec. 31, 2013.
- Last day to set up a Keogh Retirement Account for 2013.
- Last day for individuals who turned 70½ in 2012 or in a prior year to withdraw their IRA required minimum distribution for 2013.

January 1, 2014:
- Unless exempt, individuals and families must have minimal essential health care insurance or face the possibility of penalties for 2014.

January 15, 2014:
- The fourth-quarter 2013 federal individual estimated tax payment is due, unless the 2013 return is filed by January 31, 2014 and the entire balance due is paid with the return. State due dates may vary.

January 31, 2014:
Deadline for businesses to provide 1099s to contractors and W-2s to employees they paid during 2013. 1099s are required for payments of $600 or more for the services by individuals (other than employees) during the year.

February 28, 2014:
This is the deadline for filing (sending) 2013 Forms 1099 and W-2 to the government.

March 1, 2014:
This is the last day for a farmer or fisherman who owed, but did not pay, estimated tax by January 15, 2014 to file a 2013 calendar-year income tax return to avoid a late payment penalty.

April 1, 2014:
This is the last day for taxpayers who turned 70-1/2 during 2013 to withdraw their IRA required minimum distribution for 2013.

April 15, 2014:
- Deadline for individuals to file a 2013 federal income tax return or request an extension of time to file. State due dates may vary.
- This is the deadline for fiduciaries of estates and trusts to file a 2013 calendar-year income tax return or request an extension.
- The first installment of the 2014 federal individual estimated tax payment is due. Caution: State due dates may vary.
- First contribution of 2014 defined benefit pension plans is due.

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Since You Asked...

You Asked: A few years ago, my brother got himself into financial difficulties and I loaned him $10,000. He has been unable to pay me back, and I have decided to forgive the loan and write it off when I file my taxes. How do I report the loss on my tax return?

Answer: Non-business bad debts are reported on Form 8949 (for Schedule D) as a short-term capital loss. The information required includes the name of the debtor. The reason the lender is allowed to claim a loss on such a loan is that a forgiven debt constitutes income to the debtor, thereby balancing the tax scale.

In your case, unfortunately, you cannot write off the $10,000. To be deductible, a non-business bad debt must be an enforceable debt and you, as the lender, must make reasonable efforts to collect on that debt. Such efforts to collect include legal action. If you decide to forgive your brother's debt, the loss is nondeductible, as it is essentially a gift to him.

You Asked: A local amateur baseball league has approached my company about sponsoring one of its teams. The uniforms will include the name of my firm. They claim that the sponsor's expenses are tax-deductible. Is that true?

Answer: Marketing that is intended to portray your business in a positive light can be deducted. Such marketing creates long-term potential for business and falls within the ordinary and normal requirements of the tax code. Examples of such marketing include sponsoring local youth sports teams, distributing samples of your business product, and prizes offered by your business in a contest. As long as your marketing expenses can be reasonably related to the promotion of your business, they can be deducted.