

## **Tax Planning Letter - 2013**

Dear Client:

We hope you have had a happy, healthy and prosperous year and we look forward to seeing you at your upcoming tax appointment. This issue of the newsletter contains information about the tax implications of the Affordable Care Act and a Tax Checklist to help you organize your tax documents. Whenever we talk about taxes, the following caveats apply: "It depends," and "these deductions may not apply to all taxpayers." If you have any questions about these or any other tax-related matters, please let us know when you call to schedule your appointment. We look forward to seeing you soon!

### **The Affordable Care Act and Your Taxes**

In March 2010, President Obama signed the Patient Protection and Affordable Care Act (the "Affordable Care Act") into law. While some provisions of the ACA have already gone into effect, a number of new provisions are scheduled to take effect January 1, 2014. Although we do not intend this newsletter to be the answer-all to the ACA, we thought this would be a good time to look at some of the provisions that might affect you.

Under the Affordable Care Act, all individuals will be required to have health insurance. There will be incentives for those who enroll and penalties for those who do not. While the majority of US citizens and legal residents will be subject to the penalties, certain groups will be exempt such as undocumented immigrants, incarcerated individuals, American Indians and members of certain faiths. Large employers (those with 50 or more full-time employees) will be required to offer coverage to employees and will be penalized for noncompliance. Small employers who provide coverage for their employees may qualify for tax credits in 2014 and 2015 and will pay no penalties for failure to participate.

As a result of this legislation, Health Insurance "Marketplaces" (formerly known as exchanges) will be established to assist low and moderate-income individuals, families and small businesses in purchasing health insurance plans that are eligible to receive federal subsidies.

Under the ACA, several aspects of health insurance plans will be regulated. All health insurance plans must have no lifetime or annual limits, no potential rescission of coverage, no pre-existing conditions exclusions, no excessive waiting periods for eligibility to become covered by the plan and no cost sharing for preventive care. The insurance market must limit deductibles for certain plans and new insurance plans must cover your children until they reach age 26 while older plans must only cover children who cannot get insurance from their place of employment until they are 26.

The plan provider must provide a summary of benefits and coverage to participants. Plan enrollees must be allowed to select any available participating primary care provider. Premiums can be based only on limited factors, and there must be an effective process for appeals from claims determinations. Each of these requirements is designed to improve the experience of the insured individuals and to ensure greater coverage than was previously provided by health insurance companies.

As you can see, the impact of this legislation is far-reaching. We are providing this information so that you are informed. Our goal is to make you aware of these provisions in order that we may discuss them in more detail and determine exactly how they may apply to your particular situation. If you have any questions about the Affordable Care Act or any other tax matter, please give us a call.

### **Tax Credits to Offset Insurance Premiums**

A Kaiser Family Foundation study predicts that nearly half of all Americans who buy their own health insurance through the Affordable Care Act's Marketplaces will be eligible for tax credits or subsidies.

### **2013: Watch Out for These Two New Taxes!**

Two new taxes were included in the Affordable Care Act enacted in 2010, but didn't go into effect until 2013: the 3.8% tax on net investment income and the 0.9% Medicare surtax on earned income. While the type of income subject to these new taxes is different, there is some overlap in the definition of taxpayers subject to these new taxes.

### **The 3.8% Tax on Net Investment Income**

Don't let 2013 zip by without checking with us to see if some tax planning may reduce the impact of this tax. The 3.8% surtax will be imposed on the lesser of your net investment income for the tax year, or the amount by which your modified adjusted gross income (MAGI) exceeds the "threshold amount" for the year. The threshold for married filing jointly is \$250,000, \$125,000 if you are married filing separately, and \$200,000 for everyone else.

Although the IRS issued more than 100 pages of regulations to define "net investment income," the term basically includes interest, dividends, annuities, rents, royalties and capital gains. Interest on tax-exempt bonds and distributions from qualified retirement plans are not included, nor is any gain excludable from income on the sale of your primary residence.

Planning related to this tax focuses on reducing net investment income. For example, if gain on the sale of property will be subject to the tax, it might be worthwhile to consider an installment sale or a like-kind, tax-deferred exchange of investment real estate instead of a sale.

Bottom line: Give us a call now so we can examine possible tax strategies before the year is over. Although your investment choices and long-term objectives should come first, tax implications are also a consideration.

### **The 0.9% Medicare Surtax on Earned Income**

Unlike the 3.8% tax on net investment income, this tax applies to wages and self-employment income. The income thresholds are the same as the tax on net investment income above: \$250,000 for couples filing jointly, \$125,000 for those married filing separately and \$200,000 for other filers. The surtax applies only to the employee's portion of the Medicare tax. There is no increase to the employer-paid portion, but employers are required to withhold the surtax once an employee's wages exceed \$200,000 in a calendar year.

**Caution:** If filing jointly, each spouse could earn less than the \$200,000 threshold and have no extra withholding on their wages during the year, however, if their combined wages exceed the \$250,000 threshold on their tax return, they will pay the surtax owed at tax time. On the other hand, if one spouse's wages are over \$200,000 and the employer withholds the additional tax, but the other spouse earns less than \$50,000, then any extra surtax withheld would be credited on their tax return.

### **Simplified Home Office Deduction**

The IRS introduced a simplified option for claiming home office deduction starting in 2013, providing a standard deduction of \$5 per square foot of home used for business (maximum 300 square feet). This simplified option does not change the criteria for who may claim a home office deduction.

### **IRS' Affordable Care Act Tax Tips**

Confused about the Affordable Care Act? Have questions and need more information? The IRS has launched a new Affordable Care Act Tax Provisions website at [IRS.gov/aca](http://IRS.gov/aca) to educate individuals and businesses on how the health care law may affect them. The new home page has three sections that explain the tax benefits and responsibilities for individuals, families, employers, and other organizations, with links and information for each group. The site provides information about tax provisions that are in effect now and those that will go into effect in 2014 and beyond.

Visit [IRS.gov/aca](http://IRS.gov/aca) for more information regarding the tax provisions of the Affordable Care Act and stay in touch with our firm.

## Tax Checklist

**This form is to assist you in gathering your income tax information. Use it as a guide for information you need to provide. Please call or e-mail with any questions.**

### **GENERAL INFORMATION:**

- First, middle initial, and last names of taxpayers and dependents as written on the Social Security cards, and dates of birth for taxpayers and all dependents, **especially** new dependents.
- Address (city, state, and zip), telephone number, and e-mail address.
- Marital Status: Single \_\_\_ Married \_\_\_ Head of Household \_\_\_ Separated \_\_\_
- Number of Dependents: \_\_\_ Did any dependents have any income? Yes \_\_\_ No \_\_\_
- Did all dependents live with you for 6 months or more? Yes \_\_\_ No \_\_\_

### **TYPES OF INCOME & TAX REPORTING FORMS:**

- Wages: All W-2's
- Pensions/Retirements: 1099-R
- Social Security: SSA-1099
- Bank Interest: 1099-INT
- Dividends: 1099-DIV
- Commissions: 1099-MISC
- Tips and Gratuities
- Sales of Stock, Mutual Funds: 1099-B
- Income from Rentals: All 1099-MISC
- Business Income: All 1099-MISC & 1099-K
- Farm Income
- Alimony Received: Total amount
- Unemployment: 1099-G
- State Tax Refund: 1099-G
- Miscellaneous: Jury Duty, Gambling, Other
- K-1 forms from Partnership, S-Corporation, or Trust

**BUSINESS INCOME & EXPENSE ITEMS:** The list is not all encompassing. If you don't see an expense listed below, ask.

- Total (Gross) Income
- Advertising
- Asset Purchases
- Auto: Parking &Tolls
- Bank/Credit Card Fees
- Business Phone Expense
- Cell Phone Expense
- Cleaning/Maintenance
- Commissions Paid
- Contractors/Subcontractors
- Dues & Publications
- Education Expense
- Equipment/Supplies
- General Office Expense
- Hotel/Travel Expense
- Insurance
- Interest Paid
- Legal or Professional Fees
- License Fees/Taxes Paid
- Meals/Entertainment
- Postage
- Rent/Lease Fees Paid
- Repairs
- Tools
- Utilities

Business Vehicle: \_\_\_\_Auto \_\_\_\_Date Placed in Service \_\_\_\_Business Miles \_\_\_\_Total Miles

**ADDITIONAL ITEMS FOR RENTAL PROPERTIES:**

- Days Rented \_\_\_\_  Room Rentals (in home)
  - Vacation Rental
- Condo/PUD Association Fees  Mileage/Travel
- Keys/Other
- Gardening/Yard Work  Mortgage Interest
- Property Tax
- Management Fees  Termite Treatment
- Utilities

**DEDUCTIONS/CREDITS TO INCOME:**

- Adoption Expense  Medical Savings
- Account (5498-SA/1099-SA)
- Alimony Paid\*  Moving Expenses
- Child Care Credits  Penalty on Early Savings Withdrawal
- \_\_\_\_Provider Name \_\_\_\_EIN \_\_\_\_Amount Paid  Retirement Saver's Credit
- Education Credits \*\*  Self-employed Health Insurance
- IRAs/Keogh/SEPs(Form 5498)  Teacher Expenses

\* Total Alimony Paid: Must have name and Social Security number of recipient, and amount paid.

\*\* American Opportunity/Lifetime Learning/Student Loan Interest/Education Expenses

**ESTIMATED TAXES PAID:**

Date of payment and amount paid for **each** Federal and State quarterly tax estimate.

**ITEMIZED DEDUCTIONS:**

**MEDICAL**

- Medical & Dental Bills  Lab Fees
- Prescriptions  Medical Miles
- Glasses/Contact Lenses or Hearing Aids  Out-of-pocket Expenses
- Medical Insurance Premiums \_\_\_\_Medical \_\_\_\_Dental \_\_\_\_Long-term Care

**TAXES & INTEREST**

(this will be on previous year's return)

- City/Local Tax  Mortgage Interest
- Sales Tax  Mortgage Insurance Premiums
- Real Estate Tax  Investment Interest
- Personal Property Tax (Vehicle License Fee)

**CHARITABLE CONTRIBUTIONS**

- Cash Contributions \* Expenses
- Non-Cash Contributions \*\*
- IRA RMD Charitable Distribution
- Out-of-pocket Volunteer
- Charitable Miles
  - Other

\* Documentation required.

\*\* Donation dates, list of items donated with Fair Market Value for **each** non-cash donation to a Charitable Organizations are needed.

**ADDITIONAL TAX DOCUMENTS:**

- Completed Organizer
- Signed Engagement Letter
- Year-End Broker Statements
- Notices Received from IRS or FTB
- HUD Statement (for each home purchase or refinance)