

Client Newsletter – Fall 2014

Dear Client:

We hope you have had a wonderful year and we look forward to seeing you at your upcoming tax appointment. This tax newsletter contains some of the highlights of the changing tax landscape, including what's new for 2014. 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!

Beware of Scam IRS Calls

The IRS has issued a consumer alert providing taxpayers with tips to protect themselves from telephone scam artists who call pretending to be with the IRS. Remember that the IRS will never:

1. Call you about taxes you owe without first mailing you an official notice.
2. Demand that you pay taxes without giving you the opportunity to question or appeal the amount they say you owe.
3. Require you to use a specific payment method for your taxes, such as a prepaid debit card.
4. Ask for credit or debit card numbers over the phone.
5. Threaten to bring in local police or other law-enforcement groups to have you arrested for not paying.

What's that New Tax?

New taxes you may first notice in 2014 include a Medicare surtax. The Net Investment Income Tax (NIIT) is "a 3.8 percent surtax that will be due on the lesser of your net investment income for the year, or the amount by which your "modified adjusted gross income" – or MAGI – exceeds those income thresholds. And yes, if you're a high earner, you might get hit with both the 0.9 percent Additional Medicare Tax and the 3.8 percent NIIT surtax. Note that the Additional Medicare Tax applies to your earned income and the NIIT applies to investment income. What investment income is subject to this? Generally interest, dividends, capital gains, rental and royalty income, nonqualified annuities, businesses that are taxed on your return as "passive activities" and income from businesses involved in the trading of financial instruments or commodities are affected. Please call or email for more information on this.

New IRS "Taxpayer Bill of Rights" Available in Six Languages

Each and every taxpayer has a set of fundamental rights they should be aware of when dealing with the IRS. Explore your rights and our obligations to protect them:

The Right to Be Informed, The Right to Quality Service, The Right to Pay No More than the Correct Amount of Tax, The Right to Challenge the IRS's Position and Be Heard, The Right to Appeal an IRS Decision in an Independent Forum, The Right to Finality, The Right to Privacy, The Right to Confidentiality, The Right to Retain Representation, and The Right to a Fair and Just Tax System.

Home Office Deduction Not Precluded by Minor Personal Use

The U.S. Tax Court recently sided with the plaintiff in a recent case involving the rules surrounding the home office deduction. The deduction is allowed for the portion of a residence that is used exclusively and on a regular basis as the principal place of business for a taxpayer, even when there is occasional "personal" use if that use is de minimis. Setting aside an area of the dwelling for exclusive use is not always easy, however. In Lauren Miller's case, the IRS challenged her deduction for the expenses allocable to one-third of her New York City studio apartment of 700 square feet.

"Although Petitioner admitted that she used portions of the office space for nonbusiness purposes, we find that her personal use of the space was de minimis and wholly attributable to the practicalities of living in a studio apartment of such modest dimensions." Therefore, the court concluded that Miller was entitled to the home office deduction. This was a "summary opinion," which means it cannot be appealed by either side, and can't be treated as precedent for any other case.

A New Tax Bracket

The tax year 2013 brought us a new top tax bracket, so the tax returns you file on or before April 15, 2015 will feature some people sending Uncle Sam a bigger portion of their income. 39.6 percent for incomes of more than \$406,750 (for single filers) or \$457,600 (married, filing jointly).

Expiring Tax Breaks

More than 50 tax breaks expired in 2013, so you can expect some new taxes in 2014 – or higher taxes – unless some or many of them are reinstated. That may well happen, as many tax breaks are repeatedly renewed. Expiring breaks include a deduction of up to \$250 for teachers who buy classroom supplies with their own money and a deduction of up to \$4,000 for qualified tuition and related expenses – and more. Note that unlike many of the taxes described above that actually took effect in 2013, these breaks remained in effect through 2013 and hopefully were claimed on your 2013 tax returns. But for now, they're scheduled to disappear in 2014.

The more you know about taxes and 2014's new taxes in particular, the better you can plan and the less you'll likely pay. Got a situation or a question? We are ready and waiting for your call. Remember: Enrolled Agents are America's Tax Experts!

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 email 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:

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

BUSINESS INCOME & EXPENSE ITEMS: If you don't see an expense listed below, please ask.

- | | |
|---|---|
| <input type="checkbox"/> Total (Gross) Income | <input type="checkbox"/> Hotel/Travel Expense |
| <input type="checkbox"/> Advertising | <input type="checkbox"/> Insurance |
| <input type="checkbox"/> Asset Purchases | <input type="checkbox"/> Interest Paid |
| <input type="checkbox"/> Auto: Parking & Tolls | <input type="checkbox"/> Legal or Professional Fees |
| <input type="checkbox"/> Bank/Credit Card Fees | <input type="checkbox"/> License Fees/Taxes Paid |
| <input type="checkbox"/> Business Phone Expense | <input type="checkbox"/> Meals/Entertainment |
| <input type="checkbox"/> Business Vehicle: | <input type="checkbox"/> Postage |
| ___Auto | <input type="checkbox"/> Rent/Lease Fees Paid |
| ___Date Placed in Service | <input type="checkbox"/> Repairs |
| ___Business Miles | <input type="checkbox"/> Tools |
| ___Total Miles | <input type="checkbox"/> Utilities |
| <input type="checkbox"/> Cell Phone Expense | |
| <input type="checkbox"/> Cleaning/Maintenance | |
| <input type="checkbox"/> Commissions Paid | |
| <input type="checkbox"/> Contractors/Subcontractors | |
| <input type="checkbox"/> Dues & Publications | |
| <input type="checkbox"/> Education Expense | |
| <input type="checkbox"/> Equipment/Supplies | |
| <input type="checkbox"/> General Office Expense | |

ADDITIONAL ITEMS FOR RENTAL PROPERTIES:

- | | | |
|---|---|--|
| <input type="checkbox"/> Days Rented ____ | <input type="checkbox"/> Room Rentals (in home) | <input type="checkbox"/> Vacation Rental |
| <input type="checkbox"/> Condo/PUD Association Fees | <input type="checkbox"/> Mileage/Travel | <input type="checkbox"/> Keys/Other |
| <input type="checkbox"/> Gardening/Yard Work | <input type="checkbox"/> Mortgage Interest | <input type="checkbox"/> Property Tax |
| <input type="checkbox"/> Management Fees | <input type="checkbox"/> Termite Treatment | <input type="checkbox"/> Utilities |

DEDUCTIONS/CREDITS TO INCOME:

- | | |
|--|--|
| <input type="checkbox"/> Adoption Expense | <input type="checkbox"/> Medical Savings Account (5498-SA/1099-SA) |
| <input type="checkbox"/> Alimony Paid* | <input type="checkbox"/> Moving Expenses |
| <input type="checkbox"/> Child Care Credits | <input type="checkbox"/> Penalty on Early Savings Withdrawal |
| ____Provider Name ____EIN ____Amount Paid | <input type="checkbox"/> Retirement Saver's Credit |
| <input type="checkbox"/> Education Credits ** | <input type="checkbox"/> Self-employed Health Insurance |
| <input type="checkbox"/> IRAs/Keogh/SEPs (Form 5498) | <input type="checkbox"/> 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**

- | | |
|---|---|
| <input type="checkbox"/> Medical & Dental Bills | <input type="checkbox"/> Lab Fees |
| <input type="checkbox"/> Prescriptions | <input type="checkbox"/> Medical Miles |
| <input type="checkbox"/> Glasses/Contact Lenses or Hearing Aids | <input type="checkbox"/> Out-of-pocket Expenses |
| <input type="checkbox"/> Medical Insurance Premiums ____Medical ____Dental ____Long-term Care | |

TAXES & INTEREST

(this will be on previous year's return)

- | | |
|--|--|
| <input type="checkbox"/> City/Local Tax | <input type="checkbox"/> Mortgage Interest |
| <input type="checkbox"/> Sales Tax | <input type="checkbox"/> Mortgage Insurance Premiums |
| <input type="checkbox"/> Real Estate Tax | <input type="checkbox"/> Investment Interest |
| <input type="checkbox"/> Personal Property Tax (Vehicle License Fee) | |

CHARITABLE CONTRIBUTIONS

- | | |
|--|---|
| <input type="checkbox"/> Cash Contributions * | <input type="checkbox"/> Out-of-pocket Volunteer Expenses |
| <input type="checkbox"/> Non-Cash Contributions ** | <input type="checkbox"/> Charitable Miles |
| <input type="checkbox"/> IRA RMD Charitable Distribution | <input type="checkbox"/> 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:

- | | |
|--|---|
| <input type="checkbox"/> Completed Organizer | <input type="checkbox"/> Signed Engagement Letter |
| <input type="checkbox"/> Year-End Broker Statements | <input type="checkbox"/> Notices Received from IRS or FTB |
| <input type="checkbox"/> HUD Statement (for each home purchase or refinance) | |