Tax News & TIPS

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The Tax Man

If You Want to Pay Too Much in Taxes,
That's Your Business.
If you Don't, That's Our Business

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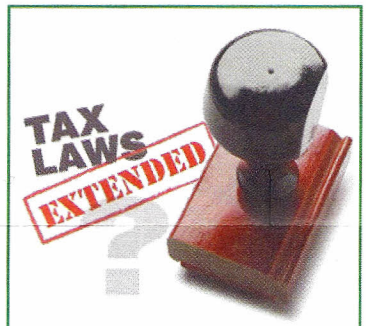


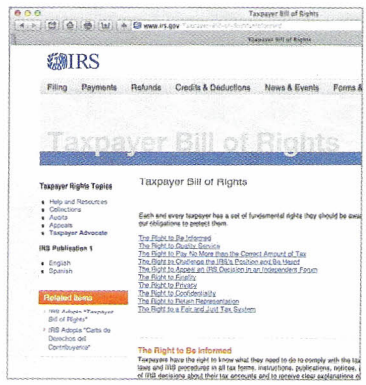
Have Tax Laws Been Extended? Definitely Not Yet!

All efforts by the Senate to renew the 50 plus temporary two year tax laws have stalled. It appears that any resolution will begin after the November Congressional elections. These laws expired at the end of 2013 and hopefully will be renewed through 2015. Some of the specific items that are on the table until Congress acts are big ticket ***business*** items such as the research and development tax credit, Section 179 expensing and bonus depreciation. Waiting for extension on the ***personal*** side are the deductions for tax-free IRA distributions to charities, the $4,000 tuition & fees deduction, energy savings tax credits for home improvements, the deduction for mortgage insurance premiums and many more. *Stay tuned!* You will be updated on any action taken on these extenders in the Year-End Newsletter issue.

A Kinder, Gentler IRS? Taxpayer Bill of Rights

The Internal Revenue Service announced the adoption of a "Taxpayer Bill of Rights" that will become a cornerstone document to provide the nation's taxpayers with a better understanding of their rights.

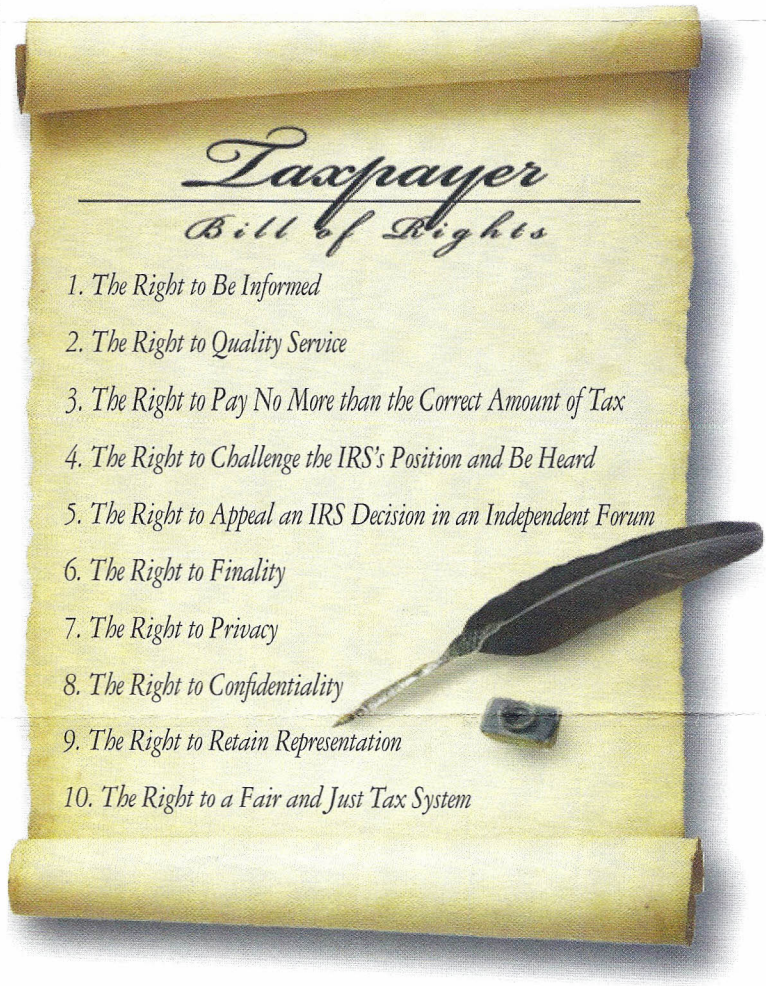
The Taxpayer Bill of Rights takes the multiple existing rights embedded in the tax code and groups them into 10 broad categories. This will make them more visible and easier for taxpayers to find on IRS.gov.



Publication 1, "Your Rights as a Taxpayer," has been updated with the 10 rights. Millions of taxpayers will receive this publication this year when they receive IRS notices on issues ranging from audits to collection. The rights will also be publicly visible in all IRS facilities for taxpayers and employees to see.

Your Rights As A Taxpayer Have Been Updated With 10 Rights.

The tax code includes numerous taxpayer rights, but they are scattered throughout the code, making it difficult for people to track and understand. Similar to the U.S. Constitution's Bill of Rights, the Taxpayer Bill of Rights contains 10 provisions. They are:



The rights have been incorporated into a redesigned document that is routinely included in IRS correspondence with taxpayers. Millions of these mailings go out each year. The new version has been added to print copies and will start being included in IRS correspondence in the near future.

The timing of the updated Taxpayer Bill of Rights is critical because the IRS is in the peak of its correspondence mailing season as taxpayers start to receive follow-up correspondence from the 2013 tax returns filed.

INSIDE THIS ISSUE OF *TAX NEWS & TIPS*

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Itemized Deductions vs. Standard Deduction

Here are some tips to help you prepare the documentation needed for us to file your 2014 Tax Return. First, know what your standard deduction is. It is based upon your filing status.

Single	$6,200
Married Filing Jointly	$12,400
Married Filing Separately	$6,200
Head of Household	$9,100

If you have reached 65 years old (or are blind), you add $1,200 (for each) if married or $1,550 (for each) if unmarried to the above amounts.

If your total Itemized Deductions exceed the Standard Deduction for your filing status, then you will benefit by saving your receipts for certain eligible expenses. Only about 1/3 of all taxpayers itemize their deductions. Documentation of all itemized expenses is essential if you expect the deduction to be allowed. Following is a listing of some of the types of itemized deductions that generally result in the largest tax benefit.

Eligible Itemized Deductions

✔ **Unreimbursed Medical Expenses**
Save copies of all medical-related bills... doctors, hospitals, prescriptions, etc. Expenses can be for you, your spouse and any dependents. Expenses may also be claimed for a limited number of persons that do not qualify as your dependent. These ***could*** be your parents or a married child. Even Fido could get you a deduction here! If you own a guide dog or other animal because you are visually impaired, hearing impaired or have some other physical disability then the cost to maintain the animal's health may be claimed as a medical expense. Check with me for the details. Have cancelled checks or credit card statements to support the fact that you paid the medical bills.

✔ **Real Estate Taxes**
Real estate taxes paid on all residences are deductible. Deductible real estate taxes do not include assessments for sidewalks, water mains, sewer lines, parking lots or similar improvements that increase the value of your property. Tax bills and cancelled checks will support this deduction.

✔ **State & Local Income Taxes**
State and local income taxes that are withheld from wages or paid as estimates qualify.

✔ **Mortgage Interest**
Generally, home mortgage interest is any interest you pay on a loan secured by your home (main home and/or second home). There are limitations. These are reported to you on Form 1098 from your lender.

Real estate taxes paid on all residences are deductible.

✔ **Gifts to Charity**
Include cash or items donated to a qualified charity. You cannot deduct gifts to individuals, political organizations or candidates. *Girl Scout cookies might be tax deductible* – If you're a big fan of Girl Scout cookies, you might be able to turn that into a tax deduction, too. The only downside is that you *can't eat them*. The Girl Scouts of the USA is a recognized charitable organization so donations you make to the group are tax deductible. But when you're buying cookies for your own personal consumption from your neighborhood Girl Scouts, you are not making a donation. You are purchasing a product at a fair market value, so no part of your purchase price is tax deductible. But if you buy the cookies and then give them right back to the Girl Scouts who sold them, you can deduct the purchase price as a ***charitable contribution.*** Detailed records of all charitable donations with the date of the contribution, description of the item(s) donated, condition of the item(s) and the fair market value of those items must be part of your documentation. Get signed receipts from the charity whenever possible (a *MUST* if over $250).

✔ **Casualty or Theft Losses**
Generally, you can deduct casualty and theft losses to your home, household items and vehicles. A loss can result from the damage, destruction or loss of your property from a sudden, unexpected, or unusual event. These events include flood, tornado, fire or earthquake. Documentation should include insurance claim documents, if possible, so that any uninsured loss can be considered for this deduction. There are limitations based upon income that must be met to deduct these types of expenses.

✔ **Miscellaneous Itemized Expenses**
Include your gambling losses up to the amount of gambling winnings. Even the losers can be winners here. Some miscellaneous itemized expenses are only deductible to the extent that they exceed your adjusted gross income by more than 2%. Some specific examples are employee business expenses, union dues and professional association fees.

What Do Others Claim?

The IRS publishes data on our tax returns each year. A few months ago they published figures for 2011 income tax returns. You can find data for several years' returns at www.irs.gov. Search the term "tax return statistics."

The IRS stated that 145 million tax returns were filed in the tax year 2011 reporting $7.7 trillion of adjusted gross income with total income tax at greater than $1 trillion! Total income tax increased by 9.9% from the previous year. To be included in the top 1% for 2011 required an adjusted gross income of $388,905. Almost 92 million were classified as taxable returns with a total income tax greater than $0. The average tax rate for taxable returns was 13.6 percent.

At the IRS website, you can view taxpayer average deductions grouped according to their adjusted gross income. For instance, folks in the $45,000 - $50,000 range deducted $3,427 of real estate taxes and $2,495 for charity. The $75,000 - $100,000 group claimed $3,514 and $3,098, respectively.

When looking at these figures, remember that only about 33% of these returns elected to use "itemized deductions." This means that the other 67% of returns used the "standard deduction" and are not included in these averages.

Tax Break for Middle Income Taxpayers!

Inflation-Indexed AMT

One new tax provision could end up saving middle-income taxpayers some money. Finally! Congress passed a permanent fix to the Alternative Minimum Tax (AMT). The AMT was created originally to prevent wealthy taxpayers from using tax breaks to avoid taxes altogether. The original law was never indexed to inflation. As a result, the AMT gradually affected more and more taxpayers. Over the years this has come to include many middle-income taxpayers. Now that the legislation has included inflation adjustments to the AMT, many taxpayers who were just over the threshold for the AMT may no longer have to pay it. Likewise, the average U.S. taxpayer should not be subject to the tax.

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Retirement – 401(k)s & IRAs: *Different Ages, Different Rules*

401(k)s

Before Age 55
Penalty free withdrawal is permitted if:

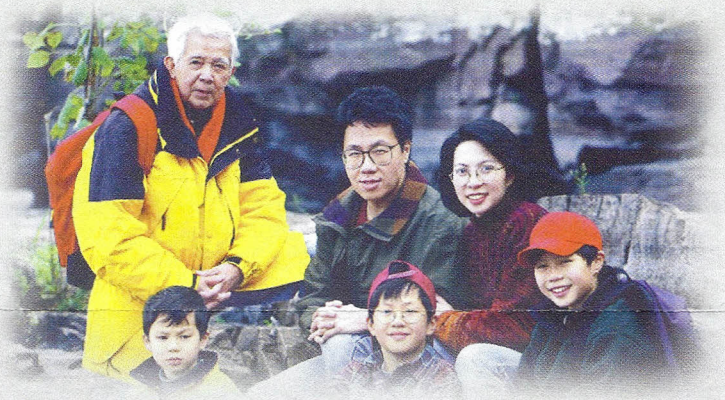
- Employment is terminated no earlier than the year in which you turn 55 **AND** you leave the funds in the 401(k) plan to access them penalty free.

Age 55 - 59½
Distributions before age 59½ are subject to a 10% additional tax plus the tax on the amount of the distribution that is included in your income. The 10% tax will not apply if you qualify for certain exceptions. Call me for details on these exceptions before requesting the distribution.

Age 59½ - 70½
Normal distributions that are not subject to the 10% additional tax.

Age 70½
Distribution is required to begin by April 1 after the later of:

- Calendar year in which you reach age 70½ or,
- Calendar year in which you retire.



However, your plan may require you to begin receiving distributions by April 1 of the year after you reach age 70½, even if you have not retired. Check with your company's plan administrator for the details of your particular Plan.

IRA Distributions

Before Age 59½
A 10% additional tax generally applies if you withdraw from your IRA. There are limited exceptions that could eliminate the 10% additional tax. Check with me on these exceptions before requesting a distribution.

Age 59½ - 70½
Normal distributions that are not subject to the 10% additional tax.

Age 70½
Required Minimum Distribution (RMD) by April 1 of the year following the calendar year in which you reach age 70½. Then by December 31 of each year, including the first year.

Example: You turn 70½ on July 15, 2014. You must take your first RMD by April 1, 2015. You must take your second RMD by December 31, 2015, and your third RMD by December 31, 2016.

What is the RMD? Your RMD is generally determined by dividing the adjusted market value of all of your IRAs as of December 31 of the preceding year by the distribution period that corresponds with your age in the IRS Uniform Lifetime Table.

Example: Let's say you are 73 years old and all of your IRAs had a value of $100,000 last December 31. The IRS Uniform Table lists 24.7 for a 73 year old. You would divide the $100,000 by 24.7. The result… $4,048.58 is your RMD!

What happens if I don't take my RMD? If the distributions to you in any year are less than the RMD for that year, you will be subject to an additional tax equal to 50% of the undistributed RMD!

New "One Year One Rollover Rule" For IRA Rollovers From Multiple Accounts

In this perilous economy many of my clients have taken to borrowing from their IRAs and returning the money within the 60-day period going from one account to another. Under new legislation this is no longer allowed. Effective January 1, 2015 new rules allow only *one* IRA Rollover in a one year period despite holding multiple IRAs. However, multiple trustee to trustee (you, the taxpayer do not receive a check for the amount directly) rollovers are still permitted.

>"College Students" from Page 4

$2,500 of the cost of tuition, fees and course materials paid during the taxable year. Income limits affect this credit.

Lifetime Learning Credit
This credit can be claimed for qualified tuition and related expenses for students in undergraduate, graduate and professional degree courses. There is no limit to the number of years that you can claim this credit. The credit equals 20% of the first $10,000 in eligible education expenses. The American Opportunity Credit and the Lifetime Learning Credit cannot be claimed for the same student in the same year.

Tuition & Fees Deduction
If you paid eligible education expenses, you can generally take this deduction. You may be able to use one of the education credits (American Opportunity or Lifetime Learning) instead of the tuition and fees deduction. We will choose the one that will give you the lower tax. This deduction may be beneficial to you if you cannot take one of the education credits because your income is too high. ***Reminder:*** This is one of the extender laws that Congress has not yet approved for 2014.

Student Loan Interest
Taxpayers who pay interest on qualified student loans are eligible to deduct up to $2,500. You can't claim the deduction for your child's student loans if you are not liable for the debt. Your income level may limit your deduction.

Saving Bond Interest
Usually, interest from savings bonds is taxable. But if you use the savings bond proceeds to pay for college expenses for yourself, your spouse or your child, interest may be tax-free. This exemption from tax is limited to series EE bonds purchased after 1989 and all series I bonds. The savings bond owner must have been at least 24 years old when the bonds were purchased. There are also income levels that could reduce or eliminate this tax exemption.

529 College Savings Plans
Contributions to one of these plans will not get you a current federal tax break. The benefits come later when Billy or Susie starts college. Withdrawals for qualified college expenses including investment gains are tax-free.

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College Students

5 Definite Tax Savings and 1 Maybe?

Who is the student? Who took the classes? You? Your spouse? Your child? Any of these might qualify. Generally, the parent gets the benefit of the child's expenses. Special rules apply for children of separated parents. You should review all of the particulars concerning eligible students and their expenses with me before you or any of the identified students file their tax returns. We need to make sure that proper expenses, deductions and credits are claimed on the eligible party's tax return. Pay particular notice to your kiddos' expenses. The notice of eligible expenses (Form 1098T) will be mailed to the student by the educational institution! Don't overlook these.

✔ **American Opportunity Credit**
This credit expanded and renamed the already existing Hope Credit. This credit can now be used to claim expenses for the first four years of post-secondary education. The credit is up to

See "College Students" on Page 2 >

The Tax Man

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RETURN SERVICE REQUESTED

Tax Tips For You... *Now!*

✔ **0% Capital Gains Rate!**
This capital gains tax bracket is available to all taxpayers in the 10% and 15% tax brackets. This could be particularly beneficial to retirees who are starting to use part of their savings to supplement their incomes. For 2014, married taxpayers qualify for the 0% rate if their taxable income is $73,800 or less, for single taxpayers $36,900 or less.

✔ **Energy Savings Credits**
You can claim a credit for up to 30% of the cost of buying and installing solar panels, solar water heaters, geothermal heat pumps and small wind energy systems.

✔ **Extensions Expire October 15**
A few of you still have not filed for 2013. Please make an effort to find all missing information. We have little time left. Make sure we review your information and file your return before time runs out.

✔ **Tax Free Gains on Home Sales**
Married couples can exclude up to $500,000 in gain from their income on the sale of their home as long as both spouses lived in the home for two of the five years before the sale. To claim the maximum exclusion you or your spouse (but not necessarily both) must also have owned the home for two out of the last five years. For single taxpayers, the same rules apply but the maximum exclusion is $250,000.

Married couples can exclude up to $500,000 in gain from their income on the sale of their home.

✔ **Rent Your Residence For Less Than 15 Days?**
There is a special rule if you use a dwelling unit as a personal residence and rent it for fewer than 15 days. In this case, do not report any of the rental income and do not deduct any expenses as rental expenses.

Your Tax Calendar

Sept 15	3rd quarter estimated tax payments due.
Sept 15	Deadline for extended returns for Corporations, Partnerships and Fiduciaries.
Oct 1	Deadline to establish a Simple IRA for self-employed or small businesses.
Oct 15	Extended Individual Returns for 2013 due.
Dec 31	Last chance for deductions for 2014.
Jan 15, 2015	4th quarter estimated tax payment due.

Anytime you have any questions, don't hesitate to call me. I am here for you!