# TaxTips

Keeping You Informed • Winter 2013-2014

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## Certain Tax Provisions Set to Expire at the End of 2013

### *Will you feel the effects?*

On January 2, 2013, President Obama signed *The American Taxpayer Relief Act* into law. This bill is over 150 pages and retroactively extends many of the sunset provisions as well as permanently patching Alternative Minimum Tax (AMT). However, the following items were only extended until December 31, 2013, and without additional extension, will expire in 2014:

- **Teachers** - The $250 deduction for classroom expenses of elementary and secondary schoolteachers.
- **Qualified Principal Residence Indebtedness** - The income exclusion for cancelled qualified mortgage debt (up to $2 million).
- **Mortgage Insurance Premiums** - The payment of PMI premiums is treated as deductible qualified residence interest on Schedule A.
- **State and Local Sales Tax** - The election to claim an itemized deduction for state and local general sales tax in lieu of state income tax.
- **Qualified Tuition Expenses** - The above-the-line deduction for qualified tuition and related expenses.
- **IRA Distributions to Charity** - The rule allowing tax-free IRA distributions (for taxpayers over age 70½) of up to $100,000 if donated to charity.

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## Storing Tax Records, *continued from page 2*

As a general rule Tax On Wheels, LLC does not ever recommend destroying any tax returns while you are living. That is a job for the executor of your estate after probate is closed. Each year we provide clients with a compact packet containing all of your tax return documents. These packets are conveniently suitable for stacking and should all fit into 2 or 3 boxes over the course of your lifetime. Find a corner of an attic or closet and retain your tax returns just in case you ever need them.

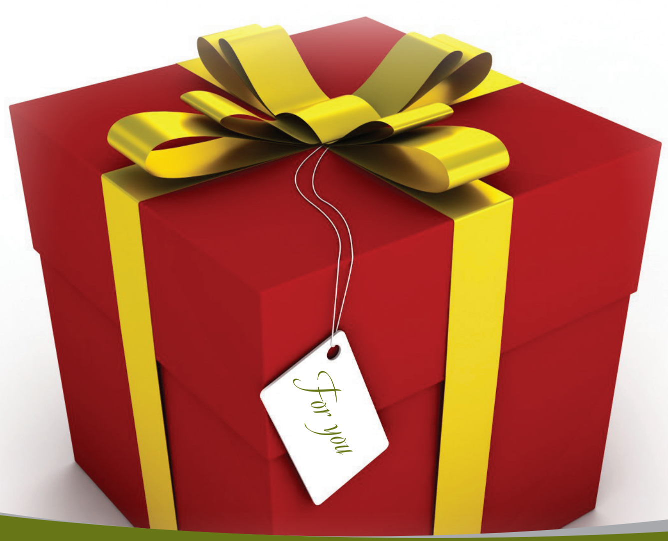
## Gift Giving

*Are there tax consequences to your kind gesture?*

Federal gift taxes can be confusing because of our country's ever-changing tax policy. When you give cash or property to an individual, the gift is not taxable to that person. However, depending on how much you give, you may need to file a return and pay gift tax.

The IRS allows you to give each individual up to the annual exclusion during the year without requiring you to report the gift or file a gift tax return. In 2013, that amount is $14,000. In addition, certain gifts do not count towards the annual exclusion, such as amounts paid directly to qualifying educational institutions for tuition, or amounts paid directly to the person or a medical organization for medical expenses (including health insurance).

If you give more than the annual exclusion to any one individual during the year, you must file a gift tax return to report the taxable gift. Your gift will be taxable to the extent the amount given exceeds the annual exclusion. However, throughout your lifetime, you can give up $5,250,000 (2013 amount) before you are required to actually pay any gift tax.



# Healthcare Reform

## *Act now to protect your finances*

We have all heard much about the new healthcare provisions under the Affordable Care Act and the political ramifications thereof. While politicians will do and say what politicians always do and say, it is important that the rest of us do not approach this issue from a political perspective. For most of us the Affordable Care Act or Obamacare, as it is commonly known, is not a political issue. It is a financial issue.

Under the healthcare reform law, you will have the opportunity to purchase healthcare insurance at an affordable cost. Just as your homeowner's insurance policy protects you from a catastrophic loss of your home, healthcare insurance will similarly protect your financial assets from catastrophe in the event of a major illness. According to a recent study, medical bills are the leading cause of personal bankruptcy in the United States. The Affordable Care Act will give us the opportunity to protect ourselves from their devastating effects. If given a choice, most of us would not dream of skipping out on our homeowner's insurance coverage. Why would healthcare insurance be any different? The only thing that should stop you from obtaining health insurance coverage is access to affordable policies, and the Affordable Care Act has now solved that problem. There has been quite a bit of confusion about the costs of healthcare coverage. Clients who ignored the sound and fury surrounding the issue and actually looked at the cost of policies under the Affordable Care Act have been pleasantly surprised at the surprisingly affordable cost of coverage. So stop listening to the pundits and go look at the facts for yourself. We have put a special page on our website to help you get started. Visit http://taxonwheels.com/Healthcare-reform to find commentary and helpful links to various resources to assist you in the process.

Yes, there has been a great deal of confusion surrounding the Affordable Care Act website. But recent reports indicate that the website is at least moderately functional. Regardless of the difficulty in negotiating the web site, it is important that you act now to protect your finances from the uncertainty of unexpected medical bills. Additionally, the Affordable Care Act includes tax penalties for those who fail to obtain adequate medical coverage. So regardless of your feelings about the politics of the matter, this is a dollars and cents issue. Make sure you obtain creditable health insurance coverage or you just might find yourself with an unexpected bill tacked onto your tax return for next year.

## Tangible Property Regulations Issued

### *Guidance affects all taxpayers who acquire, produce or improve tangible property*

The IRS issued Treasury Decision 9636, which included 222 pages of guidance regarding the deduction and capitalization of expenditures related to tangible property. Tangible property in a business is anything that can be touched. Three major changes that go into effect January 1, 2014, include the following:

1. Materials and Supplies
   The definition of materials and supplies has been expanded to include property (not including inventory) that has a cost of $200 or less. For example, if a business purchases a printer for $175, the business can generally deduct the cost instead of capitalizing and depreciating over five years.

2. Repair or Improvement
   To determine whether an expense may be deducted as a repair or must be capitalized as an improvement the business may use their financial accounting policies as a guideline, up to $5,000. Small businesses without audited financial statements may adopt an internal policy for non-tax reasons to expense property less than $500.

3. Improvements to Buildings
   Qualifying small businesses have the option of applying the improvement rules to an eligible building property if the total amount paid during the taxable year for repairs, maintenance, improvement and similar activities performed on the eligible building does not exceed the lesser of $10,000 or two percent of the unadjusted basis of the building.

## Storing Tax Records

### *Important tips to keep in mind*

The IRS requires documentation when it comes to claiming deductions and tax credits. Though the IRS doesn't require any special method for keeping records, it's always a good idea to keep them organized and in one place. If you are ever faced with a tax audit, it's likely the IRS will want you to show proof of the items you claimed on your return. In addition, good recordkeeping makes it easier when you come in for your appointment during tax season. Here are some important tips to keep in mind:

- Keep copies of your filed tax returns along with your tax records. They'll be helpful in the preparation of future returns and might come in handy when applying for a bank loan.
- Federal law requires you to keep records to support items reported on your tax return. You should keep basic records that relate to your federal tax return for at least three years. Basic records are documents that prove your income and expenses. This includes income information such as Forms W-2 and 1099. It also includes information that supports tax credits or deductions you claimed. This might include sales slips, credit card receipts and other proofs of payment, invoices, cancelled checks, bank statements and mileage logs. Check with your state's department of revenue for record retention guidelines. They can vary.
- If you own a home or investment property, you should keep records of your purchases and other records related to those items. You should typically keep these records—including those related to home improvements—at least three years after you have sold or disposed of the property.

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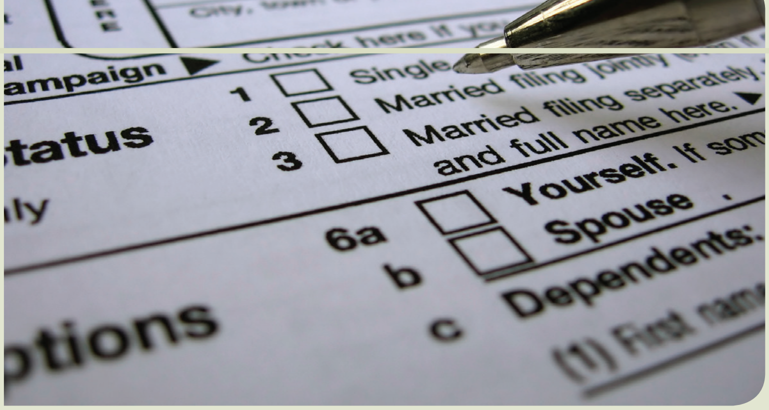


## IRS Issues Tax Guidance for Same-Sex Marriages

*Couples can file joint federal returns*

On June 26, 2013, the Supreme Court overturned Sec. 3 of the Defense of Marriage Act (DOMA) as unconstitutional because it violates the equal protection clause of the Fifth Amendment. In layman's terms, this means that same-sex couples who are legally married, under the laws of either their state or a foreign country, are afforded many federal tax benefits that were previously only allowed to opposite-sex couples.

Same-sex couples will be treated as married for federal, estate and gift tax purposes. Going forward, same-sex couples will be required to file their federal tax return using the married filing jointly or married filing separately status. They also have an option to amend previous year returns. This federal filing status is required regardless of whether or not the couple lives in a state that recognizes same-sex marriage. However, the ruling does not apply to registered domestic partnerships, civil unions or similar formal relationships recognized under state law.

In light of the Supreme Court's decision, states are still allowed to do what they want, and since the laws regarding marriage vary widely from state to state, many unanswered questions remain.

## What is Constructive Receipt?

*The timing of income reporting can affect taxes*

When a business files its first tax return, an accounting method is determined—cash basis or accrual. In most cases, large businesses use the accrual method of accounting, which recognizes income when the business sends out invoices, regardless of when the income is actually received. The cash basis method of accounting, on the other hand, recognizes income when payment is actually received. So what happens when a cash basis business receives a large check dated December 31, 2013, on January 2, 2014?

According to the IRS, income is constructively received when an amount is credited to your account or made available to you without restriction, even if you don't have possession of it. If a bank is holding the money for you, it may be considered to be received by you, even if the money is not in your bank account. Income is not constructively received if your control of its receipt is subject to substantial restrictions or limitations.

Therefore, a check dated December 31, 2013, that you receive on January 2, 2014 is constructively received in tax year 2014 because the check was being handled by the United States Postal Service. However, if a customer hands you a check on December 31, you could inevitably cash it that same day. In that case, constructive receipt would be in 2013 and you would have to include it in your 2013 gross income.

Determining constructive receipt is important when large amounts are involved, as it could greatly affect the amount of taxes owed and income reported to the IRS. For instance, a customer sends a large check late in December and files a Form 1099-MISC, the form will report that amount paid to you in 2013. If you did not report that income until 2014, because of constructive receipt, you may be called upon by the IRS to prove when you received the check. Deliberate attempts to delay receipt will not work and the IRS will require the income to be reported in the proper year.

## Quik *Tips*

1 Proper year-round record-keeping is the first step to ensure your taxes are filed accurately. Save essential paperwork that could be needed to substantiate deductions, should the IRS audit your return.

2 A federal excise tax is imposed on gasoline ($.184 per gallon), clear diesel fuel ($.244 per gallon) and clear kerosene ($.244 per gallon). The amount of these taxes may be credited or refunded if these fuels are used in certain types of off-road uses.

3 The rate for the new simplified method for the home office deduction is $5 per square foot for the part of your home used for business. The maximum footage allowed is 300 square feet. This means the most you can deduct using the new method is $1,500 per year.

4 If you are a sole proprietor or partner in a partnership, the money or other forms of payment you take from your business should be accounted for in a draw account.

5 For 2014, the annual limitation on Health Savings Account contributions for an individual with family coverage under a high deductible health plan (HDHP) is $6,550 up from $6,450 in 2013. For an individual with self-only coverage under an HDHP, the annual limit is $3,300, up from $3,250 for 2013.

6 Beginning in tax year 2013, a new tax rate of 39.6 percent has been added for individuals whose income exceeds $400,000 ($450,000 for married taxpayers filing a joint return).

7 The Nonbusiness Energy Credit allows you to claim a credit of 10 percent (up to $500) of the cost of certain energy-saving property that you add to your main home.

8 For 2013, the standard mileage rates for the use of a car are 24 cents per mile driven for medical or moving purposes and 14 cents per mile driven in service of charitable organizations.