TaxTips

Keeping You Informed • Summer 2014

Tax On Wheels, LLC
"We Come To You"
(803) 732-4288 • fax (803) 753-9897
PO Box 2447 • Irmo, SC 29063
taxonwheels@att.net • www.taxonwheels.com

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What to Know if You Receive an IRS Notice and How to Avoid Scammers

Don't panic or ignore IRS notices, but be aware of scams

Every year the IRS mails millions of letters and notices to taxpayers, but that doesn't mean you need to worry. There are a number of reasons the IRS sends notices to taxpayers.

Keep in mind, the IRS sends notices and letters by mail. The agency never contacts taxpayers about their tax account or tax return by email or phone.

Notices are used to request payment of taxes or additional information. The notice you receive normally covers a specific issue about your account or tax return. Each letter and notice offers specific instructions on what you need to do to satisfy the inquiry.

I can help you review the correspondence and respond to the inquiry, if necessary. Be sure to notify me right away when you receive any notice. In most cases, the IRS requires a response within 30 or 60 days.

Please be aware, that this year sophisticated phone scams have been on the rise. Victims are told they owe money to the IRS and it must be paid promptly through a pre-loaded debit card or wire transfer. Victims who refuse to cooperate are threatened with arrest, deportation or suspension of a business or driver's license.

What makes these phone calls particularly convincing is that scammers use fake IRS badge numbers and are able to recite the last four digits of a victim's social security number. Scammers also spoof the IRS toll-free number on caller ID to make it appear that the call is coming from the IRS. They follow-up the phone call with fake IRS emails to some victims to support the scam calls.

The IRS never asks for PINs, passwords or similar confidential access information for credit card, bank or other financial accounts, even over the phone. If you know you owe taxes or think you might, I can work with you to ensure that you have proper documented contact with the IRS.

Technology & Taxes

Technology is a wonderful thing. We should use technology when it benefits us and improves our experience. There are, however, times when technology does neither. One example of technology that does not improve the tax preparation experience is the ubiquitous text message.

Text messages can be a great tool for communicating short simple messages, “I’m running late be there shortly” or “what do you want for dinner”. Text messages can convey the needed information without you having to get tangled up in a long drawn out conversation.

But text messages are not suited for every communication. For example: “Hey Doc, I’m having shortness of breath and my left arm hurts, what do you think???”. “I think you may be having a heart attack maybe you should use the phone and dial 911”. Texting is a terrible way to communicate complex multiple messages which have important consequences.

I am going to suggest to you that exchanging communications with your tax preparer is one of those times when it is probably better if you used the telephone rather than a text message. There simply is no easy way to print or save a text message so your text message can quickly get lost in the shuffle. You may say what’s the problem if I send one little text message. Well yes, one message for you, maybe hundreds of messages for us. Think about what a nightmare it will be if everyone is trying to text their individual needs to us on the tax deadline.

Therefore, it is the official policy of Tax On Wheels, LLC that we will not conduct business using text messaging. While it may seem convenient at the time, it simply is not in your best interest for us to conduct business with text messaging.

We are not opposed to using technology when it has beneficial uses. We were one of the early companies to adopt e-file and direct deposit back when it was a strange new unproven concept. We have a cutting edge web site and blog. You should it check it out sometime. www.taxonwhels.com . We are on twitter @Milton CooleyTax. We love technology and embrace it when it is beneficial. But text messaging for tax preparation is a train wreck waiting to happen and we don’t want any part of it. If you do not have access to a computer and must send text messages try this. Text your message to our email address at taxonwheels@att.net. That way we can print and save your message if need be. We try to reply to every legitimate email message but we typically ignore text messages.

Divorce, Dependents and Decrees

Only one parent may claim a child in a divorce situation

In general, if you want to claim your child as a dependent, you must be the custodial parent. A custodial parent is the parent with whom the child lived with for the greater number of nights during the year. If the child was with each parent for an equal number of nights, the custodial parent is the parent with the higher adjusted gross income, if the parents can’t agree to who claims the child.

If you are the noncustodial parent, the custodial parent must sign a written declaration that he or she will not claim the child as a dependent; you must attach this written declaration to your tax return. Without the proper declaration, the IRS will deny your dependency exemption. To release the dependency exemption, the custodial parent may use either Form 8332, Release/Revocation of Release of Claim to Exemption for Child by Custodial Parent, or a similar statement containing the same information as the form.

If the divorce decree or separation agreement went into effect after 1984 and before 2009, the noncustodial parent can attach certain pages from the divorce decree or agreement instead of Form 8332, provided that these pages are substantially similar to Form 8332. The decree or agreement must state all three of the following:

1. The noncustodial parent can claim the child as a dependent without regard to any condition (such as payment of support).
2. The other parent will not claim the child as a dependent.
3. The years for which the claim is released.

The noncustodial parent must attach all of the following pages from the decree or agreement.

- Cover page (include the other parent’s SSN on that page).
- The pages that include all of the information identified in 1 - 3 above.
- Signature page with the other parent’s signature and date of agreement.

2014 Standard Mileage Rates

Business	56¢
Depreciation Component	22¢
Medical	23.5¢
Moving	23.5¢
Charity	14¢

Three Types of Education Benefits Available

No double benefits allowed

An education credit helps with the cost of higher education by reducing the amount of tax owed on your tax return. If the credit reduces your tax to less than zero, you may get a refund. There are two education credits available: the American Opportunity Tax Credit (AOTC) and the Lifetime Learning Credit (LLC).

A deduction reduces the amount of income that is subject to tax, thus generally reducing the amount of tax you may have to pay. The tuition and fees deduction can reduce the amount of your income subject to tax by up to $4,000.

You can't take more than one education benefit for the same student using the same expenses. So, you can't take the AOTC, the LLC or the tuition and fees deduction for the same expenses for the same student in the same tax year. Also, if you receive tax-free educational assistance, such as a grant, you need to subtract that amount from your qualified education expenses.

Determining which one of these education benefits will provide you with the most savings can be tricky, but I can help determine what's best for your tax situation. Here are some criteria I look at:

Quik *Tips*

1. For tax year 2014, the annual gift tax exclusion is $14,000 to each person. The gift tax exemption amount is $5,340,000.
2. The top tax rate for qualified dividends is permanently set at 20% for taxpayers with taxable income in the highest tax bracket.
3. The personal exemption amount increased to $3,950 for 2014.
4. For 2014, kiddie tax applies to children with unearned income greater than $2,000.
5. For 2014, compensation paid for domestic service in an employer's home is not subject to FICA until the cash wages paid are $1,900 or more.
6. The per diem allowance for the substantiation method from October 1, 2013, through September 30, 2014, is $46 for meals and incidentals and $83 for lodging.
7. The maximum wage that is subject to the social security tax for 2014 is $117,000.

Criteria	AOTC	LLC	Tuition and Fees Deduction
Maximum credit or benefit	Up to $2,500 credit per eligible student	Up to $2,000 credit per return	Up to $4,000 taxable income reduction per return
Refundable or nonrefundable	40% of credit	Not refundable	Does not apply
Limit on MAGI for married filing jointly	$180,000	$128,000	$160,000
Limit on MAGI for single, head of household, or qualifying widow(er)	$90,000	$64,000	$80,000
Can you file married filing separately?	No	No	No
Number of years of post-secondary education available	Only if student hasn't completed 4 years of postsecondary education before 2014	All years of postsecondary education and for courses to acquire or improve job skills	All years of postsecondary education
Number of tax years credit available	4 tax years per eligible student including any years former Hope credit claimed	Unlimited	Unlimited
Type of program required	Student must be pursuing a degree or other recognized education credential	Student does not need to be pursuing a degree or other recognized education credential	Student must be enrolled at eligible educational institution for one or more courses
Number of courses	Student must be enrolled at least half time for at least one academic period beginning in 2014	Available for one or more courses	Available for one or more courses at eligible educational institution
Qualified expenses	Tuition, required enrollment fees and course materials needed for course of study	Tuition and fees required for enrollment or attendance	Tuition and fees required for enrollment or attendance
Payments for academic periods	Made in 2014 for academic periods beginning in 2014 or the first 3 months of 2015		

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Fail to Pay Your Taxes, Face a Penalty

Failure-to-file and failure-to-pay penalties

April 15 is the annual deadline for most people to file their federal tax return and pay any taxes they owe. By law, the IRS may assess penalties to taxpayers for both failing to file a tax return and for failing to pay taxes they owe by the deadline. A failure-to-file penalty may apply if you did not file by the tax filing deadline. A failure-to-pay penalty may apply if you did not pay all of the taxes you owe by the tax filing deadline.

You should file your tax return on time each year, even if you're not able to pay all the taxes you owe by the due date. You can reduce additional interest and penalties by paying as much as you can with your tax return. The penalty for filing late is normally 5 percent of the unpaid taxes for each month or part of a month that a tax return is late. That penalty starts accruing the day after the tax filing due date and will not exceed 25 percent of your unpaid taxes.

If you do not pay your taxes by the tax deadline, you normally will face a failure-to-pay penalty of ½ of 1 percent of your unpaid taxes. That penalty applies for each month or part of a month after the due date and starts accruing the day after the tax-filing due date.

If you timely requested an extension of time to file your individual income tax return and paid at least 90 percent of the taxes you owe with your request, you may not face a failure-to-pay penalty. However, you must pay any remaining balance by the extended due date. If you file your return more than 60 days after the due date or extended due date, the minimum penalty is the smaller of $135 or 100 percent of the unpaid tax.