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Newsletter – Fall 2014

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Fall-Thanksgiving 2014 Newsletter

It is November, tax season is approaching, the leaves are off the trees and a new icon is appearing on the weather reports that look like a pretty little white crystal. It is pretty now but seeing that same icon in the forecast in late February or early March makes us want to throw our shoe thru the TV. Are these summers getting shorter or is it just me? You guys that have moved to Texas, Georgia, the Carolina's and Florida please don't rub it in. I think it is getting a lot colder a lot sooner. In the last couple of months there has been a predominate theme in the IRS releases. I will get to that in a moment. But before I get to that there are a couple of things I would like to say. First this is one of our slowest times of year. Because of that we only spend a few days a month in the St. Charles office. We still can be reached by phone or email as we are in our west office most of the time. So if you want to see me just let me know and we will make it happen but chances of just stopping by and catching us are slim. We are also going out of town the week of Thanksgiving to somewhere neither phone nor email can reach. This is a special trip for Dorothy's 45th or is it 35th birthday (birthday is really 12/31 and I may have undershot the age a bit.) And with all that happened to her this very special family trip is well deserved. Speaking of that I really want to say a really big Thank you to all of you that sent your prayers and support to us after the last newsletter. Your emails and phone calls really touched us and remind us how lucky we are to have such a great group of people that are clients of our firm. It is the reason we do this and Kaye C. I wrote the wrong # down so please call back. You have been helpful beyond what you could ever know. Also since this is our slow time we are converting our accounts receivable system. Our old system is actually a 1970's program converted to PC. We have had problems with it but converting it is such a job we were dreading it. Well computer technology has finally made the old program obsolete. You all got statements-the final statements of the old system. If you see any problems let us know as that will be the base of the new system. We will still have the old system around for about 12 months to clear up any errors but after that, the system will be gone. Ok time to see what the IRS is doing. In previous newsletters I always tried to look for new items that didn't appear in previous newsletters but I did change that in the Summer 2014 newsletter and did some repeats of earlier topics. Those were the most responded to topics of anything so I am going to continue that trend and go over some previously written articles. However I am going to start with what the 2 topics the IRS has been after the most the last couple of months. Health care reform and charity donations.

Non cash charity redux

In a case just heard in tax court taxpayer Smith (is that his real name?) lost his case of a \$27,000 deduction for a donation to charity for household goods because all he had for proof he gave anything to them was the blank receipts given to him by Amvets. This has been a target of the IRS for a while. And as a result of this case I am going to add one more item to the list I want you to keep. This can be a very good deduction because tax laws allow a deduction at fair market value (FMV) and what is FMV for these items?- what Goodwill ect (a third party) sells these for. The IRS doesn't like that because they think it is being abused but if you do what is necessary then they will have to just deal with it because even they can't break the law all of the time. Most of that info relating to FMV is available on the charity's website. I have always asked you to take pictures of the items given away. With today's digital cameras that should not be a problem. Smith did not do this. But the new item the tax court wanted to see was some sort of list of what Amvets received and to have Amvets (or anybody else) somehow acknowledge this what is on that list is what they did receive. So instead of the blank receipts make a list of what is given away and have Amvets people either initial and date the list or write on the receipt "received per attached list" and then have them initial and date the receipt and the attach the list to the receipt. This should satisfy even the grumpiest of tax court judges for all donations up to \$5,000. For most of you this means money in your pocket of around \$1500 no strings attached. I think that is worth it. Now anything over 5,000 requires an appraisal. But if the deduction is as large as it was in Smith's case that appraisal could mean over 6K in your pocket. If you are REALLY clearing out, or moving or emptying a loved one's home who has passed (lot of that this year) this could benefit it.

Health care redux or the CPA employment and big bucks act of 2012

You will be getting a new form this year if you bought health insurance on the marketplace. You remember-that website that never worked. It is a 1095-A (I guess all 1099's and 1098's numbers and letters are used up) I need this because as a result there are new forms to be filed. Yep higher cost to do the return due to this law. There is also a new form if the credit was an advanced credit to help pay for the insurance. But the good news is the penalty is just going to a line item on the 1040. No new form so no new cost unless of course you are exempt from the penalty then of course-a new form for that. For those of you that did little Suzie's return on turbo tax because it was so easy-make sure you go thru these brand new sections before you file. Also a new wrinkle with the now allowed same sex spouse filing by the IRS. This health law and this filing are in conflict so it is very possible W-2's in this situation will be wrong. Proof positive the IRS can't keep up with all the changes going on.

Gone? But not forgotten? Who knows?

There are many tax breaks set to expire unless congress acts. (Congress acts-Isn't that an oxymoron? Or just a moron?) These include sales tax deductions, deductions for college and other education expenses, resident mortgage debt forgiveness just to name a few. The IRS does believe these are going to be reinstated because in their drafts for the 2014 1040 they left the lines we put these deductions in 2013 blank for now. There is a thought that if it does pass it may not pass until after tax season is well underway. This happened 8 years ago where a major bill was passed on 3/12 and caused 60% of all returns filed before that to be amended. Yes you were as happy about that as I was.

Oldies but goodies

There are some tax saving ideas that have withstood the test of time.

- Take losses on stock to reduce gains or get the allowed \$3000 per year deduction for the loss. However remember, if you want to buy back the same stock because you think it still will be a good deal in the future you have to wait 31 days before you do so.
- Postpone income to 2015 and accelerate expenses into 2014. This is a general rule but sometimes it can backfire so some planning may need to be done. For example if 2014 tax rate is low and you already know 2015 is going to be a blockbuster year- you most likely should skip this idea. If you don't have the cash to pay the deduction use a credit card. This will count if the card is charged in 2014 even if you don't pay the card until 2015.
- If you think you are going to owe so much tax that you will have to pay a penalty (you should call me first) one of ways we use to get around this is increase your withholding with your employer. Those payments count as if you made this all year long. But now I came across a new idea. You can also roll over an IRA and have taxes withheld. Now you have to replace the taxes withheld in that new IRA or you will be taxed on that amount but that amount withheld will again act as if you withheld it all year long.
- Don't forget to take your required minimum distribution if you have reached 70 1/2
- Adjust your FSA (flexible spending account) if the amount was too low in 2013 or you can set up and fund a HSA's. You can get a full year worth of HSA deduction if you set this up by 12/1/14.

Even I scratch my head sometimes

Courts or at least most courts are very pro-government. Most decisions are against the taxpayer. Part of the reason for this is the IRS is seldom stupid enough to take a case to court that can hurt them. If they think the result will affect other issues, the IRS will settle suits rather than have the negative case to them become public in court. Unfortunately many people have more money than sense and will go to court-only to lose and give the IRS even more power. Well a taxpayer went to court with a case I would have thought would be a loser when the taxpayer had to put their residence up for rental because they couldn't sell it. A very common occurrence in today's economy. Well they ended up selling it and had an overall 100k gain-not a common occurrence. Since they still qualified for the home sale exclusion-that gain was not taxable. However during the rental they suffered 30k in passive losses. The IRS said the losses should offset the non-taxable gain. The court disagreed and said the gain was excluded up to the full amount of the 100k AND the taxpayer could use the full amount of the 30k to offset other income on the return. This is completely contrary to what the IRS has been saying for years and the reason those rentals had to show no losses on the tax return was to make sure the exclusion of up to 500K could be preserved. We have always done it this way as the IRS said we should but not that has changed so if any of you fell into this and had what we called a temporary rental-call me. We are going to look at this too because tax \$'s are available because of this decision.

What will they think of next?

The IRS has started a study. There are lists of studies done but if this one is not a sign of our times I don't know what is. Because of the advances in technology in the storage of parents genetic material-it is now possible to have children posthumously. While it does not affect income taxes it does affect estate taxes. To the point of the estate laws may need to be modified. I am sure this very possible event was high on the list of our founding fathers. Who knew Zager and Evans would really be foretelling us about our future. Yes I am showing my age but I did like that song.

And finally . . .

That is all for now. Last newsletter is coming out in December 2014. Happy Fall and Happy Thanksgiving!

-Tom & Dorothy