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Newsletter – Fall 2013

Well here it is-the fall newsletter and it is still fall! Not only that-but it is coming out when I promised it would so by that this can't be late. Well since I appear to be in a blowing my own horn mode I am going to start this off by . . .

And now a word from our beloved author

About once every two years or so I see something in the tax bulletins I get that just sets me off into one of my editorial rages. As you all know we had a government shutdown that ended on 10/17 and as soon as the IRS got back in the office after their two week vacation what was the first news released? For them to announce that we should all know because of the shutdown the IRS AGAIN will not be able to accept tax returns for at least 1-2 weeks later than planned. REALLY? If I go on a two week vacation in October I am pretty sure I can find the time to get caught up by February of the next year. Last year because of the late law that passed-returns couldn't be filed until March 8th and that was a nightmare for everyone involved including yours truly. Now they are saying it will be sometime in February and worst off the IRS/government doesn't care because they know if you are filing early you are getting a refund and why should they care if you don't get your money early. Anyway the more I see our government at work the more I get angered by its ineptness and incompetence. I guess that is what bothers me so much about the healthcare law. I don't think it matters what side of the aisle you are on you would have to agree everyone having healthcare is a good idea. But our government being the one responsible for administrating this is not. Our government has proven time and time again itself incapable of a task like this. Some people point to the "success" of social security as proof the government ability to handle social needs issues. Let me point out a few things-First when Roosevelt put social security into law in 1936 the retirement age was 65 and that was the time for you to start collecting benefits. That also happened to be the life expectancy age in 1936 so Roosevelt put a law into effect that he never planned to payout. This new tax caused a just starting to recover economy to plunge into another near depression. A depression that only WWII got us out of. What then happened is we started to live longer but we had these baby boomers that started to pay into this system? Now those same baby boomers that saved social security for many decades because of the enormous amount that was being paid in taxes by this group now have the audacity to not only want to collect what they paid in but are now living well into our 80's or 90's. Anybody that took Economic 101 knows these numbers just don't work with this large group collecting benefits from a much smaller group paying in. Our government now spends so much on the military, interest on our debt and entitlement programs that there is barely anything left. And don't get upset that I call social security "entitlement". Social security was called a tax from the very beginning. You are not entitled to taxes. Now if social security was privatized from day 1 you could easily live on your 10 million that should have accumulated for you anywhere anyway you wanted. But it was used on a tax by every administration from Roosevelt to Obama to run the programs they wanted to run. One good thing from the Supreme Court upholding the healthcare law was they called the law for what it is-A TAX. Another tax coming out at a time when our economy is showing some improvement-and if you think this is a tax on the rich only-think again and read the law. Last year was the first year health insurance premiums had to be reported on the W-2. Anybody but me see how astronomical these numbers are? It was told a long time ago that any shortfall in this system was going to come out of the people that already had health insurance. Do you think the companies can continue to pay this on their employee's behalf and have it NOT change our economy? Do you think this new tax will help the economy since no tax has done that since 1913? Do you think the government budget can handle another entitlement program? If you are counting on health care or social security to help you-you are sitting in a row boat without any oars in the middle of a dark cold lake with false bottom on the boat. Okay-soapbox gone back under the desk.

Had to go here first

The Congressional Research Service just issued a report because someone asked what would happen if the social security "trust" fund became insolvent. Well the social security law has written in it in black and white this very answer. The law PROHIBITS benefits to be paid. Now it does allow partial benefits to be paid or benefits to be paid late. I am sure your creditors will also go along with partial or late payments-and there is always the food stamps if they don't- oh wait that is now being cut back too. Now when is this going to happen? Most government reports I see say around 2030. Most private reports I have seen call for the end of the decade. You decide who you want to believe.

Better late than never

This just came across my desk. Granted it was issued in July but I don't get to everything right away. The storm that went thru our state back in April qualified virtually every county in our area for special relief. Now the storms did hit on April 16 so if you filed your returns late you wouldn't qualify for relief but if a deposit was suppose to be made after 4/16 or returns filed by 4/30 you can get relief. Let me know if you fall into any of these categories.

UH OH this is not good

The Congressional Budget office (CBO) has issued a report to declare when the current tax breaks are given at different income levels. The report concluded that over ½ of all tax breaks benefit the returns that are filed that are on the upper 20% of income with 17% going to the upper 1% Guess who hates the upper 20% if our earning population but there is a big twist here. The largest deduction is no longer the mortgage interest but for the exclusion for health insurance provided by an employer. That is the real big number you now see on your w-2's It does not take a genius to figure our how Obama will pay for this already extremely expensive and under funded health care reform. Look at your W-2 and figure out what your new tax bill will be if that 15-20k is all of a sudden taxed. This is not just going to affect the "rich" but absolutely everyone in my practice and by the way by law you MUST have health insurance. All we can hope is that the republicans have not done so much damage to themselves that they are voted out next year. That may be all that stands between you and paying 5-10k more in taxes. And by you I mean everyone that gets a w-2.

At the same time

Literally days after the story above the CRS came out with a recommendation of getting rid of itemized deductions but lowering the tax rate so the two will work out. Before you start with "what the big deal " is higher income levels which this report targets, start at 72k and the idea is those taxpayers at that level and above of taxable income would be hurt more BUT they also have more ability to pay so that is Ok. Yes the guns of this tax reform are pointed directly at the "high" income people. There are some issues in the report the CRS is not taking into consideration at all. First if you think the real estate market is bad now wait until it is clearly cheaper to rent then to own. And if you think most people give to charity because it is the right thing to do and has nothing to do with the tax break you get- think again. What is the government going to do if the charities that do all the wonderful work they do can no longer perform because of lack of funds? Is the government going to pick up where many good charities leave off and do the same outstanding job in these areas like it does with everything else? And is there enough room in Texas, Florida or the other 7 states that don't have income tax for us to live since there is no longer a tax deduction for states that raise income taxes by 67% on their people? Is there anybody but Oz's scarecrows running any of these agencies?

Some good news finally

A big move recently is to move regular IRA and convert them to ROTH's. This is a practice I have not gotten behind because the time it takes you to make up the amount you lose in taxes for your investment is just too long. If you make a mistake and made a conversion you shouldn't have, you have till October 15th of the following year to reverse the conversion and make it so it never happened. Now the IRS has allowed under certain circumstances to extend the conversion deadline even farther. There has to be a "good" set of facts and it can't just be because you forgot, but if you were diligent on your part and you got some bad advice, relief could be on your horizon.

If you don't read anything else-read this

An excellent article has just come out and it is all about how this could be one of the worst tax seasons for us preparers. The reason being is while us preparers are all planning for the new taxes coming in 2013-most taxpayers are unaware of the tax increases we are about to see. The refunds are going to be down and the amount owed is up. I have done many projections for 2013 taxes for clients and in my explanation I have included what the Obama care taxes are in the amount we are projecting you are going to owe. The list of increased taxes for 2013 is quite extensive.

- 9% of the hospital insurance tax
- 3.8% of the unearned income Medicare tax
- New 39.6% tax rate
- Increase to 20% for capital gains for some
- Reduction of personal exemption for some
- Reduction of deduction for some

All of these add up so now I am going to focus on tax saving moves that can help here. I may be repeating myself from other newsletters but better to be safe than sorry.

Tax saving moves

- If you don't have health insurance and qualify for the credit-get it. This is for lower income people but don't pass this up. Also a credit is available for small business that provides health care insurance-granted this is not new but bears repeating.

- Make your HAS or FSA contribution this year-remember HSA's entire 2014 contribution can be made in December of this year and count on 2013 taxes.

- Sell stock losers to reduce your gains for 2013 if you really like the long term prospects of the company, buy it back but not until after 31 days has past from the date of the sale.

- Try to defer income to 2014 if you can.

- If you did convert an IRA to a ROTH early this year and the ROTH has declined in value reconvert back to the regular IRA so you don't pay tax on money you no longer have.

- Defer bonuses to 2014 if you can.

- Accelerate big purchase of big ticket items into 2013. Unless congress acts the deduction for sales tax expires for 2014 taxes.

- Some of the education expense deductions are also expiring at the end of the year. Pay these education expenses in 2013 to make sure you get this deduction.

- If you have a casualty loss for this year get the claim settled so you can claim the loss for 2013.

- If you are 70 ½ and you want to make a charitable gift from your IRA it must be made before the end of the year. Also this is allowed as part of the required distribution you must take.

- For business buy big ticket items in 2013 because the deduction for these in 2014 goes way down.

- Consider installment method of sales to reduce exposure to the new taxes-like kind exchanges also work well here.

Items set to expire

In addition to the ones mentioned above

- The home debt relief is set to expire on 1/1/2014. This is huge if you are facing foreclosure
- MIP will no longer be deductable next year.
- The 250.00 deduction for teachers will be gone in 2014

Now if congress acts-these can be restored but the consensuses at this time are they won't be extended. Also I gave a very quick scatter gun run down on the tax savings moves so if you have any questions on any of it please call.

Some clean up repair the big finish

Travel rates went up in September by $9 for high cost areas and $7 for all else. For those of you in the transportation industry this is important.

Maybe it is just me

I couldn't let this newsletter go by without a comment of the 2010 conference for IRS's executives and managers. That is the conference that cost you and me 4.1 million dollars. The report of this came out a long time ago but the IRS's response/justification for this just did. What they said was they have reviewed themselves and found no fraud or misconduct. I think that is an excellent plan for all for all future audits of you and me. We just tell the IRS agent that we have looked things over and there was no fraud or misconduct- done- audit over. Anyway back to the real unfair world. The IRS also responded by saying they will correct the situation by placing cost of the event on the W-2's of all the attendees. See the IRS do eat their own. And the IRS has reduced its budget for conferences from 37.6 million in 2010 to 6.2 in 2011 and 4.9 in 2012. Now they know what it feels like to get caught.

I didn't pull any of the research material I use for the newsletter that leads to the funny stuff. Sorry because that very much left this newsletter a big downer. I will keep what I found and put it in what I hope will be a much more up beat newsletter next month- at least as much as it can be when you are talking about the IRS. That's all for now and we will see you in December.

Tom & Dorothy