



THOMAS H. BILLETER

Certified Public Accountant

Thomas H. Billeter, CPA
Newsletter – Winter 2013

630.377.4635
527 Illinois Ave, Saint Charles, IL 60174

Wow-here it is the last of the newsletters of 2013. Where did the time go? We are about at the point where we will be making appointments for tax season. Does it seem like a year? In the first newsletter 2013 the major issue was the huge change to same sex marriage rules. In the second newsletter I went up on my soap box to vent about the health care act. With this newsletter no soap box, no venting-but a very strong WARNING. I have done many estimated tax reviews over the past month and in all of these reviews I have included the amount that will have to be paid because of the new Obamacare tax. This is nothing but a brand new tax and if everything was the same on your return as it was in 2012 you will end up paying this new additional amount. The range has been anywhere from 2k to 70k and most of you will be somewhere in between. I put this in here so when I tell you that your refund is lower or you owe more this tax season you will know why. Well, I got one more piece of bad (but really good) news for you. With the stock market hitting record highs on 2013, those investments you have are creating much greater than normal capital gains. Your investments are going to put income on your tax return for 2013 that you didn't have before. This will mean more taxes you will have to pay. So if your refund stays the same in 2013 as it was in 2012 you are in the small minority. The rest of you-don't yell-I am very sensitive. Anyway here are the topics for the last newsletter.

Clean up work

I would say the most common question I get is- what is the current rate for mileage. I normally don't look at 2014 info until I get done with 2013 so as not to confuse things, but this year the IRS made a very big deal of getting this out to all of us. The rate for 2014 is 56 cents a mile. Other miscellaneous items are the social security wage has increased to \$117,000 for 2014 from \$113,700 for 2013. This is a 2.9% increase but you all knew about the new medicare (hospital tax) for 2013 right? And those horrible storms that went thru Illinois have been declared those locations federal disaster areas and therefore also qualify for tax relief. I know I have clients from all over Illinois so if this affects you call because there are things we can do.

Warning not just for business anymore

One of the many pushes by the IRS recently and one that many of you might have some interested is the increase of penalties and scrutiny of making sure 1099's and W-2's are being filed. The penalties for non-filing have gone way up. Now the IRS is in the process of establishing precedent that if you do not file the 1099's when you are required, the time for assessing the penalty would be forever. This is the same way it is for not filing any tax return but some people were getting around the new law by filing 1096's or W-3's (the summary forms)and the answer is they don't count. Now many of my 1040 clients look at something like this and say "ok this is for my business clients" Don't forget-the 1099 rules now count for rental property too. So if you have any non-corporation that you paid over \$600.00 I need the name,

address, and SS# and amount you paid so the 1099 can be issued next January for all business and rental property clients.

Another Attack

This only pertains to about 4% of my clients but it is a 4% that I have a soft spot for. Many of you may know clergy can be excluded from income as an allowance for housing (parsonage). This is really a great break for clergy who deserve this more than most tax break categories. However an action group (there does seem to be an action group for just about every unnecessary thing-doesn't there) filed a lawsuit that claimed this deduction was unconstitutional in district court-yes I know just about any idiot can file a lawsuit but these idiots won. If the governing bodies of my clergy clients haven't already started to do something-you need to call them now to get the ball rolling so you can protect this tax break. Tax-wise for clergy this would be a mega hit.

Small but Growing

I have seen an increasing occurrence of my clients that have funded the startup of their business by doing it thru their IRA's. This is a very complex area with many pitfalls which is why I can't set this up for you. I just don't have the expertise but there are companies out there that do. The IRS has also been aware of this and the first win for the IRS has just happened in tax court. Now tax court is not the law of the land or even the law of part of the land (as circuit courts can be). It does tell us how the IRS is going to proceed right up to the level where I CAN HELP YOU. What this case was about is compensation paid to a taxpayer for an LLC which is owned by the IRA. The result of this as decided by the court was this was a prohibited transaction causing a deemed distribution of assets. All \$319,000 of this was put directly into taxable income of the taxpayer. This case was ELLIS and if you are in this situation or plan to be-contact your IRA administration now.

The number is increasing

Yes my stories in this newsletter are applying to more and more of you as I go on. I think that is the exact opposite of what you are supposed to do in writing but us CPA's do most things backwards. Anyway for anyone that has depreciating assets somewhere in my system (about 1/2 of you) the IRS has issued final regulation on the proper way of capitalizing assets. And this wide sweeping and comprehensive change will affect everyone in this 50% group. One of the biggest changes is, I have always expensed any assets costing less than \$1,000. That has now been changed by the new regs to 500.00 which means many more assets will now have to be capitalized and therefore depreciated. There is a process you can go thru to get this up to 5,000 but none of you will qualify for that unfortunately. An election must be made on all 2013 returns that this applies. Rules for buildings have changed and this of course will change what can or can't be declared as a repair. With this and provisions set to expire in 2013 if you need to add major assets to your business or property-do it in 2013, 2014 will be a lot worse (so what else is new).

Energy credit

Another question I get a lot of-Yes there is still an energy credit. Compared to what we had before the new laws these new energy credits very much stink. And what is worse, if you took full advantage of the credit back in 2005 or later when we had the better credits you get nothing now. There is currently a \$500.00 lifetime credit. So you can see if you took \$1500.00 credit in 2009 you get nothing now. Furthermore there is a \$300 limit for heat pumps and water heaters.

\$200.00 limit for windows, 150.00 limit for furnaces and 50.00 for circulation fans. So yes while the contractor is telling you the truth you can still get energy credit, it may just be enough for a nice dinner somewhere for you and your friends and that is if you never took an energy credit before. However there still are decent credits for certain solar, fuel cell, wind and geothermal energy productions but again credits are limited so be careful here too.

Now it is most of you

Almost everyone has heard about the new 3.8% tax on investment income. What many people have not heard is it does include interest, dividends, annuities, royalties and rents unless it was earned in a trade or business. The IRS has also said a single rental property will never rise to the level of a trade or business. This new tax is also only on total income over \$200k but again it is a modified calculation which is overly complicated which is why I use a computer and another reason I am not going to be an annuity fan any time soon. Also “gains” will have to be adjusted and trusts are in the crosshairs of the new law. I do remember when my newsletter had much more of a humorous slant to them-but for 2013 there are just so many changes that are just going to hurt my clients, I have had to spend all of my time and space in these newsletters just getting the info out and that is leaving little time for pointing out all the stupid things the IRS has done. Don't get me wrong the IRS is still screwing up on a regular basis-it is just so many of these bad things are affecting so many of you I am putting all of my emphasis here.

One more thing to worry about

While most everyone has heard about the tax in the paragraph above most everyone has missed the new Medicare tax on employers and self-employed. The income threshold is identical to the previous tax and employers are supposed to withhold this tax. However there are many scenarios where either no tax will be withheld or it will be withheld at a too low of rate which means this will be due when you file your return in 2014. In reading thru the new taxes it does look like S-Corps may escape both taxes. I will have to look at this further but this will only further endear me to favorite choice of conducting a business.

And they want more

I have spoken before about the Congressional Budget Office (CBO) and what they propose so the government can get more of your money. No! These tax increases are not enough and we still have to support the 47%. I can knock this group all I want because the 47% doesn't file tax returns and therefore won't affect my income. And for those of you that have told me how ambitious and resilient our people are and this 47% will never get any bigger let me know point out-back in the cold war when mother Russia was actually trying to be a communist or socialist country, Outside of the elite group and yes even in mother Russia there was an elite group, most of the workers were in the agriculture industry. There was one thing I heard from anyone that visited Russia back in the cold war era was they noted there were no lights on any of their tractors. That is a far cry from the tractors we just saw (or maybe you were driving) that went well into the night so the harvest would get completed and the fields prepared for next year. This is a perfect example of a government making sure it meant nothing to go the extra mile. So don't tell me the 47% can't go up when that 47% became 100% in what was called a super power back then and then the lack of effort led to their collapse. Anyway I disagree and we have to have a government that encourages production- not kill the life out of it.

The CBO wants to get more of your money by

- Increasing the tax rate.
- Create another Alternative minimum tax. Must be because everyone understands the one we now have so well and therefore they know no one will know what hit them.
- Change the exclusion for health insurance from your employer and if you read the last newsletter, this would be huge.
- Raise rates on capital gains.
- Change the mortgage deduction so you only get 15% credit for it.
- Eliminate state and local income tax deduction
- Limit the deduction for charitable giving

The list goes on but for those of you that earn less than 200k and figure those that earn over 200k can afford all of these new taxes-check out the above list. These changes are aimed right at you. Why? Because it is in your income levels where most of the tax is collected. Yes the current president did promise a change and we sure have one. Maybe change was not such a good thing.

Again with scams

I am not sure if we are just getting better at recognizing a scam or there are just so many more out there that more are being exposed. There are scams for the healthcare website as scams of the government are not new. But now scammers are getting into the natural disaster arenas. The most recent are for the Typhoon that hit the Philippines. Make sure you know who you are giving money to and never send cash. Also never give out your SS#, credit card, or bank account #'s to anyone that is soliciting a donation from you.

So much to do-so little time

Believe it or not I have a ton more I could put in this newsletter about what is going on. Again I have not got to the IRS-really stupid stuff. I will however say a couple of items-last year deficit was only 680 billion dollars. That is about 1/2 of any other year under the current administration. And of course it still is at least double of any president before this one-but hey progress in progress.

And finally

As if you didn't have enough to worry about, 2 federal judges have issued John Doe summons to five banks for any US taxpayer offshore account. The 5 banks are Mellon, Citibank, Chase, HSBC and Bank of America. My advice-now may be the time to come clean on offshore activities.

The appointment letter will be in your inbox shortly. As our long time clients know we tend to shut down during this time of year. We will still be around a few more days but from the 19th to the 6th we will be scarce. We will check email once or twice and pull off messages at the same time but since we know what is ahead for us, we will be enjoying some relaxing time while we can. Everyone-Have a Merry Christmas or A Great Holiday if you celebrate something other than Christmas. We look forward to seeing you in the New Year.

- Tom & Dorothy