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Newsletter – Summer 2015 | 527 Illinois Ave, Saint Charles, IL 60174

Summer 2015 Newsletter

Every year I start out with a joke about how late it is getting and that it is just barely summer when I get this first summer newsletter out. This year all I can say is it is still summer when I am writing this but you most likely will not get this till sometime in October. This is also the time I update my email list and there is no way I am going to do that in the short time I have left in September. Hey if it makes you feel better the golf was a lot of fun this year. Well maybe that doesn't make you feel better but it does me.

Tax Season Review

Last year 2014 was the toughest I ever went thru because of what happened to Dorothy. I do want to thank all of you for your concern and support given to both of us during that time. If I have not told you already, the update is with all of her follow up test shows no more cancer has been found. This only 18 months away from her surgery while it is not a clean bill yet- it is great news. However we are finding out all the things that little thyroid does. Her biggest challenge has been getting the replacement medication right as it has to be spot on. Even with that the body goes thru a lot of changes and my beautiful wife doesn't always adjust that well to change. The one good thing is it now appears they have the medication right and she is no longer a raving maniac (her words not mine and yes she is typing this so I am not speaking out of school) I can see she is improving. My perfectionist still doesn't think so as she expects to be the model thyroid cancer patient. She is doing a heck of a job recovering and while thing will always be different, we are very fortunate.
This recent years (2015) tax season was very strange. Dorothy was back and for the most part at full strength, but I was feeling things were going very slowly-definitely not moving at the pace I expected. I couldn't explain why it felt almost every return was taking a lot longer than it should and I was doing much more work than I did in the past. About the end of tax season I then noticed another change-the bank account was larger than normal but that also didn't make sense since we didn't raise our prices a dime. When tax season was over I have my program analyze the returns I do. What that told me was I was spending considerable more time per return and the average price per return took a surprising jump. The two reasons for this were the improved economic markets caused much more reporting on the tax returns to be necessary and therefore more forms had to be generated. As you may know our fee is based on forms and the forced additions of the capital gains, dividends, straddles, etc., caused a couple of returns to just about double in price and well over half of the returns were affected by 10-25%. I guess this may be a good thing. You did make more money which is why more was required to be reported. The way 2015 is going I do expect to see an end to that. The second reason has no good side to it at all. This new phase of the Obama care WAS A MESS. Here is the result of all this. Not only did it cause the price of your return to go up-you paid more taxes as a result. Different governmental agencies were giving

different advice as to how all of this was supposed to work. Often the information was in direct contradiction to each other. Also the IRS couldn't administrate the new law. While this is going to result in fewer audits because the IRS has to allocate so much of their resources to try to fix this, it also meant tons of incorrect notices have gone out. The IRS service center in Holtsville NY hired a bunch a new agents. The IRS finally admitted they had put these new agents in service before they were ready and therefore their training was not complete. So those of you that got notices from Holtsville that seemed like they were out of left field was because they were. Turns out the new little Julius Caesars were sending out notices without looking to see what the law had to say. After all aren't they the IRS and therefore the law is what they think it should be? This is only going to get worse. This Obama care law cannot be administrated in our government. Joy and rapture for the future and oh yes- more taxes.

Obama Care for 2015 and beyond

It gets worse. This year the penalty for not having health care just about doubles. Also this year starts the requirement YOU MUST give me a 1095 to prove you have health insurance. It will either be a 1095-A if you are insured over the marketplace-1095-B if you have insurance by a provider outside the marketplace, or 1095-C from employer. Whatever that 1095 says is what goes on your return. If it is wrong it will be treated just like a W-2 which means wrong forms need to get fixed. If a 1095 shows you were not covered for the full 12 months of 2015 you will pay a penalty for the uncovered months with certain exceptions. HRA's are also going to be a new requirement as of August. This has to have the employers' insurance company pulling their hair out because the information that needs to go on those forms is forever changing. There is a report out on how the new Cadillac penalty tax is going to affect all of this mess. The conclusion if the congressional research service (CRS) is it will adversely affect the goals of this law. It may actually cause employers to NOT offer health insurance and the cost of insurance to go up as a result. Since the tax is a NON-DEDUCTIBLE tax this will also hinder the ability for companies to pay wages and provide benefits. Great law huh? The tax can be as high a 4k for a single person and about 12k for a married employee. This is per person. Boggles the mind.

What Else

Enough about that-want some more good news- If you think there is any good news then you are really gullible. This is the IRS I am talking about. The IRS has announced the new initiative of going after business that don't pay their payroll taxes on time. This is not too surprising as this has been a goal of the IRS for years now. The reason for this announcement is they have installed a new program that will do this faster and better. Yes this will only affect business clients BUT

Not This One

Let's say in a bad real estate market and yes it does look like the predictions were true and the market went soft after the slight improvement in 2012, you decide to sell your house to someone and instead of them getting a mortgage you decide to be the bank. You have had you house for 30 years and you sold it for a lot more then what you bought it for but no worries, when I do your return I tell you there is a 500k exclusion on the gain of your home. You go home feeling you just beat the IRS at their own game and for years this works out great. However the people that bought your house fall on hard times or just decide they don't like the color anymore and just move out and you can't find them. Well you still have the house so you repossess it and try to sell it. But it is a bad market and a year goes by and you still have this place, guess what? That 500k exclusion you ending up dancing out of my office after I told you about it, goes away and everything you collected for that sale becomes taxable. Under the new Obama care law that could be almost 125k in taxes thru no fault of your own. Tell me if I am wrong but this decision by the IRS and affirmed by the courts is actually going to hurt the real estate market even more-correct? This must be the reason why all the new agents of the IRS must to able to pass the new training course called "getting blood out of a turnip" before they get their badge.

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.

Help With the Kiddies

I have gotten very wordy in this newsletter and I am starting to run out of room. In every newsletter I try to offer some bit of advice to help with your taxes. This time I am going to talk about the kiddie tax. This is a tax placed on any child of yours that has at least $2,100 of unearned income (interest, dividends, capital gains) that is under 18 (24 if full time student) and doesn't file a joint return themselves. This is a tax that can be avoided. If the investment income of the child is over 2,100 consider using a 529 plan. Any earnings in a 529 does not count towards this tax and if the income is intended for college-like a gift from the aunt that adores them you can avoid this tax 100%. Also you can get the child to start providing more than1/2 of this support. This can be done if there is a large trust fund funded by a grandparent etc. Yes that will cause a loss of the dependent exemption but under the new Obama rules and due to alternative minimum tax, you may have already lost this so the result is no skin off your nose and more important- no kiddie tax. Another way is if the child is in school and in between 19-24 years old range, you need to be sure they are not a full-time student until age 24. Also you can change the nature of the investment. The 2,100 has to be taxable income not appreciation in the underlying asset. So by minimizing the amount of income that has to be reported can result in also eliminating the tax.

Like I said this is a tax that can be avoided. If you see a form 8814 of 8615 on your list of what I charged you, a call to me is in order, or if you have a generous relative that could put you in this tax area, I can help.

And finally . . .

The IRS's largest and most used collection tool is a division called ACS-automated collection system. ACS mostly generates letters that you owe money and if you don't pay you will be living in a cardboard box on the Canadian border for the rest of your life. Also if you call to tell them you don't owe anything (never a good idea) you get Rufus with a 3rd grade education or Rufus's sister with a 4th grade because as you well know it takes more for a woman to qualify for the same job as a man. The IRS says this is the greatest thing since sliced bread as they boast it has collected 6.2 billion in taxes. The Government Accountability office (GAO) the government agency that actually monitors how the government is operating said "wait a minute" The GAO says the system internal controls are deficient. There is no sense of fairness to the system and the effectiveness is not even close to being able to be evaluated. ACS could be collecting tax that is not even owed and the poor taxpayer just paid it because they are scared to death after getting a notice from the IRS. They go on the say it can't assess the effectiveness of the program at all. Now nobody there should be afraid your notice from the IRS. And yes notices are almost always wrong. With the fiasco of the Obama law-notice error rate has gone up over 80%. If you get a notice-give it to me. Under no circumstance should you pay it. If you really want to pay something you don't owe-my wife really wants to go to Vegas and would love the donation.

That's all for now and yes there will be 2 more newsletters still to come.

-Tom & Dorothy