

## **Client Tax Newsletter – Winter 2014**

Dear Client:

This issue of our newsletter contains information about the tax implications of the Affordable Care Act, simplified home office deduction method and a **Tax Checklist** to help you organize your tax documents.

### **The Affordable Care Act and Your Taxes**

While some provisions of the ACA have already gone into effect in prior years, a number of new provisions are effective in 2014. Although we do not intend this newsletter to be the answer-all to the ACA, we thought this would be a good time to look at some of the provisions that might affect you.

Under the Affordable Care Act, all individuals will be required to have health insurance. There will be incentives for those who enroll and penalties for those who do not. While the majority of US citizens and legal residents will be subject to the penalties, certain groups will be exempt such as undocumented immigrants, incarcerated individuals, American Indians and members of certain faiths. Large employers (those with 50 or more full-time employees) will be required to offer coverage to employees and will be penalized for noncompliance. Small employers who provide coverage for their employees may qualify for tax credits in 2013, 2014 and 2015 and will pay no penalties for failure to participate.

As a result of this legislation, Health Insurance “Marketplaces” (formerly known as exchanges) will assist in purchasing health insurance plans that are eligible to receive federal subsidies.

Under the ACA, several aspects of health insurance plans will be regulated. All health insurance plans must have no lifetime or annual limits, no potential rescission of coverage, no pre-existing conditions exclusions, no excessive waiting periods for eligibility to become covered by the plan and no cost sharing for preventive care. The insurance market must limit deductibles for certain plans and new insurance plans must cover your children until they reach age 26 while older plans must only cover children who cannot get insurance from their place of employment until they are 26.

The plan provider must provide a summary of benefits and coverage to participants. Plan enrollees must be allowed to select any available participating primary care provider. Premiums can be based only on limited factors, and there must be an effective process for appeals from claims determinations.

Each of these requirements is designed to improve the experience of the insured individuals and to ensure greater coverage than was previously provided by health insurance companies.

## **Tax Credits to Offset Insurance Premiums**

A Kaiser Family Foundation study predicts that nearly half of all Americans who buy their own health insurance through the Affordable Care Act's Marketplaces will be eligible for tax credits or subsidies.

## **2013: Watch Out for These Two New Taxes!**

Two new taxes were included in the Affordable Care Act: the 3.8% tax on net investment income and the 0.9% Medicare surtax on earned income. Earned Income is defined as income from work.

### **The 3.8% Tax on Net Investment Income**

The 3.8% surtax will be imposed on the lesser of your net investment income for the tax year, or the amount by which your modified adjusted gross income (MAGI) exceeds the "threshold amount" for the year. The threshold for married filing jointly is \$250,000, \$125,000 if you are married filing separately, and \$200,000 for everyone else.

Although the IRS issued more than 100 pages of regulations to define "net investment income," the term basically includes interest, dividends, annuities, rents, royalties and capital gains. Interest on tax-exempt bonds and distributions from qualified retirement plans are not included, nor is any gain excludable from income on the sale of your primary residence.

### **The 0.9% Medicare Surtax on Earned Income**

This tax applies to wages and self-employment income. The income thresholds are the same as the tax on net investment income above: \$250,000 for couples filing jointly, \$125,000 for those married filing separately and \$200,000 for other filers. The surtax applies only to the employee's portion of the Medicare tax. There is no increase to the employer-paid portion, but employers are required to withhold the surtax once an employee's wages exceed \$200,000 in a calendar year.

**Caution:** If filing jointly, each spouse could earn less than the \$200,000 threshold and have no extra withholding on their wages during the year, however, if their combined wages exceed the \$250,000 threshold on their tax return, they will pay the surtax owed at tax time. On the other hand, if one spouse's wages are over \$200,000 and the employer withholds the additional tax, but the other spouse earns less than \$50,000, then any extra surtax withheld would be credited on their tax return.

### **Simplified Home Office Deduction**

The IRS introduced a simplified option for claiming home office deduction starting in 2013, providing a standard deduction of \$5 per square foot of home used for business (maximum 300 square feet \$1,500). This simplified option does not change the criteria for who may claim a home office deduction. The home Office must be used regularly and exclusively for business. This would exclude the dining room table and living room couch.

Thank you for reading!

# Tax Checklist

This form is to assist you in gathering your income tax information. Use it as a guide for information you need to provide.

## GENERAL INFORMATION:

**First, middle initial, and last names of taxpayers and dependents** as written on the Social Security cards, and dates of birth for taxpayers and all dependents, especially new dependents.

**Address** (city, state, and zip), telephone number, and e-mail address.

**Marital Status:**  Single  Married  Head of Household  Separated

**No. of Dependents:** \_\_\_\_ Do any have any income?  Yes  No

Did all dependents live with you for 6 months or more  Yes  No

### Types of Income and Tax Reporting Forms

	Sheet	Line		Sheet	Line
<input type="checkbox"/> Wages: All W-2's	1	7	<input type="checkbox"/> Income from Rentals: All 1099-Misc	4	
<input type="checkbox"/> Pensions/Retirements: 1099-R	1	15+16	<input type="checkbox"/> Biz Income: All 1099-Misc & 1099-K	3	see below
<input type="checkbox"/> Social Security: SSA-1099	1	20	<input type="checkbox"/> Alimony Received: Total Amount	1	11
<input type="checkbox"/> Bank Interest: 1099-INT	1	8	<input type="checkbox"/> Unemployment: 1099-G	1	19
<input type="checkbox"/> Dividends: 1099-DIV	2	pg 2	<input type="checkbox"/> State Tax Refund: 1099-G	1	10
<input type="checkbox"/> Commissions: 1099-MISC	3	1b	<input type="checkbox"/> Misc: Jury Duty, Gambling, Other	1	21
<input type="checkbox"/> Sales of Stock, Mut. Funds: 1099-B	5		<input type="checkbox"/> K-1s from Partnership S-Corp /Trust		send K-1s

### Business Income & Expense Items – Sheet 3

	Line		
<input type="checkbox"/> Total Gross Income	1	<input type="checkbox"/> Business Vehicle	43-47
<input type="checkbox"/> Advertising	8	<input type="checkbox"/> General Office Expense	18
<input type="checkbox"/> Asset Purchases	p2-13	<input type="checkbox"/> Hotel/Travel Expense	24-a
<input type="checkbox"/> Auto: Parking & Tolls	27-16	<input type="checkbox"/> Insurance	15
<input type="checkbox"/> Bank/Credit Card Fees	27-02	<input type="checkbox"/> Interest Paid	16
<input type="checkbox"/> Business Phone Expense	25	<input type="checkbox"/> Legal or Professional Fees	17
<input type="checkbox"/> Cell Phone Expense	27-05	<input type="checkbox"/> License Fees/Taxes Paid	25/23
<input type="checkbox"/> Cleaning/Maintenance	27-06	<input type="checkbox"/> Meals/Entertainment (100%)	24-b
<input type="checkbox"/> Commissions Paid	10	<input type="checkbox"/> Postage	27-14
<input type="checkbox"/> Contractors/Subcontractors	39	<input type="checkbox"/> Rent/Lease Fees Paid	20-b
<input type="checkbox"/> Dues & Publications	27-02,-08	<input type="checkbox"/> Repairs	21
<input type="checkbox"/> Education Expense	27-22	<input type="checkbox"/> Tools	27-01
<input type="checkbox"/> Equipment/Supplies	27-24, 22	<input type="checkbox"/> Utilities	25
		<input type="checkbox"/> Home Office	pg 2

### Additional Items for Rental Properties – Sheet 4

<input type="checkbox"/> Days Rented <span style="float: right;">line 2c</span>	<input type="checkbox"/> Supplies <span style="float: right;">line 15</span>	<input type="checkbox"/> Vacation Rental <span style="float: right;">line 2a</span>
<input type="checkbox"/> Condo/PUD Assoc. Fees <span style="float: right;">line 11</span>	<input type="checkbox"/> Mileage/ Travel <span style="float: right;">line 6</span>	<input type="checkbox"/> Repairs <span style="float: right;">line 14</span>
<input type="checkbox"/> Gardening /Yard Work <span style="float: right;">line 7</span>	<input type="checkbox"/> Mortgage Interest <span style="float: right;">line 12</span>	<input type="checkbox"/> Property Tax <span style="float: right;">line 16</span>
<input type="checkbox"/> Management Fees <span style="float: right;">line 11</span>	<input type="checkbox"/> Termite Treatment <span style="float: right;">line 7</span>	<input type="checkbox"/> Utilities <span style="float: right;">line 17</span>

### Deductions / Credits to Income – Sheet 1

<input type="checkbox"/> Alimony Paid* <span style="float: right;">line 31</span>	<input type="checkbox"/> Moving Expenses <span style="float: right;">use Organizer 3903</span>
<input type="checkbox"/> Education Credits** <span style="float: right;">use Organizer 8863</span>	<input type="checkbox"/> Penalty on Early Savings Withdrawal
<input type="checkbox"/> IRAs/Keogh/Seps <span style="float: right;">lines 28 + 32</span>	<input type="checkbox"/> Retirement Saver's Credit
<input type="checkbox"/> Med. Savings Acct. (5498-SA/1099-SA) <span style="float: right;">8889</span>	<input type="checkbox"/> Self-employed Health Insurance <span style="float: right;">line 29</span>
<input type="checkbox"/> Student Loan Interest <span style="float: right;">line 33</span>	<input type="checkbox"/> Teachers Exp. (Max \$250) <span style="float: right;">line 23 / 2nd pg</span>
<input type="checkbox"/> Child Care Credits <span style="float: right;">Provider name, address, EIN or SS# and amount paid is needed. Organizer 2441</span>	
<b>*Total Alimony Paid Must have SS# of recipient and amount paid. **Education Expenses Send 1098-T</b>	

### Estimated Taxes Paid – Sheet 1 – 2nd Page

Amounts and dates paid for Federal and State quarterly estimated taxes. Sheet 1, 2nd pg.

### Itemized Medical\* Deductions – Sheet 2

<input type="checkbox"/> Medical and Dental Bills <span style="float: right;">line 1a</span>	<input type="checkbox"/> Lab Fees <span style="float: right;">line 1a</span>
<input type="checkbox"/> Prescriptions <span style="float: right;">line 1a</span>	<input type="checkbox"/> Medical Miles X 14¢ = \$ _____ <span style="float: right;">line 1a</span>
<input type="checkbox"/> Glasses / Contacts / Hearing Aids <span style="float: right;">line 1a</span>	<input type="checkbox"/> Out-of-Pocket Expenses <span style="float: right;">line 1a</span>
<input type="checkbox"/> Med. Insurance Premiums line 19 <input type="checkbox"/> Long-Term Care Prem.** <span style="float: right;">line 1a (Also list on Sheet 1 line 249)</span>	
<b>*Total of above Sheet 2. **New York Residents get Tax Credit</b>	

### Taxes and Interest Deductions – Sheet 2

<input type="checkbox"/> State /Local Tax <span style="float: right;">line 5a-e</span>	<input type="checkbox"/> Mortgage Interest*
<input type="checkbox"/> Sales Tax <span style="float: right;">line 5f</span>	<input type="checkbox"/> Mortgage Insurance Premiums*
<input type="checkbox"/> Real Estate Tax* <span style="float: right;">line 6</span>	<input type="checkbox"/> Investment Interest*
<input type="checkbox"/> Personal Property + Auto Tax <span style="float: right;">line 7+8</span>	<b>*If you have Office-in-Home use Sh3 pg2 (Not Sheet 2)</b>

### Charitable Contributions – Sheet 2 + NCC

<input type="checkbox"/> Cash Contributions* <span style="float: right;">line 16</span>	<input type="checkbox"/> Out-of-pocket Volunteer Expenses
<input type="checkbox"/> Non-Cash Contributions** <span style="float: right;">line 17</span>	<input type="checkbox"/> Charitable Miles X 14¢ = \$ _____ <span style="float: right;">line 16</span>
<input type="checkbox"/> IRA RMD Charitable Distribution	
<b>*Documentation Required **Donation dates, list of items donated with Fair Market Value for each non-cash donation to Charitable Organizations are needed. Use Sheet NCC or NCCS</b>	

### Additional Tax Documents

<input type="checkbox"/> Completed Organizer, 1-2-3 Checklist	<input type="checkbox"/> Signed Pre Paid Audit Agreement
<input type="checkbox"/> Year-End Broker Statements	<input type="checkbox"/> Notices Received from IRS or State
<input type="checkbox"/> HUD Statement (for each home purchase or refinance)	