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## TAX NEWS & TIPS

YEAR-END 2013

### Tax Time Again – Laws To Change?

It's time to begin collecting the information for your 2013 return.

BUT, I fear we might see some last-minute changes to tax laws.

Budget woes and political fights may cause a repeat of what we saw this year. Congress passed a major tax law on New Year's Day to avert the "fiscal cliff". This January will bring another budget deadline and more squabbling over Health Care Reform. We could see another wave of last-minute tax laws.

For now I can only warn you of current laws, but we must get ready to file your 2013 returns.

I'll offer suggestions on getting your records together. Starting early helps in two ways – It's less work, and you may cut your tax bill!

### Health Insurance – Be Covered, Or Else!

Congress passed the Health Care Reform Act over three years ago. Nothing but debate ever since. The Supreme Court even reviewed parts of the law. Nobody is fully satisfied, but the law is still with us. The parts requiring all of us to have health insurance take effect in January. There will be fines (or penalties) if you're not covered.

Do you have health insurance? If so, you could ignore all this for the moment. About 14% of Americans don't have coverage. If you're in this group, it's time to get moving!

New State Insurance Exchanges opened October 1. 50 states, plus DC and four territories have them. Sign-ups began October 1. Original deadline to begin coverage was in December. In late October the deadline to be penalty-free was pushed

back to March 31. Each month of delay can add another month of penalty in 2014.

**Your State Exchange** is best found on the internet. Find the links at [www.healthcare.gov](http://www.healthcare.gov). Or search "state health insurance exchanges" – you'll find dozens of links. Not a "computer person"? Have a friend help you find the telephone number for yours. Find the right exchange – rates and coverage vary by age, family size, whether you're a smoker – even your Zip Code matters!

**Basic Information** would fill several pages. Even if I had the space, I'd surely overlook someone's special question. Again, I suggest the internet. One of the best "plain language" sites is by National Public Radio at [www.npr.com](http://www.npr.com). The full link is very long, but once at their site, search for "health care FAQ". Several links will appear, but the one called "All About Health Insurance Exchanges And How To Shop For Coverage" is very informative.

**Mandatory Coverage** is a key part of the law. If you're covered at work, are a Federal employee, or are under Medicare, you're OK. A few people are exempt – most common of the exemptions are for very low incomes, certain foreigners, and a few religious groups. Again, several internet sites do a great job of explaining the hundreds of rules.

**Costs and Coverage of Plans.** Again, each exchange is different. Each offers four levels of coverage. At the bottom end, the "Bronze" coverage has high deductibles you must pay before the plan kicks in, and co-pays for drugs and services. The "Platinum" plans cost more, but have better coverage and smaller deductibles and co-pays.

**Subsidies and Penalties.** There are subsidies for folks with low household income. For a single

person, subsidies follow a sliding scale on incomes from \$11,490 to \$45,960. Low income, big subsidy. A family of four uses numbers about double these. Even the word "income" leads to complications – read all the instructions carefully. Penalties will start at a low of \$95 in 2014, but will increase each year.

**"Cleanup" on 2014 Returns.** By this time next year I'll be seeing new tax forms to "reconcile" your coverage. If you qualify for subsidy, but didn't fully get it in premium reductions, the final correction will be on your tax return. If you don't have coverage, or started late, I'll be forced to show the penalty as part of your tax bill on the return.

**Future Changes?** Bet on it! This may be the most massive and hotly debated law change in our lifetime.

**Can I Help You?** I'll do my best. But, this is truly massive. I learn more about it each month, but it's not simply tax law. I'll likely need a couple of years before it all sinks in.

### This Issue

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## Pay Close Attention To These!

Much of the information we need for your return is easy to collect and easy to describe. However, some areas are more complex and need extra information. Here are some cases where I often must send clients looking for extra information. This can cause delays we don't need.

**College Education.** If a family member is attending college, there are three different tax breaks that might help you. I can get the biggest savings if your records are complete.

**Expense – Tuition & Fees.** The student gets Form 1098-T. I MUST see this! It lists not only tuition & fees, but I need the name, address, and Tax ID Number of the school. Problem – the *student* gets the Form, not the parent! If they lost it, send them to [www.1098T.com](http://www.1098T.com).

**Other Expenses.** Those who don't already have a college degree can claim even more costs. Books, supplies, special software, maybe even their computer. Ask the student for all course-related costs.

**College Savings Plans.** Did you use a "Section 529 Plan" or a "Coverdell" savings plan to help pay the costs? If so, you'll get IRS Form 1099-Q. Your money grew tax-free. But, we must show the funds were used for "qualified expenses", else the growth will be taxed now. You could pay a penalty as well! Keep records of any and all costs.

**Youngster's Tax Returns.** If the student is your child, we can run into something called "Kiddie Tax". Warn the child *not* to file their own return until we've checked the rules.

**Over 70½ – IRA To Charity.** You must take a distribution each year. If you have the Custodian send a check to a charity, it counts as a distribution, but is not taxed. No need to claim a deduction. You get full value for your donation. 2013 is the last year for this rule.

**Troubled Loans.** If you had a loan modified, or lost a property in a foreclosure or short sale, I need lots of details. Your problems are not behind you until we deal with the tax issues. You might have income from cancellation of part of the mortgage. Look for IRS Forms 1099-A and/or 1099-C. I must see these. I need as

much information as possible about what really happened. I need the history of all loans for the property. It helps to see a few mortgage statements. These cases can involve more than simply tax law, so please be as thorough as possible.

**Businesses.** Liberal rules for depreciation were extended to 2013. I need details on all major purchases.

**Employees – Last Pay Stubs.** Your W-2 is critical, but if I can see the last couple of pay stubs, we may find even more valuable deductions.

**Mileage Deductions.** For 2013 you get 56.5¢ for each business mile. This can be a valuable deduction. Employees can't deduct driving to work, but look for visits to clients, extra meetings, errands, or shopping for supplies. Business owners have the same and more. Landlords need to log trips to the property, buying supplies, driving for maintenance. Costs for parking and/or tolls can be claimed in *addition* to the mileage deductions. A log is best, but other records can verify your driving.

**Collect Unemployment?** You're not alone – a record number of Americans collected this year.

Step 1 – This is taxable – don't lose the Form 1099-G! Step 2 – you may have deductible job search costs.

**Foreign Asset Reports.** Do you have an account or assets in another country? Of course, we all report our "worldwide income" on our tax returns. IRS now demands an *extra* report if balances reached \$10,000 or more during the year. An even more complex report is needed if you have an interest in \$50,000 or more of foreign assets. If so, I'll need even more details.

**Stocks & Mutual Funds.** When you sell stocks we must report your gain or loss. We need to know original costs. Brokers must provide this information to IRS. To avoid a mismatch I need to see the complete Form 1099-B from your broker.

**Prepare Early.** This will be a special year. We don't want to miss anything. Prepare carefully, and there are two benefits: (1) You'll see the maximum tax savings, and (2) my fee will be as low as possible. We may even have a little time to plan for future savings! It's *your* money, but it takes *both of us* to keep as much as possible for you.

### In January – Important Tax Information

**IRS Receives** copies of all your tax-related forms. After all returns are filed, their computers compare the reports with your return. You can't afford to miss any of these. Watch January's mail. You'll see the words "IMPORTANT TAX INFORMATION ENCLOSED" on the envelope.



**1099's.** You get 1099-INT or 1099-DIV for any account paying interest or dividends. Did you find all of them? Keep notes.

**Other 1099's.** Real estate sales are on Form 1099-S. Stock sales on 1099-B. Pensions or IRAs are on 1099-R. There are several others.

**Other Income.** You may see forms for unemployment benefits, state tax refunds, prizes, awards, or gambling winnings. I must see these!

**Partnerships, etc.** Forms K-1 from partnerships, trusts, estates, and corporations arrive later. We can do the rest of your return early. Mail these forms to me when they arrive.

**Form 1098.** These show deductions! Form 1098 reports your mortgage interest. For a private loan, get your payment book. If your lender was the seller, you need name, address, and tax I.D. number. Form 1098-T is for college tuitions. Student loan interest is on Form 1098-E. If you donated a vehicle to charity you'll see Form 1098-C.



**After January.** In February figure out what's missing. Missing a W-2? Contact the employer. If you can't locate the employer, find your pay stubs. Missing an expected 1099? It's time to call the bank or broker.

**Late Information!** If information arrives late, mail it to me. Missing receipts for deductions? Make a list of your best recollection, sign and date it, and keep it with your records. This can help if you are audited.

## Do You Need To Send Form 1099?

Who must send Form 1099 to others? There are two cases:

- **Businesses.** You must report payments to others for services.
- **"Nominee" amounts.** If you are named as receiving income, but part of the income belongs to another, you are a nominee.

You must send Form 1099 to the other party by February 1. Copies are due at IRS by March 3.

**Businesses.** If you paid \$600 or more to a person or business during 2013 you may need to issue a form. Applies to "business" expense only. You don't need to report payment for personal expenses or any payments made to a corporation.

Was *any part* of the payment for services? If so, you must report the *total* amount on Form 1099. Rents you pay to a manager (but not to the landlord) are excepted. Same if you pay for merchandise alone. Check your records for repairs, painters, consultants, builders and the like.

Get name, address, and Tax I.D. Number. Call or use Form W-9. If someone gives his/her name, get a Social Security Number (looks like 555-55-5555). If a business name is used, get an Employer I.D. Number (looks like 55-5555555).

**Rental Managers.** A property manager who runs your rental sends Form 1099 to *you* reporting the rents.

**Nominees.** Suppose you and your brother share a savings account. But, *your* Social Security number appears on the 1099-INT, even though half the income belongs to your brother. You are a "nominee". Limits here are much lower. If you pay \$10 or more to another you should send a Form 1099 to the other party. You use the same type of 1099 as you received, but you are filing as a "middle man".

**Getting the Forms.** I can help, or you can get forms from IRS and do them yourself. If you need my help, please call early! My tax season is hectic, and the February 1 deadline comes up quickly. If you need forms from IRS call 1-800-829-3676, or download them at [www.irs.gov](http://www.irs.gov). You need both Form 1099 *and* Form 1096, which serves as a "cover".

## 2014 Inflation Adjustments

Each year IRS adjusts several tax items for inflation. We saw modest inflation this year. As a result, only small changes are in store for 2014.

**Tax Rates.** Consider a couple who always earn \$70,000 each year and have one child. They're *not* keeping up with inflation! Filing a "short form", their tax bills between 2003 and 2013 dropped from \$7,002 to \$6,025, or about \$100 per year. For 2014 they can expect an \$85 decrease in their overall income tax.

Items with small inflationary change:

- Standard Deductions.
- Tax Rates and brackets.
- Deductions for children.
- Pension contribution limits.
- IRA deduction limits and income levels.
- Mileage deduction rates.

- Wage base for Social Security.
- Alternative Minimum Tax.
- Social security benefits. It was announced in October that 2013 benefits will increase by 1.5%. But, your *net* check is reduced by Medicare premiums.

Some of these have already been announced. The rest will be known by the time we prepare your 2013 returns. If any of these are important for you, be sure to write down your questions. I'll do my best to provide details early next year.

**New Laws.** By January I should know whether the Federal "budget crunch" caused Congress to make last-minute changes. I'll do my best to inform you of items that might change your tax bill.

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This publication has been sent to you by your tax advisor for informational purposes only. The tax opinions are generalizations and may not apply to all taxpayers.

## Got Everything We Need?

*Here's a list of things most often forgotten.  
Compare it with your own list of missing information.*

- Refinance.** I need to see the settlement statement. Maybe it's best to bring all the paperwork.
- Sale of Stock.** Brokers send Form 1099-B to show sale price. Look for a "Statement of Realized Gain/Loss". Without it, *we* need to do all the work. We need the *original* cost. Can you find the "buy" slip? A mutual fund sale requires a complete history.
- Buy/Sell Property.** Settlement statement shows the details. Find it, or else gather everything.
- Estimated Tax Payments.** I need amounts and dates. Look near April 15, June 15, and Sept. 15. In 2014 look near January 15.
- Social Security Benefits.** Find the Form 1099-SSA. It shows the amount to claim. The amount put into your bank account won't do.
- Property Tax.** Find the amount actually paid during the year on your home, other real estate, boats, and automobiles.
- Employer Reimbursements.** We need the records. We can deduct the excess expenses.
- Work-Related Driving.** Deductions for extra driving add up quickly. Review your work schedule and your calendar.
- Child Care Credit.** We must report the full name, address, and I.D. number of the care providers, not simply the amount you paid. Some states even ask for the provider's telephone number.
- Contribution Receipts.** All donations need records. Your cancelled check is OK for single gifts up to \$250 – above this you *also* need the charity's receipt. If you donated a vehicle I need to see Form 1098-C, or you will be limited to a \$500 deduction.
- Special Events.** Jot down information about a birth or death in the family, legal costs, special expenses for your job, or any unusual medical costs. You may have found a deduction, but you have to let me know about what changed this year. I try to ask a lot of questions, but I'm not a mind reader. *Write down* the questions, or you may forget and lose a valuable deduction.

## Tips For You

**Wealthy To Pay More Tax.** A small group of Americans will be affected by changes that kick in on 2013 tax returns. If you're single with income over \$200,000, or a couple with income over \$250,000 you may see small additions to your tax bill. Income from "investment" can face an extra 3.8% tax, added to support Medicare premiums under Health Care Reform. Workers face an extra 0.9% Medicare tax on their W-2, to be "justified" when we file your return. At about double these income limits the tax on capital gains jumps from 15% to 20%. I'm just now beginning to see the forms for these, and won't be fully "up to speed" until early January.

**Same-Sex Marriage Rules.** In June the Supreme Court said IRS must recognize these. In October IRS published some rules. They say if the marriage was performed in a state that recognizes the union, you must file as married wherever you now live. For prior years, you may amend your return if this would save on taxes, but you will not be forced to amend prior years. IRS will honor a "marriage", but not other forms of union like "registered domestic partner". If you now reside in a state that does not recognize your marital status, the US tax return will be filed as "married", but your state will still demand two separate returns.

**Last-Minute Tax Savers.** These involve moving deductions from 2014 into 2013. Unless you expect a big income jump in 2014, why not get the tax savings *now*?

**Contributions.** For donations you already plan, can you afford to make them this year? You'd get the savings now. Thinking of cleaning out the garage? Do it now. Call your favorite charity, make a good list (a snapshot or two helps!), and get your deduction in 2013.

**Business/Work Supplies.** If you buy office supplies, think about stocking up in December. Load up on paper, toner or printer cartridges, envelopes, maybe even some extra postage stamps. Larger items – you can also buy fixtures or equipment, but you must be able to show the equipment was actually *placed in service* in 2013.

**Landlords/Businesses.** Are there maintenance items you've been putting off? You get the deduction in 2013 if you do the work in 2013. Consider painting, carpet cleaning, replacing screens or furnace filters.

**Timing of Income/Expense.** An expense item is counted when you pay. IRS looks at when the funds leave your control. That's the year you take the deduction.

With income, you cannot simply wait to cash a check – IRS says you have already gotten "constructive receipt" of the money – it's yours right now. (You are free to delay billings, though!)

*"For every benefit you receive,  
a tax is levied."*  
Ralph Waldo Emerson

*"I just filled out my tax forms. Who  
says you can't get killed by a blank?"*  
Milton Berle

*"Thinking is one thing no-one has  
ever been able to tax."*  
Charles Kettering

## Happy New Year!

May 2014 bring you and yours  
joy, good health, and the  
finest things in life.

## Your Tax Calendar

Dec 31	A check mailed today counts for 2013. Last chance for deductions! State estimated tax paid today is deductible on 2013 Federal return.
Jan 15	4 <sup>th</sup> quarter estimated tax payments due.
Feb 1	Employers – Quarterly payroll & FUTA due. W-2s and 1099s due to recipients.
Mar 3	W-2s and most 1099s due to IRS.
April 15	2013 tax returns due. Last day for 2013 IRA contributions.