

TAX FACTS NEWS

January 2014



Please don't wait until the last minute! Schedule your appointment today.

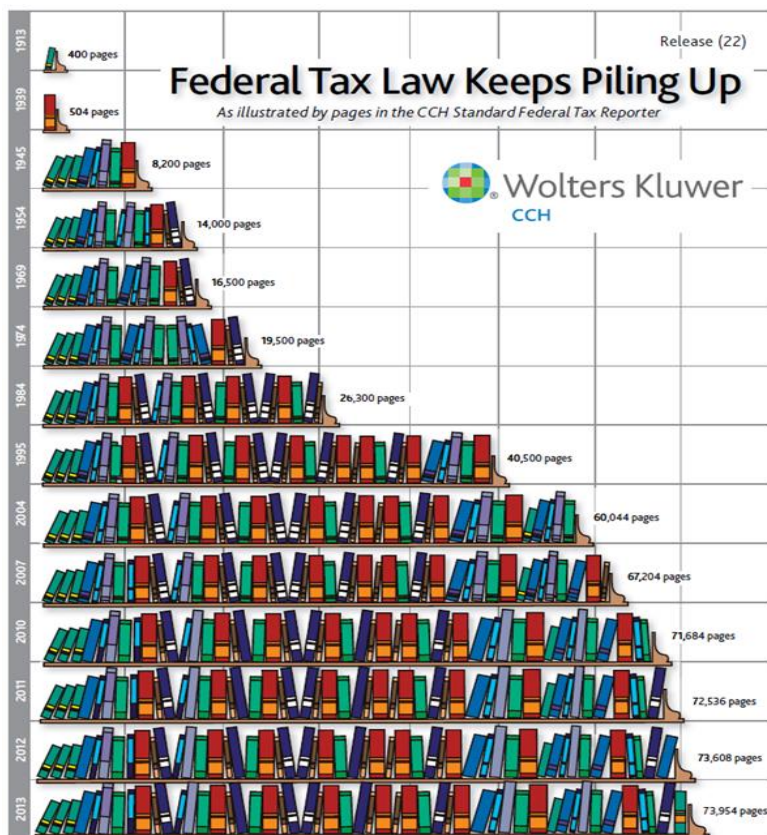
The Three Rs of Tax

If you have ever been unlucky enough to have dealt with the IRS, you have already run into **Rules, Regulations, and Red Tape (and often the fourth R – Rude!)** I spend so much time on hold that the IRS' canned music runs around in my head – which brings me to my topic. According to an IRS statistic, only 60% of people who called the IRS toll-free line last year were able to get through, and they waited on hold for an average of 18 minutes. (I'd like to know how THAT happened, since I sit on hold for HOURS!)

We, at Tax Facts, are here to help you with your taxes, whatever the issue may be. Customer Service is what we do. We are trained to deal with the tax code, which gets more complex every year. We are Your Tax Professionals. **Call us first if you get a letter from IRS.** Mention our name if an IRS agent calls you. By the way, don't EVER respond to an IRS email request. THAT is a SCAM!

Because we are also human (who would have thought!!), we have a guarantee that if we made a mistake, we will pay any resulting penalties and interest. This year, we are going a step further. We are offering you an insurance policy (of course, at a price ☺) that will also pay any resulting tax you might owe. Ask your preparer for the details.

IRS is opening for electronic filing on Jan. 31, and our schedules are filling up fast. Call soon for your appointment. We look forward to seeing you again! – Penny Tokash, EA



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Our 2014 Tax Season hours will be:

Monday – Thursday	8:30–7:00
Friday	8:30–5:00
Saturday	8:30–2:00

Walk-ins are always welcome!

Drop-Offs are encouraged!

If you are a prior client and comfortable that your tax situation hasn't changed much, you can drop off your tax information and we'll have your taxes prepared in a few days. You can find useful forms at our website or call us for an **organizer**.

"I could end the deficit in 5 minutes... You just pass a law that says anytime there is a deficit of more than 3% of GDP, all sitting members of Congress are ineligible for reelection."

– Warren Buffet

"An economy constrained by high tax rates will never produce enough revenue to balance the budget, just as it will never create enough jobs."

– John F. Kennedy

FYI for 2013 (2014)

- **Business Mileage rate** is \$0.565 (**\$0.56**)
- **Medical/Moving mileage rate** is \$0.24 (**\$0.235**)
- **Volunteer mileage for charity rate** remains at \$0.14
- **Contribution to an IRA** maximum \$5,500
Increase to \$6,500 if over age 50
- **Contribution to a 401k** maximum at \$17,500
Increase to \$23,000 if over age 50
- **Contribution to a SIMPLE** maximum is \$12,000
Increase to \$14,500 if over age 50
- **Social Security Max Wage** is \$113,700 (**\$117,000**)
- **Medicare Tax** is 1.45% of all wages for employee
(**Additional 0.9% for employee wages over \$200k**)

A BRIEF HISTORY LESSON

The "Bush Tax Cuts" went into effect in 2001 (EGTRRA) and had a duration of 10 years. They were modified in 2003 (JGTRRA), but were still set to expire in 2010. Along came December 2010. Congress hadn't even passed a budget for several years, so in desperation, they simply extended the current taxes for two more years. Plenty of time in two years to get the tax code reformed, right? NOT!! Along came Dec 31, 2012 and "the Fiscal Cliff" (Do you remember all that la-di-da and fiddle-di-dee?) SO, we ended up with another year for some deductions that have now **expired (on Dec 31, 2013)**. Here's a list that will affect most tax returns. **The checked ones are my best guess that Congress will rewrite the law sometime in 2014 to let them remain.**

- ✓ Educator Expense Deduction of \$250
- College Tuition Deduction (college tuition credit stays)
- Residential Property Energy Credit
- ✓ Sales Tax as an itemized deduction
- Debt Forgiveness on a personal residence
- ✓ Adoption Credit (but no longer a refundable credit)
- Mortgage Insurance Premium deduction
- ✓ Sec 179 deduction increased from \$25,000 to \$500,000
- 50% Bonus Depreciation for new property used in business

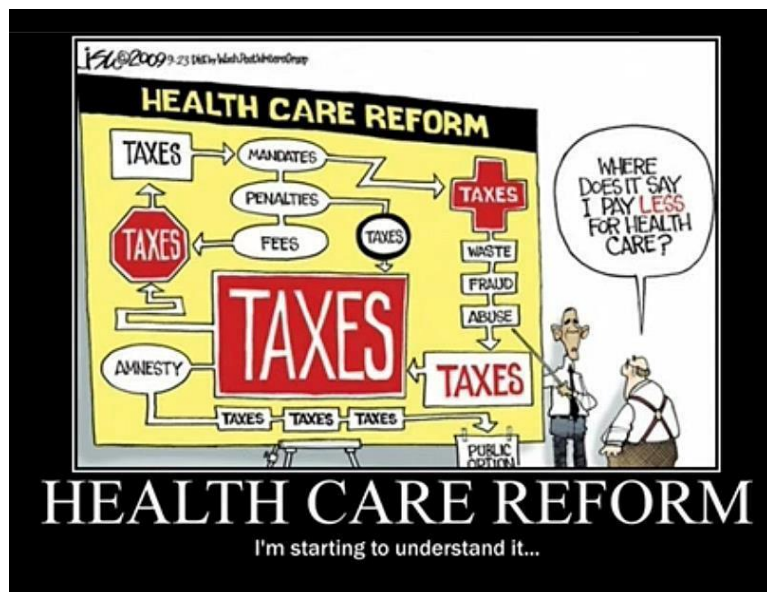
Meanwhile, Congress needs still more money to run the government. Since people who are not working don't pay taxes, Congress gets revenue from working people. The 2% relief in Social Security withholding tax disappeared on Jan 1, 2013. That netted the government about 58 billion extra dollars. In 2012, the federal government spent 10.5 billion dollars per day, so doing away with the 2% social security relief in your paycheck paid for almost a week of running the government.

More taxes for all working taxpayers include:

- Pre-tax cafeteria plans are limited to \$2500 (creates more taxable income)
- Threshold for Medical deduction increased from 7.5% of gross income to 10%

According to data from the IRS Website, less than 3% of all tax returns filed had gross income of \$200,000 or more, so this group of taxpayers seems a poor choice for paying off the national debt. Nevertheless, these **"high income wage earners"** have several new taxes aimed directly at them.

- Newly created 35% and 39.6% tax brackets
- Net Investment Income Tax of 3.8%
- .9% Medicare Tax surcharge on wages
- Capital Gains tax rate raised to 20%
- Phase-out of Itemized deductions
- Phase-out of personal exemptions



Q&A FROM THIS YEAR'S EMAILS:

Q: From a Tax Preparer – Are we required to have a copy of our client's social security card on file?

A: The IRS has reported an increase of 66% in ID fraud investigations between 2011 and 2012. As a result, they have created "Due Diligence" rules for all preparers requiring that we "know" our taxpayers. Your preparer is not required to keep a copy of your social security card, but you should be ready to provide some form of identity when asked – one of which should be a picture ID. Because children are a main target for ID theft, your preparer will want to make a copy of the social security cards for your dependents.

Q: When does the ObamaCare tax on the sale of real estate go into effect?

A: You are referring to the new Net Investment Income Tax (part of the Affordable Care Act – ObamaCare). The tax took effect on Jan 1, 2013.

What is Net Investment Income?

Net investment income includes interest, dividends, capital gains, rental and royalty income. Income from capital gains includes the sale of investment real estate, which could be a rental unit or a second home that is not a primary residence. (Sale of your primary residence is NOT Net Investment Income).

Who owes the tax?

Taxpayers will owe the tax if they have Net Investment Income and their total income is greater than:

Married Filing Joint – \$250,000/Single or Head of Household – \$200,000

How much is the tax?

The Tax is an additional 3.8%. The additional tax will be included as part of the taxpayer's tax return when filed.

"It's not rocket science. Hong Kong has 95% tax compliance, because its code is only 4 pages long with a 15% flat tax."

— Ziad K. Abdelnour, Economic Warfare

