

# ROBERT C ROWLAND, CPA

## TAX YEAR 2013

Welcome to the new year and another tax filing. Hopefully, with a minimal effort on your part, we can get those returns accurately prepared and out of the way. Congress, the IRS, the state legislature, and the tax courts were all busy this year contributing to the tax laws including the following:

### CHANGES FOR 2013

The new health care law has a major impact on tax returns. Who better to keep everything straight than the accountants. What ends up on the tax return are penalties for not have insurance coverage and tax credits to assist many in paying the cost of the insurance. A very helpful website to help sort out the health care issues including a health insurance subsidy calculator is [kff.org/health-reform/](http://kff.org/health-reform/).

The **tax rate for high income households** (\$400,000 single, \$450,000 married) is going up to 39.6%. Also the itemized deductions and personal exemptions are phased out starting with incomes of \$250,000 for singles and \$300,000 for couples.

The **maximum capital gains** rate moves from 15% to 20% for high income households.

As a result of a Supreme Court decision married **same sex couples** will file federal returns as married. Arizona does not recognize same sex marriages and therefore the couple can only file as single on the Arizona return. Also civil unions and domestic partnerships must file as single both Federal and Arizona.

For 2013 for **business use of a vehicle** the mileage rate will be 56.5 cents per mile and for medical mileage the rate will be 23 cents per mile. In 2013 there were several more cases where the Tax Court **disallowed** mileage deduction where there was **no mileage log**.

Individuals will pay an additional approx. 1% in **Medicare tax on earned income** (wages or self-employment income) in excess of \$200,000 (single) or \$250,000 (married). Business losses do not offset wages.

In addition, **Medicare at a rate of 3.8%** will be imposed on the lesser of a taxpayer's net investment income (interest, dividends, capital gains, rents and other passive activities) or the excess of total income over \$200,000 (single) or \$250,000 (married). Distributions from retirement accounts and municipal bond interest are not included in this new provision. Also net investment income does not include municipal bonds, veteran's benefits or gains on the sale of a primary residence.

The **medical deduction exclusion** of 7.5% increases to 10%. Senior citizens will get until 2016 before the exclusion increases to 10%. Remember, Arizona does not have the medical exclusion

so all medical expenses are deductible.

The exclusion for **cancellation of debt** on a primary residence was extended thru 2013.

The deduction for the **home office** can be calculated under the old rules or in the alternative can be calculated at \$5.00 per square foot (up to 300 square feet) and in addition the mortgage interest and taxes can be fully deducted on Schedule A.

The maximum wage base for the **FICA portion of Social Security** is \$113,700 for 2013.

**Social security earnings limit** for early retirees (prior to age 66) increases in 2013 to \$15,120

The **exemption for estate taxes** stays the same at \$5,000,000. However, the tax rate on estates larger than \$5,000,000 increases to 40%.

### **CHANGES FOR 2014**

Individuals **without health insurance coverage** will be subject to a penalty of the greater of \$95 each (\$47.50 for minor children not covered) or 1% (2% starting in 2016) of their income over the household threshold required to file a tax return. Coverage in 2014 for nine months or more is good enough to avoid the penalty. The penalty is also reduced proportionally for any months that you have health insurance in 2014. Also people who can show that a hardship (?) forced them to go without coverage are exempt. **THIS PENALTY IS PAID ANNUALLY ON THE 1040 RETURN.** To make things even more complicated the IRS is prevented from filing a lien or levying a person's assets to collect this new penalty. Rather, the IRS must wait until they can offset your refund. Please get health insurance and make my job easier.

Many people will get a refundable credit to help them buy health insurance coverage on the health insurance exchanges. For example, to get the credit a single person's income needs to be less than \$45,960 and a married couple with 2 children income needs to be less than \$94,200.

Small companies that offer and pay 50% or more of the **health insurance** may be entitled to a credit of up to 50% of the average group exchange premium for small businesses in the company's state.

For 2014 for **business use of a vehicle** the mileage rate will be 56 cents per mile and for medical mileage the rate will be 23 cents per mile. I want to stress again to support the mileage deduction there must be a **mileage log**.

As of the date of the letter, the following items **expired** on December 31, 2013 and have not been extended into 2014; deduction for **teacher's supplies**, exclusion of **forgiven debt on principal residence**, deduction of **mortgage insurance premiums**, deduction for **sales taxes**, deduction for **college expenses** (credit will still be available), the **first year bonus depreciation** and the **section 179 depreciation** deduction decreases back to a maximum of \$25,000 per year.

## **CHANGES FOR 2015**

Individuals **without health insurance coverage** will be subject to a penalty of the greater of \$325 each (\$162.50 for minor children not covered) or 1% of the household income over the household threshold required to file a return.

**Express Option** - Instead of scheduling a meeting, complete the tax organizer, attach the W-2's and other documents requested, include a list of questions you may have and mail, deliver, fax (520-319-0076) or email it to [robert@rowlandtax.com](mailto:robert@rowlandtax.com). For this express option my total fee will be discounted by \$15. However, the essential requirement for this express option is your completion of the tax organizer. Also, the discounted price is **not available after** March 18<sup>th</sup>. For those of you who prefer a meeting to go over your taxes, I will continue to do so.

**Quarterly Estimate Tax Payments** The biggest post-filing issue the IRS has with my clients is properly accounting for quarterly estimated tax payments. Please review your quarterly estimated tax payment records carefully and verify those payments by seeing if they cleared on your bank statement.

**Electronic Filing** The IRS and Arizona both encourage all taxpayers to file electronically. Over 122 million tax returns were filed electronically for the 2012 tax year and over 83 million refunds were directly deposited by the IRS to taxpayers' bank accounts. Our experience is that the IRS and Arizona have developed systems that work very well and we encourage electronic filing of the tax returns.

**Fees and Scope of Services**. We will assist you in the preparation of the Federal and state individual income tax returns based on the information which you provide. We will charge a reasonable fee generally based on my current fee schedule for returns and schedules. Extraordinary work on a return or any schedule or additional advice will be charged at an hourly rate. You can find my current fee schedule on my website, [www.rowlandtax.com](http://www.rowlandtax.com).

Fees and rates can change without notice. If you are unable to pay the fees in full when the return is completed, please make prior arrangements.

**Retainer - Audit Representation** Our fees (to Arizona residents only) will include a one time charge of 8% of the preparation fees as a nonrefundable retainer to cover Robert Rowland representation in the audit, if any, of your 2013 individual income tax returns by the IRS or the state of Arizona. The retainer covers his services at no additional charge not only for the audit, but also, when reasonable, appeals within the IRS or the Arizona Department of Revenue and to the US or Arizona Tax Court. This retainer does not include the defense against any criminal investigation or prosecution.

**Referrals** As always we greatly appreciate any past or future referrals for accounting services and tax preparation.

**Gift Tax Returns** In addition to income taxes you may be liable to file a gift tax return and in

rare circumstances pay gift taxes. A gift tax return generally needs to be filed if you made gifts of more than \$14,000 to any one individual during the year. Please let me know if this is your situation.

**Estate Tax Planning** If the value of your assets (including life insurance) exceeds \$5,000,000 then upon you or your spouse's death there is the possibility of an estate tax. The estate tax is a up to 40% of the fair market value of assets (and life insurance on your life) at the time of your death in excess of your debts and the \$5,000,000 exemption amount. There are several estate planning techniques legally available to reduce the possible estate tax such as lifetime gifts, charitable contributions, and trusts. Let me know if you want to explore estate tax planning.

**Tax Records** We are often asked how long does one need to save tax records. The IRS has up to 3 years to audit your return; the state of Arizona 4 years. If one under-reports one's income by more than 25% the IRS audit period expands to 6 years. Also consider that for non-tax reasons the statute of limitations for litigation in which to be sued for a debt is up to 6 years. Therefore, we recommend that you keep supporting receipts and documents to your returns for at least 6 years. We also recommend that you keep copies of the tax returns indefinitely. However there are documents which need to be saved for more than six years. Keep the receipts which back up any items being depreciated on a return since those are still subject to audit. Also, keep all the receipts on the cost of stocks, bonds, real estate (including improvements), or any other investments which you still own.

Generally (as a backup to your records) we keep copies of your tax returns and records for six years at which time they are destroyed. Keep in mind that we keep only limited copies of your W-2 forms, 1099 forms, or other supporting documents.

**Preliminary Estimate** For many of my clients I provide a preliminary estimate of their taxes at the time of our meeting. The completed returns can vary substantially from the preliminary estimate due to many factors including:

- a. **Use of estimates** on complex calculations such as the amount of taxable social security, Alternate Minimum Tax (AMT), phase out rules based on income, depreciation, and business vehicle expense calculations.
- b. **Additional information** provided after the preliminary estimate is made.
- c. **Calculation errors** that can occur when difficult computations are made rapidly and without the benefit of a double check.