

# Saunders, Portugal & Associates, Inc.

## Accounting and Tax Planning

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# TAX NEWS & TIPS

MID-YEAR 2014

## Thank You!

Our "Tax Season" is always challenging. Your record-keeping made it so much easier. Thank you for your patience during our busiest time. We will continue working to keep your trust and confidence.

## Just When You Thought It Was Over!

*It's Not! Now What?*

Your return has been filed. **BUT**, you may not be able to relax quite yet.

**Have Required Medical Insurance?** The Affordable Care Act (ACA) will continue to roll out in 2014. Uninsured individuals have some choices to make that could have tax implications. Enrollment for health insurance continued through March 31, 2014. If you don't have an insurance plan, you could face a penalty. The charge for 2014 could be as high as 1% of your yearly household income. If you get insurance for part of the year, your penalty will be prorated. You'll pay the penalty when you file your 2014 tax return in 2015. If you're getting a refund, the IRS will subtract your ACA penalty from the amount you were to get back. If your refund isn't large enough to cover the penalty, the IRS will send you a bill. Ignore that and the IRS will take the amount out of future tax refunds.

**Extension Filed?** October 15 is the return filing deadline *but* April 15 was the deadline for payments. Continue to gather documents that were missing earlier and search for any items necessary to verify Schedules with incomplete information. Let's file as soon as we have all of your information. If you owe any additional tax, the IRS will add some interest to the bill.

**Still Searching For That Refund?** You may contact the IRS website [www.irs.gov](http://www.irs.gov) at the "Where's my Refund?" link to check the status of your refund. Another option is calling the IRS Tax Hotline at 800-829-1954. Both the website and hotline are updated every 24 hours. E-filed returns are now tracked by the IRS in hours, however, paper filed returns can take as long as 4-6 weeks.

**Still Owe?** The IRS will send a bill that shows your balance plus any interest and/or penalty. Pay as soon as possible to avoid additional charges.

• **Installment Plans.** IRS offers installment plans with fees of up to \$120 to set up. Available if the amount owed for tax, penalties and interest is \$50,000 or less and all tax returns have been filed timely. We can help.

• **Credit Card Payments.** A "convenience fee" up to 2.35% applies plus any interest until the balance is paid off. Call 1-888-PAY1040 to set up a plan.

**On No! I Forgot...** If you forgot some key information, we can file an amended return. You have 3 years after the filing deadline to change your return. Call me if you have discovered tax documents or information that you originally omitted from a previously filed tax return.

**Keep Your Records.** For now, put your return and all records in a safe place. You may need to dig through them for an audit one day.

• **Older Records.** It's a good idea to keep tax returns indefinitely. Keep all records of investments and properties you still own. For other records... cancelled checks, receipts, bank statements, etc., I recommend that you keep 5 years worth of these for safety.

• **Uh-Oh... An IRS Letter!** If you get a letter from the IRS, try not to panic. The letters can be confusing. Call me! We can handle it together.

• **Will I Be Audited?** There's no sure-fire way to know. Your chance of an audit is less than 1%. That 1 in 100 chance is reduced to 1 in 250 if your return doesn't include income from a business, rental real estate or employee business expenses. Almost 70% of all "audits" are really done by a computer. The IRS compares various forms like W2s and 1099s from your employer, banks and brokers with what's on your return. When they spot enough of a discrepancy, an IRS letter is generated that appears to be a bill. Don't pay it yet! Send it to me and we will assess the situation. The IRS is not always right!

• **Keep Me Posted!** We won't be doing your 2014 return for several months but we can stay alert for changes that could create a tax surprise. Let me know about any new income items or changes in the members of your household. Later in the newsletter will be a listing of taxable income sources that often surprise taxpayers.

## This Issue

- Just When You Thought It Was Over!
- Same Sex Marriage Update
- Home Office Revisited
- Expiring Tax Laws Extended
- 10 Surprisingly Taxable Items
- Tips For You... Now!
- Don't Deduct These!
- Tax Year Calendar

## 10 (Not-so) Surprisingly Taxable Income Types

### Social Security Benefits

This one can be very surprising for those individuals just starting to collect benefits. You don't automatically owe taxes on your benefits. How much you pay depends on your total income. Call me. We can estimate your taxable amount together.

### Unemployment Benefits

Surprise again! Even though you were unemployed, the benefits are subject to Federal Income Tax. Consider withholding taxes from your benefits so there isn't a big surprise in your tax bill when we file your return in 2015.

### Gifts

You must pay taxes on monetary gifts you received that exceeded \$14,000 (\$28,000 if received by a married couple) in 2014. How you give or get the money makes the difference in taxability. We can discuss the details.

### State or Local Income Tax Refunds

A refund of your state or local income taxes from 2013 will be taxable if you itemized your deductions on Schedule A. You basically deducted more on Schedule A than you were required to pay in 2013. This means the difference (your refund) will be taxable in 2014.

### Winnings – Gambling, Super Bowl Pools, Bingo, March Madness Brackets, The Kentucky Derby, Las Vegas

All winnings are taxable. Keep track of all of the costs and losses from all attempts to win. We may be able to offset some of the gambling income. This could reduce your tax!

### Scholarships

Tax-free if it's going to a student at an accredited school and covers tuition, books, fees, or school supplies. However, if the money is being used to cover travel, housing, or other miscellaneous expenses, then it's taxable.

### Alimony

Payers of alimony get a deduction. Alimony received is taxable income. Child support payments are not taxable or deductible. If you are unsure whether your checks are alimony or child support, call me.

### Rental Income

Almost all rental income is taxable. Vacation homes that are rented when not used by the owner could be included. Check with me for your situation.

### Cancellation of Income or Debt

This could be a big one, and is often overlooked. Any write off of your debt by a finance company, bank or credit card company could result in taxable income to you. Exceptions apply.

### eBay

Yes, those childhood games you sold on eBay may result in taxable income. Is the activity a hobby or business? What expenses are involved? These transactions are not that straightforward. Call me with questions.

## Tax Laws Extended?

Every year or so, some temporary tax provisions are renewed by Congress. In recent years, however, lawmakers have let tax provisions expire and then renewed them retroactively. The likelihood of passage for comprehensive tax reform has long been unclear, but uncertainty seems to now also surround the process for approval of tax extenders. This was evident most recently in the American Taxpayer Relief Act of 2012, also known as the "fiscal cliff" tax bill. Fifty-five tax provisions expired on Dec. 31, 2013. Legislation on these extenders passed the Senate Finance Committee in early April 2014. The Bill will now go for a vote in the Senate. This did not happen before this Tax News issue went to print. The legislation did not include any offsets to fund the extenders. There

is concern in the tax community that an attempt will be made to just make permanent a few of the extenders, and presumably let the others expire. Some extender provisions not included in the reform draft may still be acted upon, but action may be slow. This doesn't affect your 2013 tax return, but tax planning for 2014 will be a different story.

Consideration of these so-called extenders has been complicated by possible overall tax reform and budget consequences.

What's at stake? On the business side, there are big ticket items like the research and development tax credit, Section 179 expensing and bonus depreciation. On the individual side, it's a hodge-podge of laws including the deduction for state and local taxes, a provision to exclude the forgiveness of mortgage indebtedness from tax, the IRA charitable rollover that lets seniors

take tax-free IRA distributions to give to charity, the \$4,000 tuition deduction, and an enhanced break of up to \$250 a month for transit commuters (and clarification that bike share members can get a \$20 a month break).

Uncle Sam could have brought in billions by letting some or all of the provisions fade away. However, taxpayers may not lose such popular tax breaks as the itemized deduction for state and local sales taxes, the above-the-line deductions for tuition and fees and educators' out-of-pocket classroom expenses. Lawmakers are also looking at making the Earned Income Tax Credit and Child Tax Credit permanent.

Budget concerns are lingering.

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TAX NEWS & TIPS

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## Tips For You... Now!

### • Adjust Withholding Taxes

Most taxpayers get a Federal tax refund every year. For many of you it is an easy way to save money for a major project or special purchase. Because of the delayed filing season this year many refunds were received later than in previous years. You can eliminate this annual wait from the IRS for your refund by not getting one in the first place. Simply adjust your withholding taxes from your paycheck, pension, unemployment checks or social security checks. It's easy. Call the payor of your check (your payroll department for paychecks) and fill out the paperwork. The IRS even has an online calculator to help you [www.irs.gov/irs-withholding-calculator](http://www.irs.gov/irs-withholding-calculator). Or, call me. I can help with your calculation.

### • Hobby or Business?

All work and no play makes Jack a dull boy! It's good to have a hobby. But if your hobby is turning into a regular money-maker, you might want to consider treating it as a business. When your hobby produces income, you owe tax on it. You can reduce your taxable hobby income by deducting your hobby expenses, but this tax break is limited. The expenses are counted as part of the miscellaneous section of Schedule A. You must have more than 2% of your adjusted gross income before you can claim them. However, you have more options when your profitable hobby is a real business. By filing a Schedule C, you get more chances to write off your hobby-turned-business costs. Remember though, when you run a business, you'll owe self-employment tax on your earnings.

### • Parent Caregiver?

If you're a Baby Boomer, you've probably discovered that your aging means your folks are getting older, too. In many cases, our elderly moms and dads need more and more of our help. If you are taking care of an aging parent, you might be able to get some tax relief by claiming Mom or Dad as a dependent. The biggest hurdle here is providing more than half of a parent's support. You could end up helping yourself out at tax time as well as helping out your folks. Call me for answers to your specific situation.

## • Don't Deduct These!

### 1. Homeowner's Insurance on your residence(s)

The hazard policy you bought to cover damage from fires, theft, tornadoes, hurricanes, winter storms and other disasters, as well as for more routine mishaps, offers peace of mind. What it doesn't provide is a tax deduction for the insurance premiums.

### 2. Main Home Phone

You cannot deduct the cost of your main home telephone landline even if you use that phone primarily for your business. The IRS says that the first hard-wired phone line in your home is considered a nondeductible personal expense. However, the cost of business-related long-distance charges on that phone can be deducted as a business expense.

### 3. Commuting Costs To And From Work

The cost of getting to and from your workplace is never deductible. Taking public transportation or driving to work is a personal expense, regardless of how far your home is from your office. And no, you can't deduct commuting expenses even if you work during the commute.

### 4. Social Security Taxes

You lose a lot of income each payday to Federal Insurance Contributions Act, or FICA, taxes, the money withheld from your checks to pay for your future Social Security benefits. The debate as to whether Social Security will be around when you retire is still raging. But one thing is sure: Don't even think about trying to deduct these taxes. But if you overpaid this tax, you can get a credit for your Social Security over-withholding. There is a limit on how much FICA taxes can be contributed each year. The tax is withheld on up to the Social Security earnings base, which is adjusted annually for inflation, and which for 2013 was \$113,700 and for 2014 is \$117,000. If you had multiple jobs and your combined earnings exceeded the wage base, you probably had too much FICA withheld. You can claim the excess Social Security tax as a credit when you file your tax return.

### 5. Plastic Surgery

The IRS specifically says you generally cannot include in deductible medical expenses the amount you pay for procedures such as face lifts, hair transplants, hair removal (electrolysis) and liposuction. But if a surgery is medically prescribed, for instance, a nose job to treat respiratory issues, then that's OK. The doctor's decision makes it a medical deduction.

### 6. Summer Camps

Some families send the kids off to summer camp. That's a great experience for the kids and eases parental child care concerns. But sleep-over camps, in the summer or any other time of the year, are not tax deductible. However, if you decide instead to keep the kids at home and simply send them to day camp during the hours you're working, that expense could qualify as a claim for the child and dependent care credit.

### 7. Dry Cleaning?

You can deduct the cost of dry cleaning or laundry of business uniforms. Under the tax code, that means attire you can't wear anywhere else. That designation could be hard to nail down. When an outfit is "not suitable for everyday use," the IRS says the costs of upkeep for the apparel can be claimed as an unreimbursed business expense on Schedule A. Also deductible are the cleaning charges for nonprofit uniforms. An outfit required of hospital volunteers or Boy Scout or Girl Scout troop leaders are examples. Here the costs of the uniform and their maintenance would count as a charitable deduction, also claimed on Schedule A.

### 8. Your Pet!

Your affection for your pet or an insurer's willingness to pay for some of your domesticated animal's care doesn't carry any weight with the IRS. Don't try claiming your pet as a dependent. Yes, it has been done. And yes, it is disallowed by the IRS when all of the furry facts are revealed.

## File Jointly If You're A Same-Sex Married Couple

Married same-sex couples now have the same federal tax filing responsibilities as heterosexual couples. Following the Supreme Court invalidation of the Defense of Marriage Act, the IRS instructed same-sex married couples to file jointly or as a married couple filing separately even if the state where they live does not recognize their marriage. This will simplify same-sex couples' federal filings, but if they must pay state income taxes, depending on their state's law, they could still face filing two state returns as single taxpayers.

## Watch For Added Taxes If You're Wealthy

The American Taxpayer Relief Act of 2012 was not kind to wealthier taxpayers. They found out the extent of the damage when we filed their 2013 returns. The top ordinary tax rate is 39.6%. But, you could face added taxes. The most dreaded is the new net investment income tax of 3.%. This is known as the Medicare surtax because the money goes toward that health coverage program for older Americans. Personal exemptions and itemized deduction totals could also be reduced.

## Claim The Simplified Home Office Deduction

The recession has prompted many workers to start their own businesses, many of which are run from their homes. There's good filing news for these entrepreneurs. The IRS continues to offer a simplified home office deduction. While the new deduction option will be welcomed by many, note that the requirements to qualify as a home office still apply. For instance, the office space must be used regularly and exclusively for business. The IRS will allow you to claim a "standard deduction" based solely on the square footage of your home office as long as it is 300 or less square feet.

## Take Advantage Of Inflation Tax Adjustments

Inflation will have a nominal effect on approximately 40 tax provisions in 2014. Most notable is that income brackets were widened a tad. This means you can earn a bit more next year without being bumped into a higher tax bracket. Most people claim the standard deduction. Those amounts for each filing status in 2014 are increased slightly, as is the personal exemption amount. However, the amounts you can contribute to your workplace pension plan and individual retirement account in 2014 will stay the same as in 2013.

## Watch Out For Tax Reform

The last overhaul of the Federal tax code was in 1986. Will we finally see major changes in the Internal Revenue Code in 2014? Probably not. Will we hear a lot of talk about tax reform? Yes. With two years to election time, talk of taxes will make for good campaign ads. Stay tuned!

### Your Tax Calendar

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|---------|--|
| Jun 16  | 2nd quarter estimated tax payments due.                                      |
| Sept 15 | 3rd quarter estimated tax payments due.                                      |
| Sept 15 | Deadline for extended returns for Corporation, Partnerships and Fiduciaries. |
| Oct 1   | Deadline to establish a Simple IRA for self employed or small businesses.    |
| Oct 15  | Extended Returns for 2013 due.   |

*Call any time if you have any questions.*