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December 17, 2014

Dear Client:

The year **2014** is coming to an end, so I remind you that I will be available to prepare your Income Tax Return, beginning **January 19, 2015 – by appointment only!** Please call to schedule your appointment be*ginning January* **5th, 2015.**

See my brand new website at **<u>www.Loditax.com</u>**. Under "**<u>RESOURCES</u>**" there is a wealth of information. Also under the heading of "**<u>NEWSLETTER</u>**" you will find additional information concerning any last minute changes made by Congress. **This will be my last written newsletter. In the future all newsletters and any new important information will be found on my abovementioned website or emailed to you. If you do not have a computer, call my secretary, Sylvia, and you will be placed on a mailing list.**

As is customary, we must strictly adhere to one-hour appointments. If special circumstances require more time, please inform me when we schedule your appointment. If you desire, you may go on extension and your appointment will be scheduled between April 16 and April 30, 2015. You may also drop-off or mail your information to me with an E-mail address and daytime telephone number where I can reach you with any questions.

Beginning in 2015, you are only allowed one IRA-to-IRA transfer per year. It applies for all IRAs that a person has, not separately to each IRA owned. Trustee-to-trustee transfers avoid this limit. They are not treated as rollovers. For phase-out of itemized deductions and personal exemptions see the Tax Newsletter. The child tax credit of $1,000 per child under age 17 is now permanent. For Income Tax Rates and Brackets, please refer to the Tax Newsletter. The American Opportunity Credit (modified Hope Credit) now runs through 2017. Enclosed you will find the 2014 Fall Tax Client Newsletter and Tax Appointment Worksheet.

Because I will need to gather your information during the review process, I will not always be able to immediately determine if you will receive a refund or have a balance due; however, as soon as *your return is processed*, you will be notified.

The following information and documentation, if applicable, will be required:

1. ***Documentation of income from all sources.***

2. ***Medical and prescription expenses***: (insurance premiums, doctors, dentists, drugs, insulin, dentures, hearing aids and batteries, hospitals, labs, glasses, contact lenses and insurance, lodging and transportation primarily for, and essential to, medical care.) Also, smoking cessation programs are now tax-deductible.

3. ***Real Estate, Homestead Rebate*** received, **Sales Tax paid** on cars.

4. ***Interest expenses*** paid on mortgages, first and second personal homes only. Also, points paid on the purchase of a residence.

5. ***Contributions*** to charities and non-cash donations. Make all of your contributions to charities before December 31, 2014. Please be aware of **<u>Heightened Substantiation Rules</u>.**

6. ***Casualty and theft losses*** are deductible above 10% of Adjusted Gross Income. Moving expenses are also deductible.

(Over)

7. ***Miscellaneous deductions*** – All non-reimbursed employee business expenses, union and professional dues and assessments, safe-deposit box used to store investments, work clothes not suitable for normal street wear, education expenses, subscriptions to business magazines and periodicals, investment expense, tax preparation fees, job-seeking expenses, gambling losses to the extent of winnings, tuition and fees to improve job skills, etc. All of the above expenses are subject to a 2% floor of Adjusted Gross Income with the exception of gambling losses.

8. ***Childcare expenses*** – The dependent must be under age 13 for you to qualify for the dependent care credit. The taxpayer claiming the credit must provide the IRS with the name, address, and taxpayer identification number of the person to whom the expenses for childcare were paid.

9. ***Form 1095-C, Form 1095-A, or Form 1095-B – if you received it from your employer or private insurer.***

Social Security Tax. Effective for wages paid during the calendar year 2014, the employee side of the Social Security tax is 6.2%. The retirement earnings test exempt amount for 2015 is $15,720 per year between the ages of 62 until you hit full retirement age of 66 or 67 depending on your year of birth.

The 2010 Health Care Legislation known as the Affordable Care Act (ACA). The ACA provides that all "applicable individuals" will have to ensure that they are covered under a health insurance policy that provides "minimum essential coverage" beginning January 1, 2014. Clients can provide a variety of information showing they have coverage through an employer or private insurance company. In some cases we are going to have to take oral testimony. See the Tax Client Newsletter for additional information.

For those who want their tax returns sent by email, please advise us during your appointment and we will email your return in PDF format in lieu of printing a copy. If you need a paper copy, you can always print it later. I will also maintain copies for the required length of time.

The IRS 2014 standard mileage rates for the use of a car (also vans, pickups or panel trucks) will be: $0.56 (56 cents) per mile for business miles driven, $0.235 (23.5 cents) per mile driven for medical or moving purposes, and $0.14 (14 cents) per mile driven in service of charitable organizations.

For the year 2015, the wage base for Social Security withholding will be $118,500. There is no wage base for Medicare. For seniors or disabled there will be a 1.7% cost-of-living hike for Social Security in January 2015.

If the IRS requires an **audit, or there is other correspondence from the Internal Revenue Service Center or any State taxing authorities that require my assistance, it will result in additional charges.**

If you have any questions, please call 973-773-5510 or email george@loditax.com. As always, referrals are welcome and greatly appreciated.

Best Wishes for a Healthy and Happy Holiday Season. We look forward to serving you again in the New Year.

Sincerely yours,

George Panagiotou, EA, ATA, ATP
Enrolled Agent

Tax Appointment Worksheet

The Tax Appointment Worksheet is a tool to help you gather the needed information for new and returning clients for the 2014 tax year. This year's worksheet has been enhanced to reflect the changes in tax law. This year will be the first year that you will need to report whether you are covered by health insurance or meet an exception. For those who have received a government subsidy for the purchase of health insurance, there will be a reconciliation of that subsidy. For those who were eligible to take the subsidy but opted to receive the credit, the credit will be calculated on this year's return.

	EVENT	DOCUMENTS OR INFORMATION NEEDED
1	Married, divorced, or separated in 2014	• Married – prior year's returns of both spouses • Divorced – finalized date; copy of the divorce decree • Separated – copy of the separate maintenance agreement • Community property income allocation • Alimony paid or received
2	Birth or adoption	• Social Security cards and adoption papers
	Adoption Credit	• Date and amount of expenses, date of adoption, special needs certification
3	Death of child or spouse	• Date of death
4	Additional members of household	• Date of occupancy and relationship
5	Job change	• Start date • Name of new employer • W-2s from new and old employers • Job-related moving expenses
6	Unemployment	• Unemployment Form 1099-G
7	Retirement contribution	• Type of plan • Amount of contribution
8	Retirement distributions	• Form 1099-R • Rollovers • RMD information if 70½ or older
9	Social Security benefits	• Form 1099-SSA
10	Sale of stocks, bonds, etc.	• Form 1099-B or other sale documents • Basis or original costs
11	Purchase of stocks, bonds, etc., personal residence, or other real estate	• Purchase documents, closing papers
12	Inheritance	• Will, K-1 from the estate • Decedent's basis of property if death occurred in 2010
	Gifts made or gifts received	• Cash or property in excess of $14,000 per person • Description of property given, basis, donee name • Property – basis of donor
13	Trade any property	• Date of trade, property given up and property received, basis and FMV • Qualified intermediary sales agreements or closing papers
14	Start or end a small business (Schedule C, LLC, S or C Corp, partnership)	• Formation or termination dates • Property contributions or distributions • K-1s, if applicable
	Business income/ expenses	• 1099-Ks received for use of credit cards • Inventory numbers, if applicable • Mileage information

15	Lawsuit settlements	• Date received • Reason for the settlement • 1099-MISC
16	Rental property	• Income • Expenses • New property purchased
17	Prizes	• Form 1099-MISC • Value of prizes not included on Form 1099-MISC
18	Lottery or gambling winnings	• Total amount won whether on W-2G or not • Total amount of losses
19	Health insurance; medical, dental, or drug expenses	• Health insurance premiums • Post-tax payments • Totals of other medical, dental, and drug expenses. If the health insurance is pre-tax (i.e. cafeteria plan, Sec. 125, POP), premiums have already been deducted from wages
	Medical miles (23.5 cents per mile)	• Total medical miles driven January–December
	Health insurance coverage verification	• Forms in the 1095 series may be received from your employer or the marketplace or any other relevant information
	Health savings account contribution/distribution	• Forms 5498-SA, 1099-SA
20	State income taxes; property taxes; sales taxes on vehicles, motorcycles, or homes	• Prior year's income tax return • Property tax bills • Closing papers from the purchase or sale of property • Letter from the state regarding any change in a prior-filed return
21	Refinance a home	• Closing papers with amount borrowed • Form 1098 • Description of use of money
22	First-Time Homebuyer Credit	• Credit no longer available
	Recapture of credit taken in 2009 or after	• Sale or change of use from principal residence within 36 months of credit • Closing papers if sold
	Recapture/repayment 2008 credit	• Sale or change in use • Record of amount repaid—year 5 of 15
23	Charitable contributions of money, property, or out-of-pocket expenses	• Date, amount, and type of contributions • Knowledge that receipts from the organizations have been received • Statement regarding whether goods and services were received for donation • Mileage log for charitable work • Vehicle donations require Form 1098-C
	Charitable miles (14 cents/mile)	• Total charitable miles driven
	Transfer of IRA to charity	• Brokerage statement showing transfer (may not be allowed for 2014)
24	Job-related expenses	• Meals, lodging, and miscellaneous expense amounts for items related to employment
	Business miles (56 cents/mile)	• Total miles driven per vehicle January–December • Business miles driven per vehicle January–December
25	Education expenses	• Form 1098-T for parent or child (if the child is a student, the form will come to the child) • Actual expense record to verify expenses for credit/deduction purposes • Financial transcript from school needed to show when actual expenses were paid
	Student loan interest	• Interest record for student loans • Form 1098-E
26	Child or disabled spouse care	• Name, address, and ID number of the day-care provider • Amount paid to the provider • If the provider comes into your home, a W-2 may be required
27	Energy credit	• Information regarding the purchase of solar, geothermal, fuel cell, or small wind energy property business or residence • No other residential credit in 2014
28	Bankruptcy filing	• Date filed • Bankruptcy papers to show property rejected/returned by court
29	Debt forgiveness or abandonment of property	• Form 1099-A for abandonment • Date property was taken by the bank or sold in foreclosure • Form 1099-C for cancellation of debt
30	IRS or state communications	• Letters, additional taxes paid, changes in prior-year returns, installment agreements, or offers in compromise
31	Foreign investments or holdings	• Any foreign accounts? • Did value of accounts total more than \$10,000 at any time? • Foreign business interests of stock of \$50,000 or more? • Signature authority over foreign accounts?

TAX NEWS

TAX CLIENT NEWSLETTER

DEAR CLIENT:

Now that you have filed your 2013 income tax return it is time for me to alert you to some of the updates and changes that Congress has enacted or needs to address which will likely affect you for your **2014** income tax return preparation.

Teachers: Call Your Congressional Representative

There is a special deduction which was available for elementary and secondary education school teachers in 2013 which has **expired** and Congress states it will not consider extending until *after* the 2014 Congressional elections are over. The deduction is limited to **$250** and reduces your adjusted gross income which is important for many other tax provisions which may be available to you. This maximum **$250** deduction is reported on the front page of your tax return so you do not have to itemize your deductions in order to take advantage of this benefit.

If you have costs that you paid or incurred which are *greater than* **$250** then those excess expenditures can be deducted on **Schedule A** of your Form 1040 if you *elect* to itemize your deductions. In addition, those excess expenditures are subject to a **2%** of Adjusted Gross Income (AGI) limitation which means that you will only be able to actually deduct the amount *greater than* **2%** of your AGI. For instance if you spent **$1,000** during 2013 you would have been able to deduct **$250** on the front page of your return and the *excess* **$750** is limited. If your AGI is $35,000 then **2%** of $35,000 is **$700** and you would absorb that *first* $700 and *only* the **$50** excess would be an allowable deduction.

The **$250** deduction was available for classroom supplies, books, computer equipment, software and any other supplementary materials used in the classroom. This deduction **expired** at the end of 2013. The deduction was also available for principals, librarians and other classroom assistants who are considered full-time workers. Call me for more details so that we can discuss this and any other questions that you may have.

Some Itemized Deductions on Schedule A Have Expired: Call Your Representative in Congress

If you elect to itemize your allowable personal deduction items on **Schedule A** then there are a few deductions that have expired at the end of 2013. One item is the sales tax deduction for those taxpayers who do not pay any or pay little state income taxes. Therefore, based on Tables established by the IRS you may be able to deduct the sales taxes paid on your consumption of goods and services. In addition to the Standard Table amounts you can also deduct the sales tax paid or incurred on big ticket items such as automobiles, boats, building materials, etc. You will need to have your receipts in order to deduct and verify the sales tax deduction. Contact me for more information.

The other Schedule A itemized deduction that expired *after* 2013 is the deduction for Mortgage Insurance Premiums **(PMI)**. If you have a mortgage and are paying **PMI** then you could be eligible for this deduction. The deduction does have a phase-out provision once your Adjusted Gross Income (AGI) reaches $100,000. It is completely phased out when your AGI reaches $110,000.

CHILD TAX CREDIT

There is a Child Tax Credit available to qualified taxpayers who have a dependent child *under* the age of **17** at the close of 2014. The maximum credit is **$1,000**. The credit is available to a taxpayer based on their filing status and modified Adjusted Gross Income.

The credit is phased out as income rises. For a single taxpayer with one qualifying child the phase-out begins at $75,000 and is completely gone at $94,001. It is the same range for those taxpayers with a filing status of Head of Household. For taxpayers filing a married joint return the phase-out for one qualifying child is from $110,000 - $129,001 and for a filing status of married filing separately it is half of that of at $55,000 - $74,001. Give me a call so we can discuss in further detail.

Some Education Benefits Still Alive But One Has Expired: Contact Your Congressional Representative

Congress extended a few tax benefits that will help you if you are paying for post high school education expenses. These benefits come in the form of a **credit**. A **credit** is an item which reduces your actual tax.

The American Opportunity Credit is still available for those taxpayers who have a modified adjusted gross income below a specified threshold amount depending on their filing status. The credit can be as high as **$2,500** for *each* of the taxpayer's qualifying students. A qualifying student could be the taxpayer, the spouse or a *dependent* child of the taxpayer. The **$2,500** maximum credit is available for a married couple filing a *joint return* who has a modified AGI of *less than* **$160,000**. The **$2,500** amount is reduced as the income grows to **$180,000**. After that level it is completely phased out. If you are a taxpayer whose filing status is single or head of household then the levels of income are half of those amounts *beginning* at **$80,000** and *ending* at **$90,000**. A taxpayer who files as married filing separately cannot take advantage of the credit. In order to get the full **$2,500** credit the taxpayer must pay a total of **$4,000** in qualifying tuition, fees and required course materials. The first $2,000 qualifies for a **100%** credit therefore $2,000 and the second $2,000 qualifies for a **25%** credit which would be $500. This is especially attractive for those taxpayers who may be attending a community college where the tuition and fees are generally less expensive than those at a 4 year university. The credit is available for the first 4 years of post-high school education. The provision has been extended through 2017. Contact me to discuss your needs.

Another education benefit that Congress has renewed is the deduction for Student Loan Interest. It is available even if you do not elect to itemize your deductions on Schedule A. The maximum deduction is **$2,500** per year. It is available to all taxpayers *except* those with a filing status of married filing separately. There is a modified adjusted gross income test which *begins* at **$65,000** and *ends* at **$80,000** for a filing status of single and head of household and for a married couple filing a joint return it *begins* at **$130,000** and *ends* at **$160,000**. The important issue to be aware of is that no matter what the filing status is on your return the maximum deduction is always *only* **$2,500**. If two single people file their returns then **each** is eligible for the maximum **$2,500**. However, if those two single people were to marry and file a joint return then there is only **one $2,500** deduction. And remember if they file married separately then they get no deduction. Contact me for more details.

There is another education benefit that **expired** at the end of 2013 that we are waiting for Congress to extend for 2014 and beyond. The benefit is the deduction for "qualified higher education expenses" which is also available for those taxpayers who do not itemize deductions on Schedule A. This benefit would be available for each qualifying student on the tax return. The deduction could be $2,000 based on your modified AGI or $4,000 if your modified AGI is *lower than* a specified threshold amount based again on your filing status. If your filing status is single or head of household and your income is **$65,000** or less then you could be eligible for a **$4,000** deduction. If your income is *greater than* **$65,000**, but is not greater than **$80,000** then you would be eligible for a **$2,000** deduction. Any amount *greater than* **$80,000** disqualifies you from the deduction. For a married couple filing a joint return the **$4,000** deduction is available if your income is *less than* **$130,000**. If it is *more than* **$130,000** but not *more than* **$160,000** *then* you would be eligible for the **$2,000** deduction. If you are married but file separately from your spouse then the deduction is not available to either of you.

Consider Making IRA Contributions

Contributions to an Individual Retirement Account (IRA) are a good way to save for your future. The **maximum** contribution for 2014 is **$5,500**. Anyone who has "earned income" such as wages, salary and self-employment is eligible to make the IRA contribution. The taxpayer with a modified AGI below specified thresholds based on their filing status has the opportunity to deduct their contributions therefore paying less tax in the current year. Again the ability to deduct your IRA contribution is based on levels of income. For a married couple filing a joint return if your income is *less than* **$96,000** then you can deduct **$5,500** in full for both you and your spouse even if only one of you has earned income. Therefore with a minimum of $11,000 of total earned income you could deduct it in full. As your modified AGI increases up to $116,000 you begin to lose the ability to deduct the contribution. However, the excess amount can be contributed to a Roth IRA which is a non-deductible contribution but the growth will never be included in your gross income when you take a future distribution. Call me about the details of contributions and distributions of a Roth IRA and by the way if you are age **50** or greater on the last day of the tax year then you can contribute an *additional* **$1,000** for what is called the "catch up" contribution.

For taxpayers whose filing status is single or head of household you are eligible for a **$5,500** deductible IRA when your modified AGI is **$60,000** or less. When you have an income in *excess* of **$70,000** you can no longer make a deductible IRA. Between $60,000 and $70,000 the $5,500 is phased out but again you should contact me about the benefits of a Roth IRA contribution.

There is a special rule only for married couples who file a joint return where one spouse either does not have any earned income or has earned income but is not eligible to participate in an employer's pension plan. If this is your situation then for 2014 you can have a **$5,500** deductible IRA contribution when your joint modified AGI is **$181,000** or less. The **$5,500** maximum deductible contribution decreases as your income grows *between* **$181,000** and **$191,000**. And again if you and/or your spouse is age **50** or older on the last day of the tax year then you can contribute an *additional* **$1,000** for each qualifying spouse for the "catch up" contribution.

HEALTH CARE LEGISLATION ISSUES

2013 began the era of the new *additional* Medicare tax on wages and self-employment income of specified taxpayers based on their filing status and level of wages. Many taxpayers will not be affected by the imposition of this new tax but those who are or will be in the future need to be aware of the changes. A new *additional* Medicare tax of **.9%** was imposed on wages in excess of certain amounts. A single taxpayer including those with a filing status of head of household will have the tax assessed against them on wages *greater than* **$200,000**. For a married couple filing a joint return that amount is **$250,000** and for those with a filing status of married filing separately the amount is half of that at **$125,000**.

As an example, if a taxpayer who is single has wages of **$225,000** which is **$25,000** over the threshold amount of **$200,000** then that *excess* **$25,000** would have an additional tax of $225. If that taxpayer was married and filed a joint return with the spouse then there would not be an additional tax imposed because the threshold amount for a married couple begins at **$250,000**. However, if the taxpayer earned $225,000 and files a return separate from the spouse then the *excess* amount would be $100,000 since the threshold is half that of filing joint, which is **$125,000** as a result the additional Medicare tax would be **$900** which is **.9%** of **$100,000**.

This would be the same result for a taxpayer who is self-employed. Call me soon to discuss your situation. There may be a need for you to either increase your withholding or increase your quarterly estimated tax payments. Note that employers are not required to withhold the additional tax until the employee's Medicare wages actually *exceed* $200,000 no matter what your filing status may be when you actually file the return.

In addition to the new Medicare tax on wages and self-employment income, there is also an additional Medicare tax of **3.8%** being assessed on what is called "net investment income" of specified taxpayers based again on the filing status. The **3.8%** tax will be assessed on the *lesser* of a taxpayer's "net investment income" or the excess of (if any) of the taxpayer's modified AGI *greater than* a specified threshold amount. The threshold amounts are again based on filing status and fortunately are the same thresholds as we saw for wages and self-employment income of **$200,000** for single and head of household, **$250,000** for married filing joint and **$125,000** for married separate. For example, if you are single and you have net investment income of **$1,000** and your modified AGI was $250,000 then your additional tax would be 3.8% of *the lesser of* $1,000 or **3.8%** of the excess of $50,000 ($250,000 - $200,000). Therefore, you would pay an additional Medicare tax of **$380**. If you were married filing a joint return then you would not have an additional tax because the threshold would be **$250,000** and there would be no excess (3.8% x $0 - $0). However, if you were married filing a separate return then your excess would be **$125,000** and you would pay **3.8%** of the *lesser of* the excess $125,000 or **3.8%** of the $10,000 which would still result in **$380**.

For this purpose "net investment income" includes the gross income from taxable interest, all dividends, annuities, royalties, rentals, income from passive activity and gain from the disposition of non-business property. From the gross income you will **subtract** all expenses related to these items of income. Contact me so that we can discuss the major details of this change. Your investment income will not include any distributions from pension plans of any kind including IRAs and it will not include any item which is not included in gross income for federal income tax purposes. Therefore, municipal bond interest is not included and the *excluded* gain from the sale of your principal residence is not included.

Also there is a major change which began in 2013 for the ability to deduct medical expenses on Schedule A. Prior to 2013 a taxpayer had to reach a 7.5% floor amount before the first dollar of medical expenses could be deducted. As an example, if the taxpayer had an Adjusted Gross Income (AGI) of $100,000 in 2012 then the taxpayer would absorb the first $7,500 of eligible medical costs before they could deduct the first $1. Therefore, if they incurred $10,000 of medical costs not covered by insurance or reimbursed then they would have an allowable deduction of $2,500. However, beginning in 2013 the floor was increased to 10% so there would be no excess amount which could be deducted.

MORE ON HEALTH CARE

In March of 2010 Congress passed health care legislation which has become known as the "Affordable Care Act" or ACA. For purposes of filing your **2014** tax returns and beyond you may be eligible for a new refundable credit called the "Premium Assistance Credit" **(PAC)**. You are eligible if you have obtained your insurance coverage through the government's "market place" or American Health Benefits Exchange. Each state was required to establish an exchange no later than January 1, 2014. For those states that did not do so, there is a Federal Exchange through which insurance can be obtained. The credit is available if the insurance you obtained meets the requirements of "minimal essential coverage" as provided in the legislation. About 8 million individuals have acquired insurance coverage through the Exchanges and about 6.7 million are eligible for the premium assistance credit and you may be one of them. The credit is based on your modified adjusted gross income which will be determined when we prepare your 2014 federal income tax return in 2015. If you are eligible for the credit then you may have already benefitted by it in the form of an "advanced" PAC where the government has paid a portion of your monthly premiums directly to the insurance provider. In order to determine whether you will receive additional credit or have to give some of the credit back because your income actually increased over what was reported when you applied for the coverage, there will be a reconciliation calculation at the time we prepare your return.

Even if you are not eligible for the PAC everyone is required to have health insurance coverage beginning January 1, 2014 and there could be a penalty imposed for not having coverage. Even if you have coverage you will need to report that fact on your 2014 Form 1040 and we will be required to fill out extra forms with your return as a result of this new legislation. Your insurance provider will be sending you a required government report which you will need to provide to us in order to properly prepare your return.

TAX RATE ISSUES

Congress and the President have come to an agreement on the rate structure for the 2014 income tax rates and were able to agree to continue the **10%** income tax bracket which was supposed to have expired. In addition, there was much controversy about restoring the 36% and 39.6% brackets which were instituted during the Clinton Administration and temporarily set aside during the Bush Administration. Most taxpayers were not impacted by any change in tax rates in force because the graduated rate structure of 10%, 15%, 25%, 28%, 33% and 35% are still here. The **36%** bracket was not restored but the **39.6%** was restored and the table below illustrates the impact during 2014 based on filing status.

Taxable income where the 39.6% rate is assessed:

Filing Status	Amount
Single	>$406,750
Head of Household	>$432,200
Married Joint	>$457,600
Married Separate	>$228,800

Also the following chart shows all of the tax brackets for 2014.

In addition, the "long-term capital gain" rate has been left intact at 15% except for those taxpayers who are in the 39.6% bracket. Those taxpayers will be taxed at a 20% long-term capital gain rate. For those same individuals in the 39.6% bracket if they have excess "qualified dividend" income in 2014 then the excess also is taxed at 20%.

Note: Trust and Estate will no longer have a **35%** bracket. It is replaced by **39.6%**. Also, there is no **10%** bracket for Trusts and Estates.

Phase-out of Itemized Deductions and Personal Exemptions

For 2014 every taxpayer will be eligible for a personal exemption and a dependency exemption of **$3,950** for each qualifying dependent. However, certain taxpayers based on their filing status with an AGI *greater than* a specified threshold amount will begin to lose the benefit of those exemptions according to the schedule below:

Filing Status	AGI Threshold
Married Couples & Surviving Spouses	$305,050
Head of Household	$279,650
Single	$254,200
Married Separate	$152,525

Once the taxpayer is beyond the phase-out level no exemptions are allowable. As a result the taxpayer is paying an effective rate which is *greater than* the amounts in the brackets.

For itemized deduction issues on **Schedule A** the total itemized deductions begin to be phased-out at specified dollar amounts with the excess multiplied by **3%**. As a result while specific itemized deductions (such as mortgage interest charitable contributions, etc.) are not disallowed, total itemized deductions are reduced by the phase-out rule.

Again the effective rate of tax paid is *greater than* the rate according to the graduated rate tables. The phase out is based on filing status and is the same

2014 TAXABLE INCOMES AND BRACKET THRESHOLD LIMITS

Filing Status	10%	15%	25%	28%	33%	35%
Single	$9,075	$36,900	$89,350	$186,350	$405,100	$406,750
Head of Household	$12,950	$49,400	$127,550	$206,600	$405,100	$432,200
Married Joint & Surviving Spouse	$18,150	$73,800	$148,850	$226,850	$405,100	$457,600
Married Separate	$9,075	$36,900	$74,425	$113,425	$202,550	$228,800
Estates & Trust		$-0-	$2,500	$5,800	$8,900	$12,150

AGI test as for the phase-out of exemptions as stated below.

Filing Status	AGI Threshold
Married Couples & Surviving Spouses	$305,050
Head of Household	$279,650
Single	$254,200
Married Separate	$152,525

THE 2010 HEALTH CARE LEGISLATION KNOWN AS THE AFFORDABLE CARE ACT

The 2010 Health Care Legislation known as the Affordable Care Act (ACA) provides that all "applicable individuals" will have to ensure that they are covered under a health insurance policy that provides "minimum essential coverage" beginning January 1, 2014. The coverage must include the taxpayer, spouse and those dependents of the taxpayer claimed for the dependency exemption on their tax returns. If the taxpayer does not have the "minimum essential coverage" in 2014, then a penalty known as a "shared responsibility payment" may be assessed on the 2014 tax return when it is filed in 2015.

Some taxpayers will not be assessed the penalty if they satisfy any of the following categories:

- Qualify for religious conscience exemption which the taxpayer will need to verify
- Member of a healthcare sharing ministry which will also need to be verified
- Any month in which the taxpayer is not a US citizen or US national or an alien lawfully present in the US
- The person is incarcerated other than incarceration pending the disposition of charges

In addition to those listed above, there are additional individuals who will not be assessed a penalty because they have coverage under a government sponsored program as follows:

- Medicare
- Medicaid
- CHIP
- TRICARE for Life program
- VA Health Care program
- Peace Corps

In addition, the following taxpayers are also deemed to have "minimum essential coverage" and will not be assessed a "shared responsibility payment" (penalty):

- Those with coverage under an eligible employer-sponsored plan
- Coverage under a health plan offered in the individual market within a state
- Coverage under a grandfathered plan which existed *prior* to enactment of the ACA which has not substantially changed the terms of coverage
- Any other health benefits coverage such as a state health benefits risk pool, which the Secretary of Health and Human Services with coordination with the IRS recognizes as "minimum essential coverage"

There are also some "applicable individuals" who will be provided with an exemption from the requirement to maintain a minimal level of health coverage as follows:

- Individuals who cannot afford coverage which is defined as a premium payment amount which is *greater* than 8% of the taxpayer's household income (e.g., if the taxpayer's household income was $40,000 and the total annual premium was *greater* than $3,200 then the taxpayer would be exempt from the required coverage)
- Taxpayers with income less than the threshold for filing an income tax return (e.g., a single taxpayer will have a personal exemption of $3,950 and a standard deduction of $6,200 totaling $10,150 and $20,300 for a married couple filing a joint return in 2014)
- Months during "short coverage gaps" which is for taxpayers not covered for a continuous period of 3 months or less (without regard to a calendar year)
- Members of Indian tribes
- Hardships as defined by Health and Human Services

If the taxpayer is not covered or exempt, then the "shared responsibility payment" (penalty) that will be assessed on the taxpayer's individual tax return will be the greater of a flat dollar amount or a percentage of the taxpayer's household income over the threshold for filing a tax return. In 2014, the flat dollar amount is $95 per person up to 3 persons in a family for a total of $295. In 2014, the percentage is 1%. Therefore if a single taxpayer has household income in 2014 of $19,650 or less, the shared responsibility payment will be $95 ($19,650-10,150=$9,500 x 1%=$95). If the amount were $20,650 the payment would be $105 ($20,650-

10,150=$10,500 x 1%). The maximum penalty will be no greater than the national average cost of what the law calls a "bronze" plan.

For more information, please contact me.