# TaxTips

Winter 2013

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## IRS Announces One-to-Two Week Filing Season Delay

IRS has announced a delay of approximately one to two weeks to the start of the 2014 filing season to allow adequate time to program and test tax processing systems following the 16-day federal government closure.

*Background on the shutdown.* Due to the House and Senate's failure to pass a short-term spending bill to keep the government funded, the government was shut down on October 1. The shutdown affected nearly all governmental agencies, including IRS.

The government shutdown continued until October 17, when Congress finally approved a bill to prevent a debt ceiling breach and reopened the government.

IRS said that it is exploring options to shorten the expected delay and will announce a final decision on the start of the 2014 filing season in December.

The original start date of the 2014 filing season was January 21, and with a one-to-two week delay, IRS would start accepting and processing 2013 individual tax returns no earlier than January 28 and no later than February 4.

*Filing deadline unchanged.* IRS noted that the April 15 tax deadline is set by statute and will remain in place. However, it also reminded taxpayers that anyone can request an automatic six-month extension to file his tax return.

**IMPORTANT NEWS!**

**See inside for a simplified explanation of Obama Care.**

## Garnished Wages

***What you need to know for payroll purposes***

Wage garnishment occurs when an employer is required to withhold the earnings of an individual for the payment of a debt in accordance with a court order or other legal procedure.

Title III of the Consumer Credit Protection Act (CCPA) permits a greater amount of an employee's wages to be garnished for child support, bankruptcy or federal or state tax payments. Title III allows up to 50 percent of an employee's disposable earnings to be garnished for child support if the employee is supporting a current spouse or a child who is not the subject of the support order, and up to 60 percent if the employee is not doing so. An additional five percent may be garnished for support payments over 12 weeks in arrears.

An employee's disposable earnings is defined as the amount of earnings left after legally required deductions and expenses—federal, state and local taxes, social security, unemployment insurance and state employee retirement systems contributions—have been made. Deductions and expenses not required by law, such as union dues, health and life insurance and charitable contributions, are not subtracted from gross earnings when the amount of disposable earnings for garnishment purposes is calculated.

## New Simplified Home Office Deduction

The rate for the new simplified method for the home office deduction is $5 per square foot for the part of your home used for business. The maximum footage allowed is 300 square feet. This means the most you can deduct using the new method is $1,500 per year. The space must be used regularly and exclusively for business.

## Certain Tax Provisions Set to Expire at the End of 2013

On January 2, 2013, President Obama signed The American Taxpayer Relief Act into law. This bill is over 150 pages and retroactively extends many of the sunset provisions as well as permanently patching Alternative Minimum Tax (AMT). However, the following items were only extended until December 31, 2013, and without additional extension, will expire in 2014:

- **Teachers** - The $250 deduction for classroom expenses of elementary and secondary schoolteachers.
- **Qualified Principal Residence Indebtedness** - The income exclusion for cancelled qualified mortgage debt (up to $2 million).
- **Mortgage Insurance Premiums** - The payment of PMI premiums is treated as deductible qualified residence interest on Schedule A.
- **State and Local Sales Tax** - The election to claim an itemized deduction for state and local general sales tax in lieu of state income tax.
- **Qualified Tuition Expenses** - The above-the-line deduction for qualified tuition and related expenses.
- **IRA Distributions to Charity** - The rule allowing tax-free IRA distributions (for taxpayers over age 70½) of up to $100,000 if donated to charity.

## Gift Giving

The IRS allows you to give each individual up to the annual exclusion during the year without requiring you to report the gift or file a gift tax return. In 2013, that amount is $14,000. In addition, certain gifts do not count towards the annual exclusion, such as amounts paid directly to qualifying educational institutions for tuition, or amounts paid directly to the person or a medical organization for medical expenses (including health insurance).

If you give more than the annual exclusion to any one individual during the year, you must file a gift tax return to report the taxable gift. Your gift will be taxable to the extent the amount given exceeds the annual exclusion. However, throughout your lifetime, you can give up $5,250,000 (2013 amount) before you are required to actually pay any gift tax.

## Collecting an Unemployment Check?

***Know your filing requirements***

Being unemployed can cause a lot of stress and anxiety. Don't make your situation worse by not paying your taxes. All unemployment compensation and benefits you receive are considered taxable income and need to be reported on your tax return.

If you received unemployment compensation during the year, you should receive Form 1099-G, Certain Government Payments, showing the amount you were paid. Any unemployment compensation received must be included in your income. You can voluntarily elect withholding to ease any resulting tax liability.

## IRS Issues Tax Guidance for Same-Sex Marriages

***Couples can file joint federal returns***

On June 26, 2013, the Supreme Court overturned Sec. 3 of the Defense of Marriage Act (DOMA) as unconstitutional because it violates the equal protection clause of the Fifth Amendment. In layman's terms, this means that same-sex couples, who are legally married, under the laws of either their state or a foreign country, are afforded many federal tax benefits that were previously only allowed to opposite-sex couples.

Same-sex couples will be treated as married for federal, estate and gift tax purposes. Going forward, same-sex couples will be required to file their federal tax return using the married filing jointly or married filing separately status. They also have an option to amend previous year returns. This federal filing status is required regardless of whether or not the couple lives in a state that recognizes same-sex marriage. However, the ruling does not apply to registered domestic partnerships, civil unions or similar formal relationships recognized under state law.

In light of the Supreme Court's decision, states are still allowed to do what they want, and since the laws regarding marriage vary widely from state to state, many unanswered questions remain.

## The Affordable Care Act

*How does the Supreme Court decision affect your taxes?*

At the end of June, the Supreme Court upheld the *Patient Protection and Affordable Care Act of 2010*. The Supreme Court's decision stated the government cannot force the public to have health insurance, but the government can tax the public if they don't. What does this mean for you?

Beginning January 1, 2014, under the new law, most individuals who can afford it will be required to obtain basic health insurance coverage or pay a fee to help offset the costs of caring for uninsured Americans. If affordable coverage is not available to an individual, he or she will be eligible for an exemption. Those who can afford health care and are not covered will be assessed a penalty on their tax return.

To help the government determine who has health care coverage, employers have been required to report the cost of coverage under an employer-sponsored group health plan on the employee's Form W-2. Reporting the cost of health care coverage on the Form W-2 does not mean that the coverage is taxable. The value of the employer's contribution to health coverage continues to be excludable from an employee's income, and it is not taxable. This reporting is for informational purposes only and will provide employees useful and comparable consumer information on the cost of their health care coverage.

**See details on next page.**

## Overseas Bank Accounts

*Do you know what special reporting is required?*

If you have a bank account, brokerage account, mutual fund, trust or other type of foreign financial account, you may need to file Form TD F 90-22.1, *Report of Foreign Bank and Financial Accounts (FBAR).*

The IRS requires certain tax-payers to file an FBAR because foreign financial institutions may not be subject to the same reporting requirements as domestic financial institutions. The FBAR is a tool to help the United States government identify persons who may be using foreign financial accounts to circumvent United States tax law. Investigators use FBARs to help identify or trace funds used for illicit purposes or to identify unreported income maintained or generated abroad.

In general, you must file an FBAR when the total value of all foreign financial accounts that you own or have signature authority over exceeds $10,000 at any time during the calendar year. The FBAR is not filed with your federal income tax return; it is an annual report that the Department of the Treasury must receive on or before June 30 of the year following the calendar year being reported. Your tax professional can help you with this filing if required.

## Obama Care Simplified Explanation

Here is a simplified Obama Care explanation of what every American should know about our new health care law. The Affordable Care Act (ACA) does a lot, luckily most of us don't need to know the details, let's take a look at what we do need to know:

- Obama Care doesn't create health insurance; it regulates the health insurance industry and helps to increase quality, affordability and availability of private insurance.
- Most people who currently have health insurance can keep it.
- Young adults can stay on their parents plan until 26.
- If you don't have coverage, you can use the new Health Insurance Marketplace to buy a private insurance plan.
- Open enrollment in the Health Insurance Marketplace goes from October 1st, 2013 to March 31st, 2014.
- If you don't obtain coverage or an exemption by January 1st, 2014 you must pay a per-month fee on your federal income tax return for every month you are without health insurance.
- In 2014 the fee is $95 per adult ($47.50 per child) or 1% of income, whichever is higher. The family max is $285.
- The penalty is a reduction of your 2014 tax refund. The IRS will not collect any payments.
- The cost of your marketplace health insurance works on a sliding scale. Those who make less, pay less.
- American making less than $45,960 as individual or $94,200 as a family of 4 may be eligible for premium tax credits through the marketplace. Tax credits subsidize insurance premium costs.
- If you are able to get qualified health insurance through your employer you won't be able to receive marketplace tax credits unless the employer doesn't cover at least 60% of your premium cost, doesn't provide quality insurance or provides insurance that exceeds 9.5% of your family's income.
- If you are able to get qualified health insurance through your employer you won't be able to receive marketplace tax credits unless your employer doesn't cover at least 60% of your premium cost, doesn't provide quality insurance or provides insurance that exceeds 9.5% of your family's income.
- Up to 82% of nearly 16 million uninsured young U.S. adults will qualify for federal subsidies or Medicaid through the marketplace.
- You don't have to use the marketplace to buy insurance, but you should fill out an application to see if you qualify for assistance before shopping for insurance outside of the marketplace.
- The ACA does away with pre-existing conditions and gender discrimination so these factors will no longer affect the cost of your insurance on or off the marketplace.
- You can't be denied health coverage based on health status.
- You can't be dropped from coverage when you are sick.
- Health Insurers can't place lifetime limits on your coverage. As of 2014 annual limits are eliminated as well.
- All new plans sold on or off the marketplace must include a wide range of new benefits including wellness visits and preventative tests and treatments at no additional out-of-pocket cost.
- All full-time workers who work for companies with over 50 employees must be offered job based health coverage by 2015. Employers who do not offer coverage will pay a per-employee fee.
- Small businesses with less than 50 full-time employees can use a part of the marketplace called the SHOP (small business health options program) to purchase group health plans for their employees.
- Small businesses with less than 25 full-time employees can use the marketplace to purchase subsidized insurance for their employees.
- Medicare isn't part of the marketplace. If you have Medicare keep it!
- Medicaid and CHIP are expanded to provide insurance to up to 16 million of our nation's poorest.
- When you apply for the marketplace you'll find out if you qualify for free or low-cost coverage from Medicaid or the Children's Health Insurance Program (CHIP). You'll also be made aware if you qualify for Medicare.
- You can find links to the State Exchanges at **Healthcare.gov** or **www.accesshealthct.com**.
- You have until December 15th to sign up for January coverage.