



Sauppé Tax News

Brought to you by
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An Interesting Year!

Special points of interest:

- Year in Review
- Affordable Care Act
- Charity Documentation
- State or Foreign Country Taxes

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Once again it has been a very interesting year. We saw the federal government shut down for 2 weeks. We saw the launch of the Affordable Care Act website. Section 3 of DOMA (Defense of Marriage Act) was ruled unconstitutional (the other sections have not yet been challenged). And this was the year the federal income tax turned 100.

Yes, President Wilson signed the federal income tax law on October 3, 1913. This was not the first time the country had income taxes (we had something similar in the 1860's and 1870's as a result of the City War and its aftermath). The tax brackets in 1913 were 1% on the first \$20,000 of income up to 7% on income over \$500,000. Those dollars would equate to \$463,826 and \$11,595,657 in today's dollars. The instructions for completing the return for 1913 fit on one page. The instructions for the 2012 1040 was 214 pages.

The Affordable Care Act is now a reality for all Americans to deal with and does

not appear to be going away anytime soon. See the article on Page 4 regarding this Act and how it may affect you.

The ruling by the Supreme Court on DOMA now requires same-sex couples who were legally married in a state or country that recognizes same-sex marriage to file either a married filing joint or married filing separate federal tax return even if they currently reside in a state or country that does NOT recognize the marriage. This has tax implications for many state returns such as Ohio that normally requires a joint state return when a joint federal return is submitted. However, same-sex married couples who file a joint federal return will be required to file separate single state returns (thus probably reducing their Ohio taxes) since Ohio does not recognize same-sex marriages.

The government shutdown, even though it lasted only a few weeks, could have long range consequences for us. One obvious one is the fact

that the first date tax returns can be filed for 2013 will be delayed at least one week and possibly two weeks. This is similar to what happened last year for certain returns, though this year ALL returns will be affected. In light of what the IRS did during the shutdown, you may want to rethink your refund policy on your return. See the article on Page 2 regarding refunds and the reasoning behind reducing or eliminating them altogether.

A few other issues for 2013 include the reinstatement of the Pease limitations whereby itemized deductions and personal exemptions can be limited if your income is too high.

For those of you who file Ohio tax returns, there will also be changes to the Ohio tax laws as a result of the new budget bill effective 7/1/13. These changes may result in lower income taxes, but have already resulted in higher sales tax and will gradually phase in increases in real estate taxes as the state roll-backs are phased out.

Don't forget your RMD—If you are required to take a minimum distribution from your retirement accounts, be sure to do so before 12/31/13. Failure to comply with the requirements can cause you to incur a penalty of 50% of the amount that should have been withdrawn.

Rethinking Refunds

Normally we all like to get a refund on our tax returns. For some, this is a forced savings plan and they use that refund to pay for a vacation or home improvements when it arrives. But you may want to rethink that policy in light of what is happening in the world today.

First, getting a refund simply means the IRS was allowed to use your money interest free all year.

Second, if you become a victim of identity theft, it can take months or even years to obtain your legitimate refund.

Third, what happens if the government goes through another shutdown and the IRS does not issue any refunds as they did during the 2013 shutdown? They were quite willing to accept any and all payments but would not issue refunds. In fact, if a payment was not made in time, penalty and interest was still applied though no interest was paid on refunds.

We are not proposing that you reduce your withholding in such a way that you have a large balance due on your tax return. As many of you have heard us say over the years, we think you should strive to owe under \$100 or get a refund of under \$100 on your return. Getting your amount into that range can be a difficult task. However, look at your 2012 return. If you received a large refund, consider increasing the number of exemptions you are claiming at work. Increase the exemptions by one and compare the new paycheck to the old. Then multiple the decrease in withholding by the number of periods remaining in the year to determine how this will change your refund. Continue to adjust by one exemption each time until you reach a refund amount which makes you comfortable.

IRS Correspondence

Nobody likes getting that letter with the IRS return address. And we have seen more and more of those letters going out to taxpayers with erroneous requests for additional taxes. Part of our service to you had included responding to these IRS letters with no additional fees for this service. However, in the future, if the IRS letter **is the result of IRS errors** in processing your return, we may have to impose a fee to contact the IRS on your behalf. One reason for this change in policy is the fact that now wait times to reach an IRS auditor on the phone can often be over an hour or more. Another is the discontinuance by the IRS of the Electronic Account Resolution program. This program allowed tax practitioners to contact the IRS via secure e-mail to resolve client issues, but that option is no longer available. Any correspondence that is the result of something this office did incorrectly or failed to do will, of course, be handled at no cost to you.



What To Do When You Owe

Your return is done and you find you owe the IRS a large amount. What happens now?

If the balance due is less than \$1,000, there will be no penalty or interest due as long as you make full payment by the return due date (NOT including extensions).

If the balance due is greater than \$1,000 but less than 10% of your total tax for the year (for example, your total tax on Line 61 of the 2012 1040 is \$12,000 and your tax due is \$1,100), there will be no penalty or interest due as long as you make full payment by the return due date (NOT including extensions).

No matter what the balance due is, if you have already sent the IRS the amount of your total tax for the prior year (for 2013 returns, that would be Line 61 on the 2012 1040), there will be no penalty or interest due as long as you make full payment by the return due date (NOT including extensions).

If you do not meet any of these exceptions, the IRS can impose a failure to pay penalty of 1/2 of 1% each month the payment is past its required due date.

Keep in mind that this is just the failure to pay penalty. There is a stiffer penalty (5% per month up to a maximum of 25%) for failure to file. So always try to file your return by the due date even if you can't make full payment of the balance due at that time.

The standard procedure in our office is to set up direct withdrawal from your bank account on the due date of the return. This payment will be processed when you return the signed 8879 form and your return is e-filed. If you do not wish automatic withdrawal, you will need to notify this office before your return is completed. You can then use three methods to pay your balance due. You can write a check to the IRS for the full amount due (or a partial amount if you can't make full payment) and mail that payment in directly to the IRS.

You can use your credit or debit card to charge the balance due. Our office cannot process these payments for you. You must do this on your own either via phone or the Internet at <http://www.irs.gov/uac/Pay-Taxes-by-Credit-or-Debit-Card>

There will be a charge imposed by the processor which can vary depending on the provider.

You can request an Installment Agreement from the IRS using Form 9465. Our office can assist you with this if you so request. Keep in mind the IRS will impose a fee to process this form which currently ranges from \$52 to \$120 depending on the payment method you choose.

If you are thinking you can use a bankruptcy proceeding to wipe out back taxes, think again. There are strict requirements that must be met to allow back taxes to be discharged



Charitable Donation Rules Revisited

It never hurts to revisit the rules for deducting donations to charities.

INDIVIDUAL DONATIONS UNDER \$250

Monetary

One of the following:

1. Financial record such as a cancelled check or credit card statement showing the date, amount, and name of the organization.
2. A receipt from the organization showing the same information
3. The end of year pay stub showing the year to date amount if made by payroll deduction.

Non-Monetary

All of the following:

1. A receipt from the organization showing the name, date contributed, location of the contribution, and a detailed list of the property donated.
2. Documentation of the fair market value for each item and the method used to determine, the cost or basis of appreciated property, and terms and conditions (if any) attached to the contribution.

INDIVIDUAL DONATIONS FROM \$250 TO \$500

Monetary

Same as above, PLUS either a payroll record or a written acknowledgement from the charity showing the date and amount and whether any goods or services other than intangible religious benefits were received by the donor, with a good faith estimate of the value of those goods or services.

Non-Monetary

Same as above except the receipt from the charity must also show a reasonably detailed description of the items donated, and must state if any goods or services other than intangible religious benefits were received by the donor. The written acknowledgement does not need to state the fair market value of the items donated.

INDIVIDUAL DONATIONS FROM \$501 AND ABOVE

Monetary

Same as the \$250 to \$500 requirements.

Non-Monetary

Same as the \$250 to \$500 requirements PLUS information on how the property was acquired (purchase, gift, inherited, etc.) and the date acquired, and the cost basis of the donated property.

Any donations greater than \$5000 must generally also have a written appraisal by a certified appraiser.

To assist us in providing the best possible service at the lowest possible price to all our clients, we are requiring all clients wishing to claim any charitable donations to complete the enclosed charitable worksheet and attach all required documentation. If the worksheet is not completed and/or all documentation is not provided, a minimum fee of \$25 or more will be added to your bill to compensate us for the time required to recap these donations. Thank you for your understanding.



State Filing Requirements

State taxes seem like they should be simple when you compare it to the IRS code in all its complexity. Unfortunately, all too often lately, the states are getting more complicated (and more aggressive in their collection tactics).

If you live and work in only one state during the year, AND you don't have any business interests in other states, you probably only have to file one state income tax return. But invest in a partnership which does business in states other than your home state, and you may have triggered a need for multiple state tax filings. Or if you are self-employed and travel to other states to conduct business, you may be required to file in those states. Some states are becoming so aggressive, that they look at any days you were present in their state doing business (i.e. you attended a business meeting in their state) as days you were a part year resident. And New York (one of the most aggressive states) maintains that a person can be considered a resident if they maintain a permanent place of abode in New York that is "suitable for living year-round" even if they earn no money in New York state.

If you believe you may have multiple state tax issues for 2013, please contact this office no later than 12/31/13 so we can discuss in detail.

In many states, you may also have to deal with the issue of multiple city tax filings. Again, call the office if you believe this may apply to you for 2013.



Donating to a Charity Though your IRA

Should you donate to a charity directly through your IRA? This may be a good idea for you if you are required to take a distribution from your IRA this year, but do not need the money, especially if your income is above the thresholds for the new Medicare tax or Medicare surtax (see Affordable Care Act article on this page). By having your RMD (or part of it) donated directly to the charity, the amount donated is not a taxable item on your return, thus keeping your adjusted gross income level down. You cannot take an itemized deduction for this donation.

Affordable Care Act and You



There has been a lot of information (and some misinformation) in the news lately about the Affordable Care Act (ACA) which is also known as Obamacare.

Most of you reading this newsletter will be only minimally impacted by this change in health care. Ask yourself this question—do I currently have decent health insurance (this includes Medicare)? If the answer is yes, you do NOT need to do anything. The only obvious impact to you from ACA will be the increase in the threshold for deducting medical expenses (they must now exceed 10% instead of 7.5% of your adjusted gross income unless you are 65 or older), and the new Medicare surtax (more below).

If your answer to the above question is no, you need to find out if your employer is required to start providing health care coverage in

which case you should probably sign up for the employer plan. Employers with 50 or more full time workers should begin providing health care coverage to all full time workers. If you don't have coverage, and your employer won't be providing it, you should visit the exchange to review your options, unless you meet one of the exceptions to the coverage requirement. These exceptions include religious objections, being a member of a federally recognized Indian tribe or a health care sharing ministry, incarceration, not present in the US (living in a foreign country for at least 330 days), or you have no income tax filing requirement (your income is too low). If you fail to obtain health care coverage, you will be subject to a penalty which will be calculated on your 2014 return filed in 2015.

This office cannot help you choose the health care option that is best for your family, but

the ACA web site at health-care.gov should have people online to assist you.

The new Medicare surtax, which became effective 1/1/13, will affect only individuals with income above a designated level which is \$200,000 for singles and \$250,000 for married filing jointly. This tax is only applied to net investment income which is defined as

- Gains from the sale of stocks, bonds, and mutual funds,
- Capital gain distributions from mutual funds,
- Gain from the sale of investment real estate (for example, a second home or rental property)
- Gains from the sale of partnerships and S corporations (to the extent you were a passive owner).
- Taxable gain from the sale of your principal house

(this is the amount of gain after the exclusion of \$250,000 for singles and \$500,000 for married couples).

This tax, if it applies to you, will be calculated on your 2013 return and will be paid with that return. If this tax will cause you to owe, you may want to consider increasing your withholding at work or making estimated tax payments.

Don't confuse the Medicare surtax of 3.8% with the additional Medicare tax of 0.9% which is applied to wages, compensation, and self-employment income. Again, this 0.9% only kicks in if your income is above the levels specified above.

More detailed information and helpful links can be found at

healthinsurance.org/



When you Work Outside the US

With our world getting smaller and smaller everyday, many of you now have opportunities to work overseas. We thought it might be helpful to recap some of the issues with working in another country. First, all US citizens **MUST** report their world wide income on their US tax return. It does not matter if you are paid as an employee, as an independent contractor, or "under the table". All income, no matter how or where earned, must be reported.

Just because the income is reported on the US tax return does not ensure that there will be US tax due on this income. If the country where you are working is already taxing this income, you will be entitled to what is called the Foreign Income Tax Credit. Anyone who has had investments in mutual funds that invest overseas may have already seen this credit on your tax return. Let's give an example. Let's say you are offered a job in France. Your employer takes out French income taxes from your paycheck, and provides you with the equivalent of a W2 at the end of the year. You must report this income on your US tax return in US dollars (using the exchange rate at the time you received the funds). You would then calculate the US tax due on this income and all your other income combined. If the US tax you owe on the French income is greater than the French tax you paid, you only have to remit the difference to the IRS. If the US tax is less, you do not get a refund of the difference.

If the foreign country does not have an income tax, or it is very low, you may be better off using what is called the Foreign Earned Income Exclusion. This exclusion allows you to deduct up to \$97,600 for 2013 of the foreign earned income from your US tax return IF you meet either the bona fide residence test or the physical presence test. The bona fide residence test is met if you reside in a foreign country for the full US tax year (1/1 to 12/31). The physical presence test requires you to be outside the US for 330 days or more in any 12 month period. Again, an example may help. You are offered a job in Japan which starts 1/1 and goes for the full year of 2013. That job pays you \$100,000 for the year. Because you have met the bona fide presence test, you report the full \$100,000 but deduct \$97,600 from that amount to get an adjusted gross income of \$2,400. But, if the job in Japan starts 7/1/13 and ends 6/30/14, but you come home to the states for 6 weeks at Christmas time, you will not meet either test—you have not been a residence of Japan for either the full year 2013 or 2014, and you were outside of the US for only 323 days (365 days in the year less 42 days you were back in the US). You will not be entitled to the Foreign Earned Income Exclusion.

This office cannot assist you with the preparation of your **non-US** tax returns, but we can prepare the appropriate US, state, and city if applicable tax returns including the forms required to claim either the Foreign Tax Credit or the Foreign Earned Income Exclusion.

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*Specializing in personal
 and small business taxes*

Office in the Home Changes

Do you currently take an office in the home deduction because you are self-employed? If so, you may be able to utilize a new rule instituted by the IRS this year. This rule simplifies the record keeping requirement for home office expenses and instead allows you to use a flat rate of \$5 per square foot up to 300 square feet. To determine if this method is better for you, look at your 8829 form in your 2012 return. You will only have that form in your packet if you currently claim Office In The Home. Multiply the square feet shown on Line 1 by \$5. If this result is more than \$1500, reduce it to \$1500. Now look at Line 35 on last year's 8829. If this is less than \$1500, you may want to switch to the new method this year. If Line 35 is more than \$1500, you will probably still want to use the old method. With the old method, you must keep track of all lease payments, mortgage interest, real estate taxes, insurance, utilities, and repairs paid for the whole home in 2013 and provide that information to this office. No matter which method you use, you must first meet the regular and exclusive use rule to take any deduction. This means the area you are using for your home office must be used only for business purposes for the full year.

New Expensing Rules

Normally, purchases of any item that will last longer than one year must be depreciated over the life of the asset instead of being expensed completely in the year of purchase. There have been ways to take the complete write off in the current year (Section 179 depreciation and the 100% bonus depreciation when it was available for example). But the IRS has just finalized a new "safe harbor" rule for current year write offs. Any item costing \$200 or less can be fully written off. Bigger ticket items can also be written off depending on the company. Most small businesses will have a cap of \$500 if they have a written policy to that effect. These rules are effective 1/1/14 but can be used for the 2013 year if the taxpayer decides to do so. To avoid confusion, we recommend that all assets (items that will last longer than one year) be listed as an asset. This office will then use the detailed list of assets to determine if any item qualifies for the new "safe harbor" method and will proceed accordingly.

2013 Mileage Rate—The 2013 rate for deducting business miles is 56.5 cents per mile. If you accurately complete the mileage section of our annual questionnaire, we will compute this deduction for you. For 2014, the rate will be 56.0 cents per mile. The medical rate is 24 cents per mile and the charitable rate is 14 cents per mile for 2013 and will go to 23.5 cents and 14 cents in 2014. That is not a typo—the business and medical rates will go down one half of one cent in 2014 due to lower gas prices.

IRS Free Tax Help—the IRS will no longer prepare your income taxes for free at their local offices, nor will they offer tax law assistance.

Useful Web Sites—You may want to check out these websites:

guidestar.org—allows you to check out a charity before you make donations to see how effectively the charity is handling their finances.

gutenberg.net—check out this website that has over 15,000 e-books available for free download.

dp.la—this is the Digital Public Library of American and has millions of items from libraries, archives, and museums you can explore.

pixlr.com—on online photo editor.

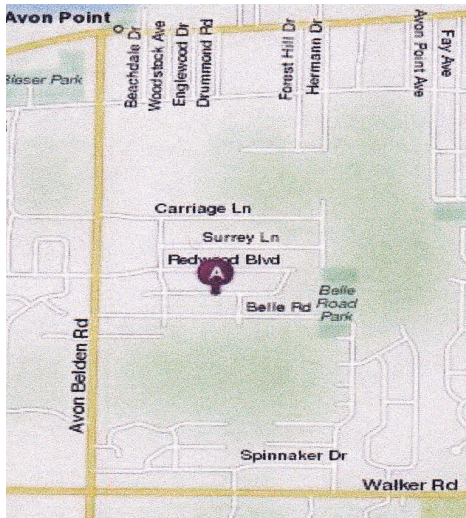
thewirecutter.com—a good place to go to get reviews on a bevy of categories

sarien.net—an online resource to play the old Sierra series of adventure games

gog.com—another site to find many older games redone to work on current operating systems.

mentalfloss.com—want to learn some trivia about just about any topic. Here is the place to go.

**Tax
 Tips
 &
 Tricks**



DELIVERY METHODS

Just a reminder there are three ways to provide us with your tax paperwork.

You may send your paperwork by US postal mail (or UPS, Fedex, etc.). We will review the paperwork, contact you with questions, and send the completed returns back to you.

You may drop off your paperwork with no appointment necessary in our locking drop box located by the front door. **Be sure to use the white box and NOT the round tube on top of the box.** You can access this box 24 hours a day, seven days a week, and we check the box every day. Again, we will contact you with questions, and send the completed return back to you.

You can schedule an appointment to review your taxes in person. Call our office at **440-933-3178** or e-mail us at **admin@sauppetax.com** to schedule your appointment. We have day or evening appointments available Monday through Saturday. No appointments will be accepted after March 31st. Only drop offs will be permitted at that time, but these returns may be subject to an extension.

No matter what method you use, your completed questionnaire must be included.

You may also send your paperwork and set up a Skype chat if you have items you would like to discuss but do not have the ability meet at our office. Our Skype name is **Sauppe.tax**. You must set up a time for this chat by calling or e-mailing ahead of time for an appointment as we will not have Skype on all day.

Driving directions—take either Belle Rd., Redwood (pedestrian crossing signs to mark this street), or Carriage Lane from Route 83 to Woodstock. Take Woodstock to Greenwood Dr. and turn east. The office is six houses down on the left hand side.



Checklist



Here is a recap of the items to include in your tax paperwork. This is NOT an all inclusive list, but simply a guideline to assist you in gathering your paperwork

- ☐ Completed questionnaire (front and back).
- ☐ All W-2's and 1099's including 1099INT, 1099DIV, 1099B, 1099MISC, and 1099R.
- ☐ Real estate tax bills paid in 2013 if not included in your monthly mortgage payment.
- ☐ All 1098's and K-1's received.
- ☐ Most recent statement or billing notice from your residence and work cities, if applicable (i.e. CCA or RITA).
- ☐ Recap of charitable donations segregated by monetary and non-monetary. Be sure to include all required written acknowledgements.
- ☐ Information on child care expenses paid.
- ☐ Any form 1098T's you received from colleges attended by you or your dependents along with the billing statements and details on any other education expenses incurred.
- ☐ Recap of medical bills (if you believe they may exceed 10.0% - 7.5% for those 65 and older—of your adjusted gross income).
- ☐ Recap of income and expenses (if self-employed or job expenses if an employee).
- ☐ Recap of rental income and expenses (if you own rental property). Please indicate number of days the home was rented, days used by you or a family member, and number of days empty.
- ☐ Settlement statements for any homes bought, sold, or refinanced during the year.
- ☐ Your 5498 statements (IRA valuation statements) if you have contributed to or made distributions from any retirement plan during the year as well as the year end statements for these accounts.
- ☐ Any other tax related paperwork you received or that you think may be relevant.
- ☐ Your CD-ROM previously provided to you by this office if you wish us to add this year's data to it.