TaxTips
Keeping You Informed ▪ Summer 2014

Medical Expense Deduction Changes

New rules may prevent deductions on your return

New rules may affect the deduction for medical expenses on your Schedule A, *Itemized Deductions*. Medical expenses are subject to an adjusted gross income (AGI) limitation. The new rules raise the threshold that unreimbursed medical and dental expenses you paid for yourself, your spouse, and your dependents must reach before a deduction is permitted.

For each medical expense, you should keep a record of:

- The name and address of each medical care provider you paid, and
- The amount and date of each payment.

You should also keep a statement or itemized invoice showing the following:

- A description of the medical care received,
- Who received the care, and
- The nature and purpose of the medical expenses.

These items are not submitted with your tax return, but records that you should keep in your personal file.

Most people who itemize their deductions can claim deductions for unreimbursed medical expenses (those which are not covered by health insurance). The amount of medical expenses you could deduct prior to 2013 was the unreimbursed expense that exceeded 7.5% of your AGI. This percentage increased to 10% for most taxpayers in 2013.

If you're under age 65 at year end, the floor on deducting medical expenses increases to 10%. However, if you or your spouse are age 65 or older, the 7.5% floor continues to apply until 2016. If you're under age 65 in 2013, but reach age 65 before 2016, you'd be subject to the 10% floor in 2013 and any other year before age 65, and then revert to the 7.5% floor in the year you turn age 65.

After 2016, all taxpayers, regardless of age, are subject to the 10% floor.

Social Security Field Office Changes

Technology offers more secure options

To meet increasing service demands despite shrinking budgets, the Social Security Administration (SSA) has invested in technological innovations that offer more convenient, cost-effective and secure options for the public.

Beginning August 2014, the SSA will no longer issue social security number printouts at field offices. Individuals who can't find their card, but need proof of their social security, will need to apply for a replacement card.

Beginning October 2014, SSA field offices will no longer provide benefit verification letters except in emergency situations. Benefit verifications are available online.

2014 Standard Mileage Rates

Business	56¢
Depreciation Component	22¢
Medical	23.5¢
Moving	23.5¢
Charity	14¢

What to Know if You Receive an IRS Notice and How to Avoid Scammers

Don't panic or ignore IRS notices, but be aware of scams

Every year the IRS mails millions of letters and notices to taxpayers, but that doesn't mean you need to worry. There are a number of reasons the IRS sends notices to taxpayers.

Keep in mind, the IRS sends notices and letters by mail. The agency never contacts taxpayers about their tax account or tax return by email or phone.

Notices are used to request payment of taxes or additional information. The notice you receive normally covers a specific issue about your account or tax return. Each letter and notice offers specific instructions on what you need to do to satisfy the inquiry.

I can help you review the correspondence and respond to the inquiry, if necessary. Be sure to notify me right away when you receive any notice. In most cases, the IRS requires a response within 30 or 60 days.

Please be aware, that this year sophisticated phone scams have been on the rise. Victims are told they owe money to the IRS and it must be paid promptly through a pre-loaded debit card or wire transfer. Victims who refuse to cooperate are threatened with arrest, deportation or suspension of a business or driver's license.

What makes these phone calls particularly convincing is that scammers use fake IRS badge numbers and are able to recite the last four digits of a victim's social security number. Scammers also spoof the IRS toll-free number on caller ID to make it appear that the call is coming from the IRS. They follow-up the phone call with fake IRS emails to some victims to support the scam calls.

The IRS never asks for PINs, passwords or similar confidential access information for credit card, bank or other financial accounts, even over the phone. If you know you owe taxes or think you might, I can work with you to ensure that you have proper documented contact with the IRS.

Divorce, Dependents and Decrees

Only one parent may claim a child in a divorce situation

In general, if you want to claim your child as a dependent, you must be the custodial parent. A custodial parent is the parent with whom the child lived with for the greater number of nights during the year. If the child was with each parent for an equal number of nights, the custodial parent is the parent with the higher adjusted gross income, if the parents can't agree to who claims the child.

If you are the noncustodial parent, the custodial parent must sign a written declaration that he or she will not claim the child as a dependent; you must attach this written declaration to your tax return. Without the proper declaration, the IRS will deny your dependency exemption. To release the dependency

exemption, the custodial parent may use either Form 8332, *Release/Revocation of Release of Claim to Exemption for Child by Custodial Parent*, or a similar statement containing the same information as the form.

If the divorce decree or separation agreement went into effect after 1984 and before 2009, the noncustodial parent can attach certain pages from the divorce decree or agreement instead of Form 8332, provided that these pages are substantially similar to Form 8332. The decree or agreement must state all three of the following:

1. The noncustodial parent can claim the child as a dependent without regard to any condition (such as payment of support).
2. The other parent will not claim the child as a dependent.
3. The years for which the claim is released.

The noncustodial parent must attach all of the following pages from the decree or agreement.

- Cover page (include the other parent's SSN on that page).
- The pages that include all of the information identified in 1 - 3 above.
- Signature page with the other parent's signature and date of agreement.

Fail to Pay Your Taxes, Face a Penalty

Failure-to-file and failure-to-pay penalties

April 15 is the annual deadline for most people to file their federal tax return and pay any taxes they owe. By law, the IRS may assess penalties to taxpayers for both failing to file a tax return and for failing to pay taxes they owe by the deadline. A failure-to-file penalty may apply if you did not file by the tax filing deadline. A failure-to-pay penalty may apply if you did not pay all of the taxes you owe by the tax filing deadline.

You should file your tax return on time each year, even if you're not able to pay all the taxes you owe by the due date. You can reduce additional interest and penalties by paying as much as you can with your tax return. The penalty for filing late is normally 5 percent of the unpaid taxes for each month or part of a month that a tax return is late. That penalty starts accruing the day after the tax filing due date and will not exceed 25 percent of your unpaid taxes.

If you do not pay your taxes by the tax deadline, you normally will face a failure-to-pay penalty of ½ of 1 percent of your unpaid taxes. That penalty applies for each month or part of a month after the due date and starts accruing the day after the tax-filing due date.

If you timely requested an extension of time to file your individual income tax return and paid at least 90 percent of the taxes you owe with your request, you may not face a failure-to-pay penalty. However, you must pay any remaining balance by the extended due date. If you file your return more than 60 days after the due date or extended due date, the minimum penalty is the smaller of $135 or 100 percent of the unpaid tax.

Quick Tips

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For tax year 2014, the annual gift tax exclusion is $14,000 to each person. The gift tax exemption amount is $5,340,000.	The top tax rate for qualified dividends is permanently set at 20% for taxpayers with taxable income in the highest tax bracket.	The personal exemption amount increased to $3,950 for 2014.	For 2014, kiddie tax applies to children with unearned income greater than $2,000.	For 2014, compensation paid for domestic service in an employer's home is not subject to FICA until the cash wages paid are $1,900 or more.

Three Types of Education Benefits Available

No double benefits allowed

An education credit helps with the cost of higher education by reducing the amount of tax owed on your tax return. If the credit reduces your tax to less than zero, you may get a refund. There are two education credits available: the American Opportunity Tax Credit (AOTC) and the Lifetime Learning Credit (LLC).

A deduction reduces the amount of income that is subject to tax, thus generally reducing the amount of tax you may have to pay. The tuition and fees deduction can reduce the amount of your income subject to tax by up to $4,000.

You can't take more than one education benefit for the same student using the same expenses. So, you can't take the AOTC, the LLC or the tuition and fees deduction for the same expenses for the same student in the same tax year. Also, if you receive tax-free educational assistance, such as a grant, you need to subtract that amount from your qualified education expenses.

Determining which one of these education benefits will provide you with the most savings can be tricky, but I can help determine what's best for your tax situation. Here are some criteria I look at:

Criteria	AOTC	LLC	Tuition and Fees Deduction
Maximum credit or benefit	Up to $2,500 credit per eligible student	Up to $2,000 credit per return	Up to $4,000 taxable income reduction per return
Refundable or nonrefundable	40% of credit	Not refundable	Does not apply
Limit on MAGI for married filing jointly	$180,000	$128,000	$160,000
Limit on MAGI for single, head of household, or qualifying widow(er)	$90,000	$64,000	$80,000
Can you file married filing separately?	No	No	No
Number of years of post-secondary education available	Only if student hasn't completed 4 years of postsecondary education before 2014	All years of postsecondary education and for courses to acquire or improve job skills	All years of postsecondary education
Number of tax years credit available	4 tax years per eligible student including any years former Hope credit claimed	Unlimited	Unlimited
Type of program required	Student must be pursuing a degree or other recognized education credential	Student does not need to be pursuing a degree or other recognized education credential	Student must be enrolled at eligible educational institution for one or more courses
Number of courses	Student must be enrolled at least half time for at least one academic period beginning in 2014	Available for one or more courses	Available for one or more courses at eligible educational institution
Qualified expenses	Tuition, required enrollment fees and course materials needed for course of study	Tuition and fees required for enrollment or attendance	Tuition and fees required for enrollment or attendance
Payments for academic periods	Made in 2014 for academic periods beginning in 2014 or the first 3 months of 2015		