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Happy New Year! We are pleased to bring you our annual tax update. There are several important changes to the 2014 federal tax returns worth noting, as well as some important reminders to help you gather your tax information. We hope you find this information helpful. The IRS will begin accepting tax returns on January 20th but please feel free to contact us at anytime to start your tax preparation process.

Affordable Care Act

One of the biggest challenges many taxpayers faced in 2014 was purchasing health care coverage from the new Healthcare Market Exchange, also commonly referred to now as "the Marketplace." Effective January 1, 2014, US residents were required to maintain certain minimum health care coverage, qualify for an exemption, or be prepared to pay a penalty with their federal income tax returns. With this mandate, Congress also appointed the IRS as the agency to track and report that taxpayers are in compliance. This means that filing tax returns this year will also prove to be challenging, as we are now faced with the new reporting requirements on the federal income tax returns.

Did you and all of your "tax household" have qualifying health care coverage for the full year?

This will be one of the first questions we will be asking each and every tax client. This is required information on page 1 of the tax return. You will be required to supply us with documentation as proof of coverage. If your coverage is employer provided, this information will be easy to gather from your W-2. If you purchased coverage through the exchange, you should expect to receive a new tax form - Form 1095 - from the Marketplace, which we will need to have. If you haven't received a Form 1095, we are required to ask you several questions about your health insurance coverage to help you avoid penalties and comply with the new federal requirements. If you did not have coverage for all or part of 2014, there will be further questions asked of you to see if you qualify for an exemption to the coverage requirement. This exemption would have been previously granted by the Exchange at some point during 2014, or in some circumstances, the exemption can be applied for via your personal tax return. If you do not qualify for an exemption, you are subject to a penalty, or "shared responsibility payment," which we will be calculated and due with your tax returns. All of this information will be reported on new tax forms and worksheets which we will have to prepare and file with your tax returns.

To comply with reporting requirements in the ACA, the Internal Revenue Service has unveiled 5 new tax forms for your 1040. Preparing these 5 new forms will add anywhere from 1 to 3 hours of additional work on your tax return to insure compliance and avoid penalties. Unfortunately, the additional work will also result in an increase to our preparation fees. Please note that not all 5 forms will apply to every taxpayer.

This is a very brief summary of what is now required on your tax returns, and the rules will affect taxpayers differently. We wanted to share this synopsis with you now so you have an idea of what to expect. We are committed to assist you as best we can to make this process as seamless as possible.

Foreign Source Income

If you are a U.S. citizen with income from sources outside the United States (foreign income), you must report all such income on your tax return unless it is exempt by U.S. law. This is true whether you live inside or outside the United States and whether or not you receive a Form W-2 or Form 1099 from the foreign payer. This applies to earned income (such as wages and tips) as well as unearned income (such as interest, dividends, capital gains, pensions, rents and royalties). If you live outside the United States, you may be able to exclude part or all of your foreign source earned income.

Long Term Care Premiums

Do you have a long term care policy? If so, please be sure to let us know. Long term care premiums paid can be deductible as an out of pocket medical expense. Also, there is a tax credit available for premiums paid for NYS residents.

Medical Expense Itemized Deduction

A reminder that the threshold for deducting out of pocket medical expenses was increased last year to 10% of AGI (7.5% for taxpayers 65 and over) This means you can deduct only those costs that exceed 10% of your total adjusted income, which includes wages, self-employed business earnings, interest and dividends, capital gains, and retirement and pension distributions.

Also, please note that insurance premiums paid from your W-2 wages on a pre-tax basis are NOT considered out of pocket costs. If you have any questions on this, please let us know!

Standard Mileage Rates

The standard mileage rates to use for 2014 tax return reporting are as follows:

- * business use of your car is 56 cents a mile.
- * mileage for medical care or moving purposes is 23.5 cents a mile.
- * use of car for service to charitable organizations is 14 cents a mile.

NYS Minimum Wage Increase

Effective January 1, 2015, the minimum wage in New York State increased to \$8.75/hour.

Dependent Children's Tax Returns

Because of the provisions under the Affordable Care Act, we strongly advise that we prepare your dependent children's tax return, especially if that child is a student, to avoid any discrepancy that could cost hundreds to thousands of dollars in penalties or lost credits. This will insure that all information matches when the IRS electronically crosschecks returns.

Additionally, if your child(ren) choose to file their own tax returns and you take them as your dependents, they must indicate on their tax returns that they can be taken as a dependent on another taxpayer's tax return. Failure to do so will lead to unnecessary tax notices, with possible penalties and interest. Feel free to contact us with any questions.

Tax Documents to Watch For

Here is a list of the common tax documents issued to taxpayers. Most of these are required to be issued by January 31, 2014 and may come in the US mail or electronically. If you receive any of these, be sure to forward it to us along with your other tax information:

W-2

1099-INT - Interest income

1099-DIV - dividend income

1099-R - Distributions from Retirement accounts

1099-B - Sales of Securities

1098 - Mortgage interest paid (and property taxes paid)

1099Q - Distributions from a 529 plan

1099-SA - Distributions from HSA

5498-SA - Contributions to HSA

We hope you find this information useful. As always, for more information, please feel free to contact our office or visit our web site at www.zulchtax.com.

Sincerely,

Kevin J. Zulch