Paying Estimated Taxes

The who, what, when, where and why

When clients become their own employer and stop receiving normal paychecks, we usually schedule estimated tax payments so they are not socked with underpayment penalties at year end.

Why pay estimated tax? Estimated tax payments are used to pay tax on income that is not subject to withholding. This includes income from self-employment, interest, dividends, alimony, rent, gains from the sale of assets, prizes and awards. You may also have to pay estimated tax if the amount withheld from your salary, pension or other income is not enough to cover your tax liability.

Who must pay estimated tax? Individuals, sole proprietors, partners or S corporation shareholders who expect to owe federal tax of $1,000 or more when they file their return will generally have to make estimated tax payments. The same applies to corporations that expect to owe $500 or more. You may also have to pay estimated tax for the current year if you had a tax liability for the prior year.

Estimated tax payments are required for Pennsylvania if your tax liability will be over $246. Local agencies also require estimated tax payments if your tax liability is over $120.

When are estimated payments due? For estimated tax purposes, the year is divided into four payment periods, each with a specific payment due date. If you don't pay enough tax by the quarterly due date, the IRS may charge a penalty, even if you are due a refund when you file your income tax return. IRS estimate due dates are generally January 15, April 15, June 15, and September 15.

Exceptions? There are a few exceptions for estimated payments which include the March first filing deadline for farmers. Please call our office if you are unsure of your filing requirements.

Applying for Social Security Benefits at Age 62

Thinking about retiring?

Early retirement is an option for many taxpayers. However, before making the decision, you need to be aware of a few facts.

It is important to understand that the more years of work you put in after the age of 62 (the earliest possible social security retirement age), the more social security benefits you will have to look forward to. Retiring at the age of 62 means that your benefits will be about 25 percent lower than they would be if you waited until you reached full retirement age.

If you still decide to go ahead with retirement at the age of 62, be sure to apply for your benefits about three months before the date you would like them to start. You will apply online at www.ssa.gov, by phone at 1.800.325.0778 or in person at your local social security office. During the application process, you will need some or all of the documents below:

- Your social security number.
- Your birth certificate.
- Your W-2 forms or self-employment tax return from last year.
- Your military discharge papers, if applicable.
- Your spouse's birth certificate and social security number if he or she is applying for benefits.
- Your children's birth certificates and social security numbers if you are applying for children's benefits.
- Proof of U.S. citizenship or lawful alien status if you (or a spouse or child applying for benefits) were not born here.
- The name of your financial institution, the routing number and your account number so that benefits can be deposited directly into your account.

Note: All documents must be original documents or copies certified by the issuing office. You can mail or bring these documents to your local social security office.

Because your age of retirement ultimately impacts the amount of social security benefits that you can expect to receive, it is absolutely crucial for you to consult our office about the options you have available. The social security website also contains countless resources to help you make the most informed decision possible.

Medical Expense Deductions in Unusual Circumstances

Do any of these deductions apply to you?

On occasion, clients will have certain medical expenses that seem obscure on the surface, but are in fact tax deductible. Some of these deductions might surprise you, but they may also apply to you and your unique circumstances. They include:

- Lasik eye surgery.
- Prescribed herbal supplements for migraine headaches.
- Hearing-aid batteries.
- Wigs for those dealing with hair loss.
- Costs associated with buying, training and maintaining a guide dog.
- Breast pumps.
- Remedial reading for dyslexic children.
- In-vitro fertilization treatments.
- New home siding if previous siding had mold that impacted the health of the homeowner.
- The cost difference between a gluten-free diet and a non-gluten-free diet.
- A swimming pool for treating an injury/illness.
- Home improvements benefitting someone with a disability; less the additional value of the home.
- Pregnancy tests.
- Hormone therapy medications.
- Body scans.
- Prescribed mattress for those with back troubles or a sleeping disorder.
- Smoking cessation medication/programs.

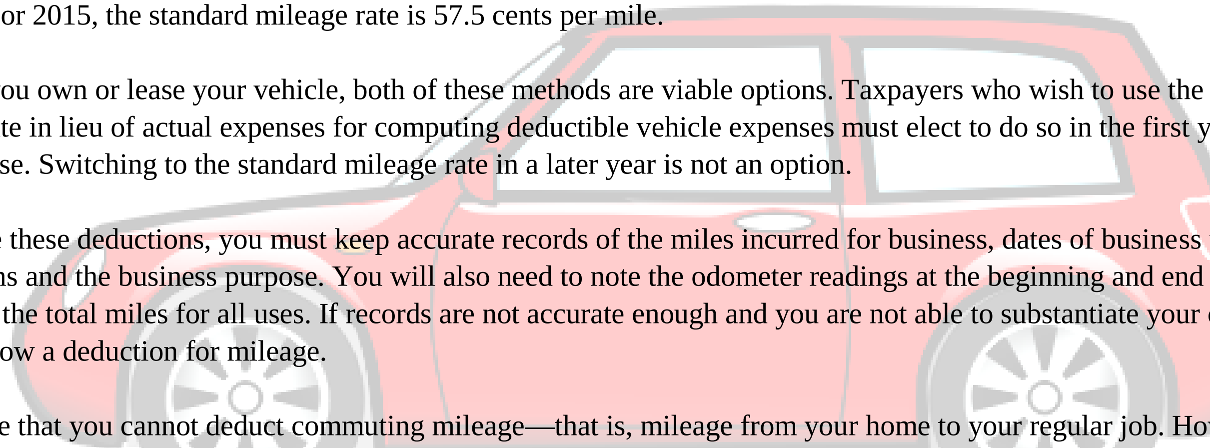
Keep in mind that this is not an exhaustive list and all of these deductions are restrictive to certain circumstances. The medical deductions have income limitations and only apply if total itemized deductions are higher than the standard deduction. Even if you believe you are eligible for one or more of these deductions, it is important to consult with our office so we can determine whether they apply to you and your particular situation.

Automobile Expenses

Do you use your car for business purposes?

If you use an automobile for business, you may be able to receive a tax deduction to lower your income tax. Deducting auto expenses requires diligent recordkeeping and accurate calculations. There are two ways to calculate your auto deductions:

- **Actual expenses.** Track all eligible deductions, such as the cost of gas, oil, repairs, insurance, maintenance, tires, washing, licenses and depreciation or lease payments.
- **Standard mileage rate.** Instead of tracking the above expenses, track the business mileage you accrue and use a standard rate. For 2015, the standard mileage rate is 57.5 cents per mile.



Whether you own or lease your vehicle, both of these methods are viable options. Taxpayers who wish to use the standard mileage rate in lieu of actual expenses for computing deductible vehicle expenses must elect to do so in the first year of business use. Switching to the standard mileage rate in a later year is not an option.

To receive these deductions, you must keep accurate records of the miles incurred for business, dates of business use, destinations and the business purpose. You will also need to note the odometer readings at the beginning and end of the year to determine the total miles for all uses. If records are not accurate enough and you are not able to substantiate your claim, the IRS may disallow a deduction for mileage.

Please note that you cannot deduct commuting mileage—that is, mileage from your home to your regular job. However, if you are self-employed and maintain an eligible office in your home, you can deduct the mileage to and from your clients, as well as between jobs. You can also deduct mileage between jobs or to a temporary assignment. If you do not have a regular place of business, you can only deduct your transportation expenses to a temporary location outside of your general area of employment.

For mileage and per diem rates and other key tax stats, visit our website at Covenant-CPA.com

Investing in Rental Property

Things to know about income and deductions

Investing in rental property can be a smart financial move, but when it comes to your federal tax responsibilities, it is important to be aware of what is considered rental income and the associated expenses that can be deducted from your rental income.

What is considered rental income? Anything received as rent must be reported as part of your gross income for the year you received the payments. Besides rent payments received from tenants, other rental income includes advance rent, security deposits, payment for breaking a lease, expenses paid by a tenant, property or services received as rent and payments received under a lease with an option to buy agreement.

What are your eligible deductions? You may deduct mortgage interest, property tax, operating expenses, depreciation and repairs. However, you cannot deduct the cost of improvements (i.e., anything that adds to the value of your property).

What records should you keep? Keeping good records of rent, rental repairs and travel expenses incurred for rental property is essential to tracking deductions, preparing tax returns and supporting items reported on the returns. It is also important to keep documentary evidence, such as receipts, canceled checks or bills to help substantiate certain elements of expenses so you can deduct them.

Temporary Rental of a Room in Your Home. (Some tax-free income never hurts.)

Many taxpayers often leave town when a local festival or event draws in tourists. If you are one of them, you might be able to rent out your house for a few days and earn tax-free income.

Taxpayers who rent out their own homes for fewer than 15 days per year receive tax-free income from the rental. To qualify for this tax-free treatment, you must rent out your home for 14 days or less and personally use the home for 15 days or more during the year.

Please note, no deduction is allowed for any rental-related expense, such as getting the house professionally cleaned before or after your visitor arrives. However, deductions of mortgage interest and property taxes are allowed on Schedule A for the entire year.

Student Loan Interest Deduction

Ease the burden of payments

The cost of higher education is steep and gets worse every year. Fortunately, if you pay interest on a qualified student loan, you are generally able to deduct some of that interest.

Here are a few pointers to help guide you in claiming the deduction:

- You can deduct up to $2,500 in student loan interest that you paid during the year.
- You can claim the deduction as an adjustment to income, so you do not need to worry about itemizing your deductions on Form 1040, Schedule A.
- You cannot claim the deduction in any tax year in which your filing status is married filing separate.
- For 2015, the deduction is subject to modified adjusted gross income (MAGI) phase-outs for anyone with MAGI between $65,000 and $80,000 ($130,000 and $160,000 for married filing jointly).
- You can claim the student loan interest deduction indefinitely until the loan is repaid.

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