TaxTips

Keeping You Informed • Year End 2013

Certain Tax Provisions Set to Expire at the End of 2013

Will you feel the effects?

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:

1. Teachers - The $250 deduction for classroom expenses of elementary and secondary schoolteachers.
2. Qualified Principal Residence Indebtedness - The income exclusion for cancelled qualified mortgage debt (up to $2 million).
3. Mortgage Insurance Premiums - The payment of PMI premiums is treated as deductible qualified residence interest on Schedule A.
4. 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.
5. Qualified Tuition Expenses - The above-the-line deduction for qualified tuition and related expenses.
6. 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.
7. The Nonbusiness Energy Credit allows you to claim a credit of 10 percent (up to a $500 lifetime cap) of the cost of certain energy-saving property that you add to your main home.

Our mission at Covenant CPA LLP is to partner with businesses and families to achieve financial success through Biblical principles in order to further God's Kingdom.

QuickTips

1	A federal excise tax is imposed on gasoline ($.184 per gallon), clear diesel fuel ($.244 per gallon) and clear kerosene ($.244 per gallon). The amount of these taxes may be credited or refunded if these fuels are used in certain types of off-road uses.
2	The American Opportunity credit has been extended through 12/13/17. You may qualify for a tax credit of up to $2,500 for out of pocket college expenses.
3	Long Term Capital Gain rates are 0% if you are in or below the 15% regular tax bracket. For higher brackets, the capital gain rate is 15% for the 25-35% tax bracket. The capital gain rate could be higher in some situations.
4	Taxpayers with Adjusted Gross Income over $200,000 (S) or $250,000 (MFJ) could be subject to a new 3.8% tax on interest, dividend, rental income and capital gains.

What is Constructive Receipt?

The timing of income reporting can affect taxes

When a business files its first tax return, an accounting method is determined—cash basis or accrual. In most cases, large businesses use the accrual method of accounting, which recognizes income when the business sends out invoices, regardless of when the income is actually received. The cash basis method of accounting, on the other hand, recognizes income when payment is actually received. So what happens when a cash basis business receives a large check dated December 31, 2013, on January 2, 2014?

According to the IRS, income is constructively received when an amount is credited to your account or made available to you without restriction, even if you don't have possession of it. If a bank is holding the money for you, it may be considered to be received by you, even if the money is not in your bank account. Income is not constructively received if your control of its receipt is subject to substantial restrictions or limitations.

Therefore, a check dated December 31, 2013, that you receive on January 2, 2014 is constructively received in tax year 2014 because the check was being handled by the United States Postal Service. However, if a customer hands you a check on December 31, you could inevitably cash it that same day. In that case, constructive receipt would be in 2013 and you would have to include it in your 2013 gross income.

Determining constructive receipt is important when large amounts are involved, as it could greatly affect the amount of taxes owed and income reported to the IRS. For instance, a customer sends a large check late in December and files a Form 1099-MISC, the form will report that amount paid to you in 2013. If you did not report that income until 2014, because of constructive receipt, you may be called upon by the IRS to prove when you received the check. Deliberate attempts to delay receipt will not work and the IRS will require the income to be reported in the proper year.

2013 Tax Rate Table

Taxable Income - Single	Taxable Income - Joint	Tax Rate
0 - $8,925	0 - $17,850	10%
$8,926 -$36,250	$17,851 - $72,500	15%
$36,251 - $87,850	$72,501 - $146,400	25%
$87,851 - $183,250	$146,401 - $223,050	28%

See the tax guide on our website at www.Covenant-CPA.com for additional tables.

Credit Card Payment Reporting

Beginning in 2012, companies that process credit card payments were required to report the gross amount of previous year payments on Form 1099-K, Payment Card and Third Party Network Transactions. Form 1099-K reporting was initiated by Congress in an attempt to close the tax gap. Some businesses that use eBay, Amazon or other online providers don't report all of their income, thus contributing to the tax gap.

Small businesses are not required to separately state the amount reported on the Form 1099-K on their tax returns. Instead, these amounts should already be reflected on the gross income line. However, the IRS will compare the amounts reported on 1099-K forms to the business's tax return and in some cases, will send a letter to small businesses and question the possible underreporting of income.

If you receive one of these letters, contact our office as soon as possible. In most cases, the IRS expects a response within 30 days. A failure to respond, when required, might result in a proposed assessment of additional tax or further compliance action.

Office in Home

Whether you are self-employed or an employee, if you use a portion of your home for business, you may be able to take a home office deduction. Generally, in order to claim a business deduction for your home, you must use part of your home exclusively and regularly

- As your principal place of business, or
- As a place to meet or deal with patients, clients, or customers, in the normal course of your business, or
- In any connection with your trade or business where the business portion of your home is a separate structure not attached to your home.

Generally, the amount you can deduct depends on the percentage of your home used for business. Your deduction for certain expenses will be limited if your gross income from your business is less than your total business expenses. There are special rules for qualified daycare providers and for persons storing business inventory or product samples.

An optional new simplified method has been issued by the IRS, but Pennsylvania will continue to require actual expenses. Under the new method, $5 per square foot for the part of your home used for business will be allowed. The maximum footage allowed is 300 square feet. This means the most you can deduct using the new method is $1,500 per year.

Gift Giving

Are there tax consequences to your kind gesture?

Federal gift taxes can be confusing because of our country's ever-changing tax policy. When you give cash or property to an individual, the gift is not taxable to that person. However, depending on how much you give, you may need to file a return and pay gift tax.

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.

Unemployment compensation generally includes any amounts received under the unemployment compensation laws of both the federal and state governments. It includes state unemployment insurance benefits and benefits paid to you by a state from the Federal Unemployment Trust Fund. It also includes railroad unemployment compensation benefits, but not worker's compensation.

Supplemental unemployment benefits received from a company-financed fund are not considered unemployment compensation for this purpose. Instead, these benefits are fully taxable as wages and are reported on Form W-2, Wage and Tax Statement.

Unemployment benefits from a private fund to which you voluntarily contribute are taxable only if the amounts you receive are more than your total payments into the fund. This taxable amount is not unemployment compensation; it is reported as other income.

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.

Like us on Facebook to be entered into a drawing for $100 off your tax preparation. Drawing will be held December 30, 2013.

Quick Tips

1	For 2014, the annual limitation on Health Savings Account contributions for an individual with family coverage under a high deductible health plan (HDHP) is $6,550 up from $6,450 in 2013. For an individual with self-only coverage under an HDHP, the annual limit is $3,300, up from $3,250 for 2013.
2	Beginning in tax year 2013, a new tax rate of 39.6 percent has been added for individuals whose income exceeds $400,000 ($450,000 for married taxpayers filing a joint return).
3	Federal Renewable Energy Tax Credit (Solar, Wind & Geothermal) is available through 2016 at 30%.
4	For 2013, the standard mileage rates for the use of a car are 24 cents per mile driven for medical or moving purposes and 14 cents per mile driven in service of charitable organizations. For business, the mileage rate is 56.5 cents per mile.

Depreciation Update

Business owners may reduce profits by using Section 179 of the tax code. Section 179 lets businesses take a first year "expensing" deduction for equipment placed in service. The 2013 expensing limit is set at $500,000 with phase-out beginning at $2 million worth of purchases.

For 2014, the Section 179 deduction is now scheduled to drop to no more than $25,000 with a phase-out beginning at $200,000. Congress may increase that amount. Section 179 may be used for new or used equipment, but the deduction is limited to your earned income.

The 50% bonus depreciation was extended for 2013 and can be used for only new property with a recovery period of 20 years or less. This deduction can exceed your earned income.

The IRS issued Treasury Decision 9636, which included 222 pages of guidance regarding the deduction and capitalization of expenditures related to tangible property. Tangible property in a business is anything that can be touched. Three major changes that go into effect January 1, 2014, include the following:

Materials and Supplies
The definition of materials and supplies has been expanded to include property (not including inventory) that has a cost of $200 or less. For example, if a business purchases a printer for $175, the business can generally deduct the cost instead of capitalizing and depreciating over five years.

Repair or Improvement
To determine whether an expense may be deducted as a repair or must be capitalized as an improvement the business may adopt an internal policy for non-tax reasons to expense property less than $500.

Improvements to Buildings
Qualifying small businesses have the option of applying the improvement rules to an eligible building property if the total amount paid during the taxable year for repairs, maintenance, improvement and similar activities performed on the eligible building does not exceed the lesser of $10,000 or two percent of the unadjusted basis of the building.

Pennsylvania Update

- The line for Use Tax will remain on the Pennsylvania tax return. Use Tax is due upon the purchase price of any taxable tangible property or service on which no equivalent amount of sales tax has been paid. This normally is for items purchased through the internet or a catalog, but could also be for services such as cleaning or lawn care. Taxpayers can track these items and report them on their annual tax return or take a standard amount from the Pennsylvania Department of Revenue.
- The Section 179 deduction for businesses remains $25,000 with no bonus depreciation deduction allowed on equipment placed in service in 2013.
- Beginning January 2014, all payments > $1,000 must be made electronically.
- PA is issuing new ID numbers to businesses. Please forward those to us when you receive them.
- Partnerships and S Corps will begin to assess a $250/partner penalty for unfiled returns starting in 2014.

Local Update

- All self-employed taxpayers who have a profit over $12,000 in 2013 must be making estimated tax payments to avoid penalties. Please contact our office if you need estimated tax payment vouchers.

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