

Garcia Garman & Shea, PC
Certified Public Accountants and Consultants
216 South Eighth Street
Lebanon, PA 17042
Phone: 717-274-5600; Fax: 717-228-3353
info@G2Scpa.com
www.G2Scpa.com

ClientAdvisor

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Dear Clients & Friends,

This issue of The Client Advisor discusses some of the basic tax law changes in place for 2014 and identifies potential late breaking tax laws that may impact your situation. You will find information regarding the new IRS Form 1095-A's that will start hitting mailboxes in early 2015, as well as a recap of a phenomena in retirement accounts known as

a tax torpedo. An article outlining ideas to save money rounds out this month's newsletter. As always, should you have any questions or concerns, please feel free to call.

Thanks for your support.

Key 2014 Tax Changes

2014 marks the introduction of new Health Care related tax laws and the uncertainty surrounding a number of expired tax provisions from 2013 that may yet be extended into 2014 and beyond. To help plan for your 2014 tax filing here is a recap of some of the key changes.

Premium Tax Credit. 2014 marks the first year of the Healthcare Premium Tax Credit. This credit applies to those who use the Healthcare Marketplace to purchase health insurance. You will receive a new Form 1095-A that recaps your insurance premiums for use in calculating the credit on your tax return.

Individual Shared Responsibility. If you do not have qualified health insurance coverage, you may be subject to the new Individual Shared Responsibility tax. This tax is a fee to be paid based on your income if you do not have health insurance.

Alimony and Child Support Scrutiny. It pays to double check that you and your ex-spouse have correct filing information, have similar treatment of alimony versus child support, and claim the same dollar amounts. This is a new area of focus for the IRS based on a high degree of mis-matched filing information.

Everyday Advice

"The best way to predict your future is to create it."

- Abraham Lincoln

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Key 2014 Tax Changes

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Tax Rates. Tax rates are unchanged from 2013. Meanwhile, the income tax brackets saw an increase of approximately 2% over last year. These increases are based on the Consumer Price Index as are increases in many other areas of the tax code. Many of these changes are noted here for your reference.

Tax Rate	Single	Married filing Joint/Widow	Head of Household	Married Filing Separate
10%	\$1 – 9,075	\$1 – 18,150	\$1 – 12,950	\$1 – 9,075
15%	9,076 – 36,900	18,151 – 73,800	12,951 – 49,400	9,076 – 36,900
25%	36,901 – 89,350	73,801 – 148,850	49,401 – 127,550	36,901 – 74,425
28%	89,351 – 186,350	148,851 – 226,850	127,551 – 206,600	74,426 – 113,425
33%	186,351 – 405,100	226,851 – 405,100	206,601 – 405,100	113,426 – 202,550
35%	405,101 – 406,750	405,101 – \$457,600	405,101 – 432,200	202,551 – 228,800
39.6%	Over \$406,750	Over \$457,600	Over \$432,200	Over \$228,800



Other Key 2014 Tax Information

Item	2014	2013	Change
Personal exemption	\$3,950	\$3,900	+\$50
Exemption phase-out	Reduce exemptions by 2% for each \$2,500 (or any part thereof & \$1,250 MFS) over the phase-out threshold amounts listed below.		
Single	254,200	250,000	+\$4,200
Head of household	279,650	275,000	+\$4,650
Married joint/widow	305,050	300,000	+\$5,050
Married filing separate	152,525	150,000	+\$2,525

Item	2014	2013	Change
Business	56.0¢/mile	56.5¢/mile	-0.5¢
Medical/moving	23.5¢/mile	24.0¢/mile	-0.5¢
Charitable	14.0¢/mile	14.0¢/mile	-

Item	2014	2013	Change
Single	\$6,200	\$6,100	+\$100
Married joint/widow	12,400	12,200	+\$200
Head of household	9,100	8,950	+\$150
Married filing separate	6,200	6,100	+\$100
Elderly/blind: married	Add \$1,200	Add \$1,200	-
Elderly/blind: unmarried	Add \$1,550	Add \$1,500	+\$50
Deduction phase-out	Itemized deductions can be reduced by 3% of the amount AGI exceeds the applicable thresholds listed below. Maximum deduction is 80% of itemized deductions.		
Single	254,200	250,000	+\$4,200
Head of household	279,650	275,000	+\$4,650
Married joint/widow	305,050	300,000	+\$5,050
Married filing separate	152,525	150,000	+\$2,525

Tax Rate if in...	2014	2013	Change
10% - 15% income tax brackets	0%	0%	-
25% - 35%* income tax brackets	15%	15%	-
39.6%* income tax bracket	23.8%*	23.8%*	-

* Includes 3.8% Affordable Care Act surtax



Expired Tax Laws?

Expired tax provisions that may be extended

As of late October many expired tax laws in 2013 still have the ability to be retroactively introduced prior to filing your taxes. Your best approach for 2014 is to be prepared with proper documentation to take advantage of the following tax laws if they are extended.

> \$250 "above-the-line" deduction for unreimbursed classroom

expenses for qualified elementary and secondary school teachers.

- > The option to use general sales tax as an itemized deduction in lieu of taking a state income tax deduction.
- > The deduction for qualified tuition and educational expenses.
- > Deductibility of mortgage insur-

ance premiums as an itemized deduction.

- > Direct charitable contributions from a qualified senior's IRA and other qualified retirement accounts.
- > 50% first year bonus depreciation and expanded levels for qualified Section 179 capital expense provisions.

Is a 1095-A in Your Future?



Each year the tax filing season begins with the receipt of forms required to file your tax return. Employees receive W-2s from their employers. Individuals receive various 1099 forms for interest, dividends, capital gains and independent earnings as sole proprietors. If you used the Healthcare Marketplace to purchase health insurance, you will now need a new form 1095-A to file your tax return.

What 1095-A provides

Form 1095-A will provide you with a monthly recap of the health insurance you purchased through the Healthcare Marketplace. It will

recap the name of the enrollee and any other people covered within the health insurance policy. The form will also summarize your health insurance policy including the type of coverage and the dates of coverage.

What you need to know

- **The information on this form is being sent to the IRS.** If there are errors in this form you should take steps immediately to correct them.
- **You need this form to file your taxes.** If you use the Healthcare Marketplace do not file your tax return without first receiving an accurate 1095-A.
- **You may receive multiple 1095-A forms.** You should receive one Form 1095-A for each policy you have through the Healthcare Marketplace. Receiving multiple forms may also occur if you have non-dependents

receiving coverage under your health insurance plan.

- **Premium Tax Credit in your future?** The information on the form will help determine if you are eligible for the Premium Tax Credit when you file your tax return.
- **Advance Payments of the credit may create a tax obligation.** Form 1095-A will show you any advance payments of your Premium Tax Credit made to your insurance company. Excess Advance Premium payments may have to be returned when you file your tax return.
- **Review the months of coverage.** If you do not have health insurance coverage for the entire year, this report may also be used to determine if you owe shared responsibility taxes for part of the year.

Avoid the Tax Torpedo

The Tax Torpedo refers to the surprising event of having your Social Security Income taxed. Depending on your income and filing status, up to 85% of your Social Security Benefit could be subject to income tax.

RMD causes Tax Torpedo

When you reach age 70½, the trigger requiring distributions from qualified retirement accounts is pulled. This annual required minimum distribution (RMD) applies to Traditional IRAs, SEP IRAs, SIMPLE IRAs, 401(k), 403(b) and other defined contribution plans. Amounts not distributed on a timely basis could be subject to a 50% penalty.

The amount you must take out each year is based upon your age, your spouse's age, and your filing status. If you continue to wait to start taking money out of your retire-

ment accounts, the balance in your accounts may be very high when you reach age 70½. These higher balances mean a higher annual RMD amount. If your required retirement plan distribution is large enough it may put you into a higher marginal tax rate as well as trigger taxes on your Social Security.

Avoid the Torpedo

Plan withdrawals. Once you hit age 59½ you may withdraw money from qualified tax-deferred retirement accounts without experiencing an early withdrawal penalty. To reduce the tax risk on your Social Security, manage annual disbursements from your retirement

account(s) to be more tax efficient when you reach age 70½.



Starting Social Security. You may begin full Social Security Benefits after you reach your minimum retirement age. However, your benefit amount can increase if you delay your start date up until age 70. Consider this as part of your plan to manage a potential future Tax Torpedo.

See an advisor. There are many moving parts in planning for retirement. These include Social Security Benefits, pension plans, savings, and retirement accounts. Ask for help to create the proper plan for you and your family. One element of the plan should include being tax efficient.

ClientAdvisor

Practical Tax and Financial Advice

Money Saving Ideas

Here are money saving ideas that can quickly be put to use to save more of what you earn.

- ✓ **Play the waiting game.** When you want to make a purchase, force yourself to wait before you buy it. If online, leave the site and come back in an hour. For large purchases wait a month. Many of these impulsive purchase decisions do not occur when using this technique.
- ✓ **Reduce spending as entertainment.** Too often the mall becomes a place to burn a few hours with family and friends. This form of entertainment can be a costly one. Find another entertainment outlet. Go for a walk. Review your community bulletins for free events.
- ✓ **Pay yourself first.** When sitting down to pay your bills, pay yourself first. Put the payment in the mail addressed to a bank account that is inconvenient to make

withdrawals. This account can become your emergency fund.

- ✓ **Prioritize your debt repayment.** First pay those items that have a strong legal obligation (like your tax bill). Then pay high interest credit card debt. Be very deliberate about the order in which you pay or make extra payments.
- ✓ **Review annuity payments.** Some suppliers thrive on charging for add-on services within their monthly bill. Review your bills



and eliminate items you don't need. Typical vendors using the annuity technique include cell phone providers, cable companies, internet providers, and traditional phone companies.

- ✓ **Ask for less.** Whenever possible ask for a lower bill amount. Call your credit card company to challenge their fees. Be willing to leave them if they do not. Negotiate for lower pricing on all your large purchases. You will be surprised how many vendors will say, "Yes, I can give you the item for less."
- ✓ **Save for larger purchases.** In the old days our parents would save their money and then purchase an item. With today's ready access to credit cards, this great savings idea has become a lost art. Rediscover this habit by identifying something you wish to buy and then saving your money to make the purchase when you have the cash to pay for it.