2013 YEAR-END TAX LETTER

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IT'S TAX TIME AGAIN...

Once again, it's time to pay taxes, and your mailbox should be filling up with the information you will need to get the job done.

This letter is full of information designed to help you prepare your tax documents so you will pay only the tax that you rightfully owe.

Time to get organized

The following checklist will help you collect the documents you'll need to file your tax return. When all of the boxes are checked, you're ready.

□ **Your last 3 years' tax returns** *(new client)*. Maybe we can amend and save money.

□ **Social Security numbers and dates of birth** are needed for all taxpayers, spouses and dependents.

□ **W-2 Forms.**

□ **Your last paycheck stub of the year** is full of information.

□ **1099 Forms for interest, dividends, retirement, Social Security, debt cancellation, and unemployment** need to be entered correctly to comply with the IRS matching program.

□ **Property tax statements** contain important information. They list the tax (deductible) and special assessments (not deductible).

□ **Forms 1098 for mortgage interest** need to be entered as printed. The IRS cross checks.

□ **Year-end statements from mutual funds** showing the transaction detail for the year.

□ **Purchase and sale information,** including dates, relating to anything sold during 2013 is needed.

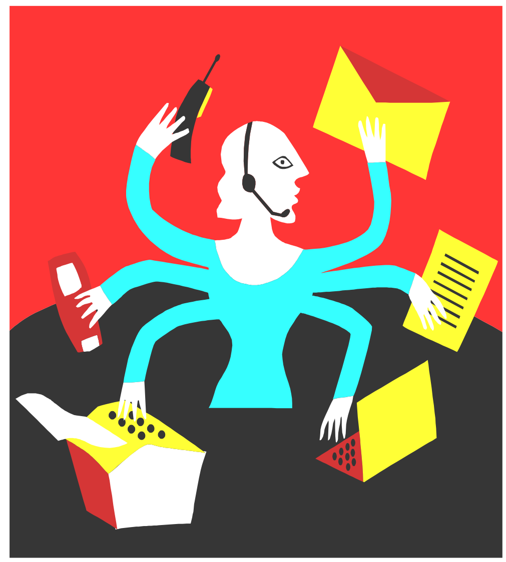
□ **Child care provider information** (name, address, SS#, amount paid) is needed for the child care credit *(even if you are reimbursed at work)*.

□ **Names, addresses, and Social Security numbers** from whom you received interest, or to whom you paid interest.

□ **Bankruptcy or divorce papers** (if applicable).

□ **If you paid an individual person $600 or more for services rendered in connection with your business,** please provide their name, address, and tax ID number.

□ **Records showing income and expense for any small business or rental property you own** will be needed.



□ **If you have an investment in a Partnership, S Corporation, Estate or Trust** you will need to bring Form K-1.

□ **Bring IRA year-end statements.**

□ **Bring all other statements of income,** whether you think they are taxable or not.

□ **Forms 1098-T** amounts paid for post-secondary tuition are sent to the student. If the student is your dependent, you will need to obtain 1098-T from the student to get the credit.

□ **Bring your records of estimated taxes paid.**

□ **Student loan interest forms 1098-E.**

□ **Adoption costs** if applicable. Also bring the legal adoption documents.

□ **Form 1098-C for donations of automobiles or boats.**

□ **Details on all noncash donations greater than $500.** Include date, place, fair market value, and original cost.

□ **If you purchased a new fuel cell or electric plug-in vehicle in 2013,** bring the year, make and purchase date.

□ **Bring direct a voided check for direct deposit** of any refunds you expect to receive.

□ **Noncustodial parents claiming children** need a signed IRS Form 8332 to claim the child.

□ **If your mortgage was forgiven due to foreclosure,** bring Form 1099-C or 1099-A.

□ **If you bought a new home or refinanced your existing home** bring the closing papers.

□ **Information on energy saving home improvements** might get you a tax credit.

□ **If you were an investor caught in a Ponzi-type scheme,** bring the details.

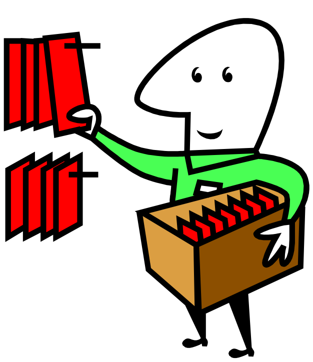
□ **If you received Forms 1099-K for internet or credit card sales** please bring them.

***Caution**: the IRS is very attentive to taxpayers who write off local travel costs.*

A daily log of business use is essential. Also, don't forget to record the beginning and the year-end odometer readings.

To avail yourself of tax deductions, you need to be organized and well documented.

Save proof of all tax deductible purchases.



DEDUCTING MILEAGE?

Did you drive for charity? If so, you can deduct **14¢** for every mile you drove.

If your medical expenses are substantial, you may want to calculate a mileage deduction. Medical miles for 2013 are calculated at **24¢ per mile.**

If you drove for business purposes, the situation is a little more complicated: First decide which miles qualify.

Use the following three scenarios to determine how many miles you can deduct:

Keep in mind the following statement: **In general, commuting is not deductible.**

If you have an office or regular place of business outside your home, you may not deduct miles commuting to and from work or to your first or from your last stop, but you may deduct mileage to drive to a *temporary work place* (less than one year's duration) and mileage to and from different work locations during the day.

If you have an office in your home that qualifies for a home office deduction, all of your business-related mileage is deductible.

If you work out of your home but do not qualify for the home office deduction, the distance between home and your first stop and between your last stop and home are nondeductible commuting miles. You should carefully plan to have your first and last stops close to home to maximize the mileage deduction.

A trip to the bank, post office, or a nearby supplier can help increase deductible business miles.

Once you have determined which miles to count, you need to decide whether to use the *standard mileage* rate or actual expenses.

The ***standard mileage rate** for qualified business use* for 2013 is **56.5¢ per mile.**

Which method is best?
In general, the standard method works best if your business miles are high or your vehicle is economical to run.

The actual expense method works best if your vehicle weighs over 6000 pounds, is costly to run, or you do not have that many miles in total.

DO YOU WORK AT HOME?

If you are self-employed, you may qualify for the home office deduction if you use a portion of your home **exclusively** as your principal place of business, to store inventory, or to conduct substantial management or administrative activities. There can be no other fixed location where the above activities can be done.

If you are an employee, your home office must be required by your employer.

The office space still needs to be **used regularly and exclusively for business**. You can not have any other usage of the area whatsoever. Using your office for personal or investment reasons eliminates the deduction as far as the IRS is concerned, so be careful to keep your office space and computer usage all business.

Having a deductible home office means you can deduct all of your local business travel as described earlier, and you will not have to keep a log of computer usage because your computer will be used exclusively for business.

If your office qualifies, you will need additional information: Measure the business space and the total space. You will also need your mortgage interest, taxes, insurance, association fees, repairs, maintenance, utilities, garbage, security, and rent paid. Also, provide an accounting of the total investment in your home.

NEW FOR 2013: The IRS has provided a new simplified home office deduction, if you choose. Instead of calculating all of the above information, $5 per square foot can be deducted (maximum $1,500). The IRS estimates that the new calculation will save taxpayers 1.6 million hours per year.

COMPUTER & CELL PHONE GUIDELINES

Did you buy a computer that you would like to deduct? You can use the following guide to determine what is deductible.

If you are an employee, a computer must be required as a condition of employment and for the convenience of your employer to be deductible.

If you are self-employed, the business percentage of computer usage, measured by time, is deductible.

If you use your computer for investments, the business percentage of use may also be deductible if you itemize.

If you are a student, the use of a computer is not deductible, but you can tap your 529 plan for a computer purchase.

Keep a log of computer usage to support your deduction.

Cell phone deductions are as follows:

Employers providing cell phones do not have to require records of use to provide tax-free cell phones to employees.

Employees required to use cell phones for work can deduct cell phone use to the extent used for business.

Self employed individuals can deduct business cell phone usage. The IRS, however, still has a hard time believing a cell phone is 100% for business. It's wise to keep a log of use.

WHAT'S NEW FOR 2013?

How will you fare?

Is your income over $400,000 (single), $425,000 (head of household), or $450,000 (married/joint)?
- You will be paying tax at a new 39.6% tax rate.
- You will also be paying tax at 20% on qualified dividends and long term capital gains.

Is your income over $250,000 (single), $275,000 head of household), or $300,000 Married/joint)? Your itemized deductions and exemptions will begin to phase out at these levels.

Is your income over $200,000 (single) or $250,000 (married/ joint)?
- In order to help fund Obamacare, you will pay an extra 3.8% in tax to the extent your *investment income exceeds the above threshold*.
- You will also pay a Medicare 9% surtax to the extent your *earned income* (from working) exceeds the above levels.

Are you a worker? You most likely noticed a cut in your take-home pay in January 2013. Instead of extracting 4.2% from your paycheck for Social Security, 6.2% is being

taken. The economy is showing signs of improvement, so this stimulus based pay increase was discontinued.

Are you self-employed?
- The "payroll tax holiday" is over for you too. Your self-employment tax calculation will be increased by 2% for 2013.
- 2013 is also your last chance for $500,000 Sec 179 expensing, the Research Tax Credit, the Work Opportunity credit, 15 year recovery on leasehold improvements, and 50% bonus depreciation.

Are you married?
- You have been **permanently** saved from the marriage tax penalty in the lower tax brackets.
- On the other hand, Obamacare, as mentioned above, has put a distinctive disadvantage to marriage at high income levels.

Do you have young children? You can still benefit from the Child Tax Credit, the Earned Income Credit, and the Dependent Care Credit at the same levels as in the past. The tax goodies have been extended through 2017.

Do you have children in college? The American Opportunity Tax Credit is still a part of the tax picture until 2017 if you meet the qualifications. This credit of up to $2,500 has helped many taxpayers to finance higher education.

Are you an investor? You are still in luck. Capital gains and qualified dividends are still free of Federal tax in the 10% and 15% tax bracket, and 15% in all higher brackets up to the new 39.6% bracket. These tax-advantaged capital gains were scheduled to end on December 31 of 2012.

Are you paying on student loans? The interest on old loans of up to $2,500 is still deductible. This deduction is scheduled to end after 2013.

Do you own a home?
- The deduction for mortgage insurance premiums for qualifying taxpayers has been extended through 2013.
- Also, the exclusion from income of principal residence cancelled debt has been extended through the end of the year. These tax breaks will not exist in 2014.

Did you finally buy new windows or insulation? 2013 is your last chance to get an energy credit for these purchases.

Are you part of a same-sex relationship? If you were **legally married** in 2013 or before, you will file all future federal tax returns as married. You may be able to amend old years in which you were legally married if you so choose.

2013 is also your last chance for the following deductions:
- The $250 teacher's classroom supply deduction
- The deduction for sales tax
- Tax-free distributions from IRAs to charity.

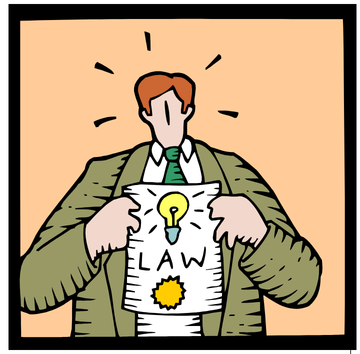
Do you usually pay AMT? The Alternative minimum tax is still with us, but it was **permanently patched.** Without this patch, 60 million additional households would have paid this unpleasant tax.

Are you funding an IRA? You can contribute an extra $500 in 2013.

Obamacare is still with us. In addition to the two new surtaxes for high income individuals, 2013 also brings the following changes:
- The threshold for deducting medical expenses will increase to 10% for those under age 65.
- Annual FSA contributions will be capped at $2,500.
- Health plans will pay an annual fee.
- Beginning on October 1, 2013, taxpayers will be able to purchase health insurance through online exchanges. Coverage on this insurance begins in 2014.

In 2014:
- Individuals not having health insurance will face a penalty under current law . Lower income taxpayers will qualify for assistance.

In 2015:
- Large employers not offering health insurance must pay a penalty.



Tax year 2013 is an interesting mixture of expiring and extended laws due to the *American Taxpayer Relief Act of 2012* and new provisions due to the *Patient Protection and Affordable Care Act (Obamacare).*

These are only some of the highlights of the rulings that were passed affecting your 2013 tax return. A good tax preparer can help you use these rulings to their fullest.

Turn the page for some great year-end tax-saving ideas.

YEAR-END TAX SAVING TIPS

GIVE TO CHARITY

Not sure of where to start? Try charitynavigator.org for guidance.

Short of cash? You can still make a last minute gift. Charge your deductions on a credit card and pay later. Consider giving through www.justgive.org. You can privately give to thousands of rated charities with a credit card. Your donation goes directly to the charity, and www.justgive.org will send you a confirmation and a year-end summary to satisfy documentation requirements.

Or, better yet, you don't even have to spend money to take a charitable deduction. Clean out your closets of unwanted items to make a noncash gift. Keep in mind, the items must be in at least good condition. You should omit items of minimal value (socks and underwear), and thoroughly document the donation.

If you plan on donating a vehicle before year-end, beware of the rules. Select a charity that will either use or improve the vehicle, and you will be able to deduct *fair market value*. Otherwise your deduction will be limited to the price the charity got when they sold the vehicle. The charity will give you a 1098C documenting the contribution. The 1098C needs to be attached to your tax return.

If you have a stock or piece of property that has increased in value, you can deduct the full value and avoid paying capital gains tax by donating it to charity. If you want to give stock that has fallen in value, sell the stock, take the loss, and give the money to charity.

Keep in mind that proof of payment is needed for donations of any size. Proper documentation is essential.

CHECK YOUR TAX PAYMENTS TO AVOID PENALTIES

The IRS will charge a penalty if your tax for 2013 is less than 90% prepaid unless your payments are at least equal to last year's tax. (110% of last year's tax if your income exceeds $150,000). **Higher income taxpayers may want to check out the impact of this year's new rates and surtaxes.**

You can boost your itemized deductions, and possibly save yourself from a penalty, by sending your last state estimated tax payment before December 31st or by stepping up your state withholding.

CHECK YOUR PORTFOLIO

If you are in the 15% tax bracket or lower (gross income under $46,250 single or under $92,500 married) you may be able to sell stocks or property at a gain in 2013 and pay no Federal tax. If you are in the above tax range, or even higher if you itemize, it might be wise to check out the possibility.

If you missed out on last year's credits or deductions because your income went over the limits, it might be wise to check your portfolio for some losses to reduce your income. You can offset up to $3,000 of other income with stock losses. If you wish to repurchase the stock again, wait at least 31 days to avoid wash sale rules.

If you are planning on deducting worthless stock, remember that it's not deductible until it's completely worthless.

In buying mutual fund shares, avoid the year-end tax trap. Year-end dividends may include a years worth of capital gain in a large taxable payout. The value of your shares declines by the amount of payout, so you end up paying tax on profits that reduce your share value.

SELF-EMPLOYED?

Shelter up to 20% of your net income in a SEP retirement plan. Besides current tax savings, money grows tax-deferred on these investments. A SEP contribution can be made up to the due date of your 2013 tax return, including extensions.

Pay all bills already received for operating expenses rather than deferring payment until 2014. If you need new equipment, save tax dollars now by purchasing before year-end. Remember that you can charge on a credit card and receive a current deduction.

To channel your income into next year for a cash basis business, you must be certain it is not constructively received. You can delay your billing to next year to defer income to 2014.

Remember that in 2013 your self-employment tax will be 2% higher than in 2012. You may want to increase your estimated tax payments if you have not already done so.

AND…

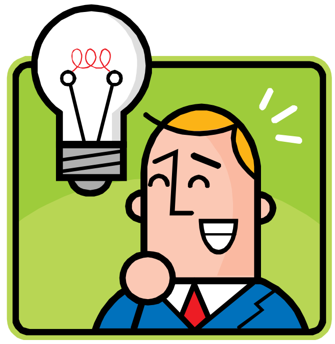
THE FUTURE?

Most of our Country's leaders agree that we are in need of total tax reform.

A flatter tax with limited deductions seems to be in our future.

What deductions would be eliminated with tax reform?
- Mortgage interest?
- Employer paid health benefits?
- Charity?
- Tax benefits for the wealthy?

One thing is for certain. You can expect things to change at some point - most likely later than sooner.



The basic strategy for year-end tax planning can be summed up in the following two statements:

- *Channel your income into the year where it will be taxed at a lower rate.*
- *Channel your deductions to the year where your income will be taxed at a higher rate.*

If you think that you need year-end tax planning, get in touch with a professional who knows the rules to help answer your questions.