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2014 Whole Ball of Tax

Following a year of significant tax changes and developments, the 2014 Whole Ball of Tax from Wolters Kluwer, CCH® is your up-to-date guide of key information taxpayers need to know. Below is an overview of what you will find in this year's **Whole Ball of Tax**. Make sure to visit the Whole Ball of Tax site often as new releases and other updates will be posted throughout the tax season.

Wolters Kluwer, CCH can also assist you with stories, including interviews with subject experts. Please contact:

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Wolters Kluwer, CCH Tax Experts

(RIVERWOODS, IL., January 2014) — CCH®, a part of Wolters Kluwer is a leading global provider of tax, accounting and audit information, software and services (CCHGroup.com). CCH annually produces hundreds of products related to federal, state and international taxation. More than 250 tax analysts and editors, most of whom are attorneys or accountants, provide professionals with tax information on a daily basis. Analysts available to reporters include:

Individual and Corporate Taxation

MARK LUSCOMBE, JD, LLM, CPA, PRINCIPAL FEDERAL TAX ANALYST

Mark Luscombe, a CPA and attorney, is the principal federal tax analyst for the company and is a key member of the CCH Tax Legislation team tracking and analyzing legislation before Congress. Luscombe is the current chair of the Important Developments Subcommittee of the Partnership Committee of the American Bar Association Tax Section and regularly speaks on a wide range of tax topics. In addition, Luscombe co-authors a monthly tax strategies column for the respected professional publication Accounting Today and authors a monthly tax trends column for TAXES magazine. Prior to joining CCH, he was in private practice for almost 20 years with several Chicago-area law firms where he specialized in taxation.

Luscombe offers a thorough understanding and analysis of federal tax, its application and its impact on both the individual and corporate taxpayer.

GEORGE JONES, JD, LLM, SENIOR FEDERAL TAX ANALYST

George Jones has been active in the tax field for over 35 years. As managing editor in CCH's Washington office, Jones is responsible for legislative information at CCH. In addition, Jones is editor of CCH Federal Tax Weekly; CCH Expert Treatise; Federal Taxation of Corporations and Shareholders; and co-authors a biweekly tax strategies column for the respected professional publication, Accounting Today.

Jones keeps his fingers on the pulse of the IRS, Congress, and the tax and accounting profession.

JOHN W. ROTH, JD, LLM, SENIOR FEDERAL TAX ANALYST

John W. Roth is a senior tax analyst specializing in the day-to-day application of tax law across a wide range of tax topics. He provides practical insight and guidance into how tax laws apply to individuals, corporations and special entities. Roth is a contributing author to CCH's Standard Federal Tax Reporter, the Tax Research Consultant, the U.S. Master Tax Guide, the Federal Tax Guide, the Practical Tax Expert, the Practical Tax Professional and Business Express Answers. Roth has been a regular presenter of tax update seminars to professional accounting organizations, as well as a presenter in the CCH Audio Seminar series on tax legislation updates. He has been quoted by the Wall Street Journal, the Associated Press and on National Public Radio. He joined CCH from a national tax service where he was responsible for its premier tax preparation services and trained other employees for the company's advanced services.

Roth provides an excellent understanding of the practical application of the complex requirements of federal tax laws.

MILDRED CARTER, JD, SENIOR FEDERAL TAX ANALYST

Mildred Carter has extensive background in federal tax analysis and specific expertise in individual and small business and corporate tax planning issues. As a senior federal tax analyst, she is an important contributor to CCH's coverage of new Tax Legislation in the Law, Explanation and Analysis books. She also contributes to two of the most popular tax professional references in the country, the CCH Tax Research Consultant and the Standard Federal Tax Reporter and has developed and authored several interactive research aids, which are available online through CCH IntelliConnect®.

Concentrating on the impact of federal tax laws, Carter provides in-depth explanations and analysis of tax law provisions.

Estates Wills and Trusts

BRUNO GRAZIANO, JD, MSA, SENIOR ESTATE AND GIFT TAX ANALYST

Bruno Graziano is an attorney with a master's degree in accountancy and is a senior analyst for CCH's Financial and Estate Planning Group. A CCH employee for 26 years, he oversees the editors and analysts responsible for two of the most respected CCH subscription products, Financial and Estate Planning and Estate Planning Review —The Journal. Prior to joining CCH, Graziano was an assistant attorney for an Illinois municipality.

Graziano has a detailed knowledge of gift and estate taxation, wills, trusts and related tax law.

JAMES C. WALSCHLAGER, MA, ESTATE PLANNING ANALYST

Jim Walschlager is an analyst who has been tracking and analyzing state inheritance, estate and gift tax statutory and case law, as well as state regulatory policy on these taxes, for more than 30 years. He is a contributor to a variety of CCH products, including Financial and Estate Planning and the Federal Estate and Gift Tax Reporter. In addition, Walschlager has contributed to CCH's IntelliConnect through the development of several multistate transfer tax Smart Charts, as well as to the Law, Explanation and Analysis books on various federal tax legislation and to the Express Answers book series. Most recently, he has edited the Wealth Manager Library. Walschlager has been interviewed by Forbes Magazine, the Wall Street Journal, MarketWatch, the New York Times, Bloomberg Business Magazine and the Pittsburgh Tribune for various stories on state estate and inheritance taxes.

Walschlager offers a thorough understanding of state inheritance, estate, generation-skipping and gift taxes.

State Taxation

CAROL KOKINIS-GRAVES, JD, SENIOR STATE TAX ANALYST

Carol Kokinis-Graves is an attorney and senior state tax analyst who specializes in tracking, analyzing and reporting issues regarding state and local sales and use taxes. She researches and covers current state legislation, court cases, administrative rulings and regulations. Kokinis-Graves has written articles that have appeared in The Journal of State Taxation, State Tax Review and Practitioner Perspectives and she has been a speaker at a number of industry conferences. She has also developed and authored several interactive research aids, which are available online through CCH IntelliConnect. Kokinis-Graves has also authored a continuing professional education course for accountants regarding use of the cost, income and sales-comparison approaches in the valuation of real estate.

Kokinis-Graves possesses a thorough knowledge of state and local sales and use taxes.

JOHN LOGAN, JD, SENIOR STATE TAX ANALYST

John Logan is an attorney and senior state tax analyst who has spent more than 25 years tracking and analyzing state tax statutory and case law, as well as state tax regulatory policy. He is a contributor to CCH's IntelliConnect, which includes CCH's State Tax Review, a weekly newsletter that reports on tax news at the state level, as well as CCH's State Tax Reporters, State Tax Guide, Multistate Sales and Use Tax Guide, and the Multistate Corporate Income Tax Guide.

Logan has a thorough understanding of the various state taxes imposed, as well as taxation trends across all states.

SANDY WEINER, JD, STATE TAX ANALYST

Sandy Weiner is an attorney and state tax analyst and has spent over 15 years analyzing state tax legislation, case law, and regulatory developments. She is a contributor to CCH's IntelliConnect, which includes CCH's State Tax Review, a weekly newsletter that reports on tax news at the state level, is one of the primary editors of the renowned Guidebook to California Taxes, has participated in the development of numerous tax products providing analysis of various tax trends across states, and has been a presenter at numerous forums for tax professionals.

Weiner offers a detailed understanding of state personal and corporate income taxation and trends across all states.

About Wolters Kluwer, CCH®

CCH, a part of Wolters Kluwer is a leading provider of tax, accounting and audit information, software and services (**CCHGroup.com**). CCH is part of the global tax and accounting leader, Wolters Kluwer Tax & Accounting.

Five generations of professionals have relied on CCH to keep current and compliant with the ever-changing tax and accounting law. Through its expert information, analysis and compliance solutions, CCH enhances the accuracy and productivity of accountants, attorneys, tax professionals, financial planners, regulators and others who must understand and apply federal, state and international law. In 2013, both CCH and the federal modern income tax law celebrated their 100th anniversary.

History

- CCH's tax law reporting services began in 1913, the year the modern U.S. federal income tax law was passed.
  - Today, CCH is a global provider of tax law analysis and compliance solutions and is one of the most respected names among tax and accounting professionals worldwide.
  - Historically, CCH has been known for its authority and accuracy in reporting and explaining tax law. Today, CCH's trusted resources include productivity solutions for professionals that streamline tax compliance and workflow processes and serve as the foundation of professionals' services. CCH's innovative, integrated and customer-focused solutions support the workflow of CPAs, corporate tax and accounting departments, tax attorneys and auditors.
  - The company always has made its home in the Chicago area and is headquartered in Riverwoods, Ill.

Product Offerings

- CCH offers authoritative tax research and tax compliance solutions relied upon by five generations of professionals.
  - CCH's first tax law reporting service was produced in 1913. It was a single loose-leaf binder with 400 pages that contained and explained the "new" federal income tax law.
  - Today, CCH offers that same expertise through information services online, via mobile apps and devices, on e-books, and integrated with software solutions. CCH's flagship tax research services include *Standard Federal Tax Reporter*®, *U.S. Master Tax Guide*®, *CCH IntelliConnect*®, *CCH Mobile*™. CCH's leading workflow solutions include the ProSystem *fx*® Suite, CCH Axcess™, CorpSystem® and CCH Integrator™. CCH solutions are delivered in a wide range of media, including new cloud applications, to ensure customers can serve their clients anywhere, anytime.

Customers

- Primary customers for CCH's services are tax, accounting and audit professionals in firms and corporations. Other major CCH customers are federal and state government agencies, universities and libraries.

CCH Professionals

- CCH employs approximately 2,000 people in the U.S., with a large editorial staff, most of whom are accountants and/or attorneys.
- CCH U.S. office locations include Riverwoods and Chicago, Ill.; Torrance, Calif.; Wichita, Kan.; Dallas, Texas; Monsey and New York, N.Y.; and Washington, D.C. CCH also has operations in Canada, Europe and the Asia Pacific.
- CCH staff includes a news bureau in Washington, D.C. There, reporters cover key areas of the nation's government, including Congress, the IRS and other federal agencies, the Supreme Court and Federal Courts, and the White House.
- CCH also is supported by outside authors and advisors, all of whom are experts in their respective fields.

Ownership

CCH is a Wolters Kluwer business, and is part of the Wolters Kluwer Tax & Accounting division. Wolters Kluwer is a global leader in professional information services. Professionals in the areas of legal, business, tax, accounting, finance, audit, risk, compliance and healthcare rely on Wolters Kluwer's market leading information-enabled tools and software solutions to manage their business efficiently, deliver results to their clients, and succeed in an ever more dynamic world. Wolters Kluwer reported 2012 annual revenues of €3.6 billion. The Group employs over 19,000 people worldwide and maintains operations in over 40 countries across Europe, North America, Asia Pacific and Latin America. The Company is headquartered in Alphen aan den Rijn, the Netherlands. For more information, visit **www.wolterskluwer.com**, follow @Wolters_Kluwer on Twitter, or search for Wolters Kluwer videos on YouTube.

New Tax Season, New Developments: Key Changes Taxpayers Need to Know from Wolters Kluwer, CCH®

(RIVERWOODS, ILL., January 2014) — Several changes are in store for many preparing returns for the new tax season. Some may be impacted by legislation signed into law in 2013, including the American Taxpayer Relief Act (ATRA) of 2012, new provisions of the Affordable Care Act (ACA and also known as "Obamacare") and the Supreme Court's decision to strike down a portion of the Defense of Marriage Act (DOMA), leading to significant changes by the Internal Revenue Service (IRS) which will begin recognizing same-sex married couples officially as married for federal tax purposes.

"New laws, as well as tax provisions that expired at the end of 2013, may make a noticeable impact for some taxpayers, depending on their income levels and other factors," said Wolters Kluwer, CCH Principal Federal Tax Analyst, Mark Luscombe, JD, LLM, CPA. "Without the deadline-rush negotiations by Congress we saw last year to avoid the 'fiscal cliff,' taxpayers have a lot more up front information this year to prepare returns and take advantage of eligible tax breaks."

CCH, a part of Wolters Kluwer and a leading global provider of tax, accounting and audit information, software and services (**CCHGroup.com**), lists key developments to know before filing returns in 2014:

Need to Know Checklist:

_____ **Tax season delayed until January 31** — The IRS announced in December that it would not start processing individual returns until Friday, January 31, because of time lost for updating systems during the 16-day partial government shut-down last October. Business tax returns began being accepted on the 13th. **The April 15th filing deadline day remains in effect.**

_____ **New health care related taxes** — Two new terms taxpayers will be getting familiar with are the 3.8-percent Net Investment Income (NII) Tax and the 0.9-percent Additional Medicare Tax (applying to earned income — single filers earning $200,000 and $250,000 for married, joint return filers). The IRS issued final guidance on both late last year (outlined in this **December 2013 CCH Tax Briefing**). Each tax is designed to fund different areas of health care reform — based on income thresholds.

_____ **DOMA, Married tax status changes** — For the first time, the IRS will recognize all legally married same-sex couples throughout the nation as "married" for tax filings, whether or not they live in jurisdictions that recognize same-sex marriage. Previously, same-sex married couples could file under the married status in certain states, but not for federal tax returns. In-depth details are in this **September 2013 CCH Tax Briefing**.

_____ **Alternative Minimum Tax (AMT) changes** — After years of temporary patches to help middle-income earners avoid the AMT, the AMT exclusion amount was increased in 2013 and permanently indexed for inflation. AMT exclusion amounts for 2013 tax year filings are $51,900 for individual taxpayers, $40,400 for married couples filing separately and $80,800 for married filing jointly.

_____ **Bush-era tax cuts expire for high-income earners** — Many of those who were previously in the 35-percent tax bracket will see their top tax rate on ordinary taxable income over $400,000 for single filers and $450,000 for married, joint return filers increase to 39.6 percent. The top tax rate on long-term capital gains and dividends also rises from 15 to 20 percent for those same taxpayers.

_____ **State sales vs. state income tax deduction expires** — Previously, taxpayers who itemized deductions could claim their total state income or state sales taxes from their federal tax return — depending on which provided the better tax benefit, but not both. With the provision now expired, those living in states without an income tax can no longer deduct sales taxes starting in 2014.

_____ **Education tax breaks made permanent** — Interest deductions for qualifying student loans as well as employer-provided education assistance benefits are now permanent. Provisions in place for Coverdell Education Savings Accounts are also permanent. One exception is the tuition deduction which expired after 2013.

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_____ **Internet, e-commerce state sales taxes** — Despite Senate passage of The Marketplace Fairness Act, **reported in this May 2013 CCH Tax Briefing**, designed to protect "bricks and mortar" retailers charging state sales taxes from competition waged by online sellers, such as Amazon, that had not been charging sales taxes on all orders, the bill remains in the House. For now, certain states have or are considering their own rules regarding sales tax collections on e-commerce purchases, updated in this **CCH Map of State Sales and Use Online Tax Laws**.

_____ **Higher Estate, Gift Tax Exclusion Amounts** — The tax-exempt threshold value on estates of those who die in 2014 and for gifts made increases to $5,340,000 — up $90,000 from last year. The same amount also applies to the Generation-Skipping Transfer (GST) tax exemption. Now, estates, lifetime gifts and GSTs of $5.34 million or lower are not subject to taxes.

_____ **New Personal Exemptions, Standard Deductions** — For the current tax season, the inflation-adjusted personal exemption amount that taxpayers can claim on Form 1040 is $3,900 — up $100 from last tax season. The personal exemption works like a tax deduction and enables qualifying taxpayers to claim the amount and lower their taxable income. However, those who are claimed as a dependent by another taxpayer are not eligible for a personal exemption.

Standard deductions for 2013 tax filings are:

- Single or Married and filing separately — $6,100 (up $150)
- Head of household — $8,950 (up $250)
- Married and filing jointly and qualifying widow or widower — $12,200 (up $300)
- Qualifying dependent — Greater of either $1,000 (up $50) or $350 plus dependent's earned income up to $6,100.

IRS guidelines apply for qualifying children and qualifying relatives who may be claimed as dependents. Taxpayers may also be eligible for additional tax credits related to their qualified dependents, such as the child and dependent care tax credit.

A short video interview with Mark Luscombe discussing further details about tax changes for 2013 returns is available by **visiting this web link**.

About CCH, a part of Wolters Kluwer

CCH, a part of Wolters Kluwer (**CCHGroup.com**) is a leading global provider of tax, accounting and audit information, software and services. It has served tax, accounting and business professionals since 1913. Among its market-leading solutions are The ProSystem *fx*® Suite, CCH Axcess™, CCH® IntelliConnect®, Accounting Research Manager® and the U.S. Master Tax Guide®. CCH is based in Riverwoods, Ill. Follow us on Twitter **@CCHMediaHelp**. Wolters Kluwer (**www.wolterskluwer.com**) is a market-leading global information services company. Wolters Kluwer is headquartered in Alphen aan den Rijn, the Netherlands. Its shares are quoted on Euronext Amsterdam (WKL) and are included in the AEX and Euronext 100 indices.

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Wait, I Can Deduct That? Wolters Kluwer, CCH Examines Common, New Tax Deductions for 2014

(RIVERWOODS, ILL., January 2014) — If there is a "fun part" when preparing tax returns, it's the opportunity to list all deductible expenses throughout the year that may generate a refund. Deductions as well as tax credits can make a significant impact on tax returns, but many may not be aware of all the qualified deductions they're entitled to take in order to offset what they owe.

Each year, taxpayers can look forward to some good news when preparing their returns – listing all their deductible expenses that may generate a refund. And, even with many commonly known tax deductions and credits, many may still be unaware of what they can list on Form 1040 to offset their income tax exposure. CCH, a part of Wolters Kluwer and a leading global provider of tax, accounting and audit information, software and services (**CCHGroup.com**), takes a look at new and current tax deductions and credits to benefit taxpayers.

"Some popular tax breaks, such as deductions on home mortgage interest, get a lot more attention in news headlines than others," said Wolters Kluwer, CCH Senior Federal Tax Analyst John W. Roth, JD, LLM. "But taxpayers should know about additional tax breaks they can qualify for that don't always get media attention."

New Home Office Deduction

For those who are self-employed and work out of their homes, a new option is now available from the IRS for claiming a deduction for a home office. The new deduction, which was implemented in 2013, is based on the size of home office and is designed to be a simple calculation.

Here's how it works: Eligible taxpayers can deduct $5 for every square foot of workspace used — up to a maximum of 300 square feet. So, if you use a den or spare bedroom at home as your home office and it measures 18 x 15 feet for a total of 270 square feet — multiply that by $5 for total home office tax deduction of $1,350. The new option saves time compared to the other home office tax deduction calculation of figuring related expenses and how they may apply over the course of the year to a home office. Either option may be used.

Sales — Income Tax Choice Phase Out

Also for 2014, taxpayers can no longer choose to take itemized deductions for state and local sales taxes instead of state and local income taxes. The provision had benefitted taxpayers living in states without an income tax or with low income tax rates.

Checklist of other tax deductions and credits not to miss:

____ **Home Mortgage Interest Tax Deduction** — It's one of the more popular deductions available and allows most homeowners to write off the interest paid each month on a mortgage. Taxpayers can deduct mortgage interest paid on their primary home, as well as a second or vacation home as long as they have an ownership interest. Mortgage interest can also be deducted from a line of credit secured by the home or from a home equity loan. Also, mortgage insurance premiums for homes acquired after 2007 may be treated as acquisition interest and included in the deduction. (Provision expired at end of 2013, but available for current tax season filings.)

____ **Charitable Donations** — Taxpayers who donate money or non-cash property to qualified charities may be entitled to a tax deduction. While charitable gifts via cash or check may be easiest to track, a receipt or official acknowledgement of the donation from the charitable organization is required for tax reporting — documentation is required for the fair market value of non-cash items. Also:

- Travel expenses associated with charitable volunteer activities may also be tax deductible.
- Charitable donations may be limited based on a percentage of adjusted gross income (AGI) depending on the type of organization and property donated.

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____ **Medical, Dental Expense Deductions** — Expenses related to diagnoses and treatment of medical and dental conditions may also come off your income taxes, depending on how much you paid out of pocket compared to how much you earned. The general rule is that qualified medical and dental costs that exceed ten percent of AGI may be deducted (7.5 percent for people age 65 or over). Typical expenses may include unreimbursed medical and dental bills, and the unreimbursed costs of equipment, supplies and devices prescribed by a physician or dentist for use in treating a condition.

____ **Medicare Premium Deductions, Self-Employed** — Business owners and self-employed taxpayers may deduct health insurance premiums. Those who are old enough to qualify for Medicare and are also business owners or self-employed may deduct premiums paid for Medicare Part B, Part D and supplemental Medicare policies to guard against health care coverage gaps. However, the deduction is not available for anyone who is already covered under their employer's or spouse's employer's health plan.

____ **Business Expense Tax Deductions** — For sole proprietors, self-employed workers, contractors and others incurring qualified business expenses related to their occupation, income tax deductions are available. In most cases, eligible business expenses must both be ordinary, something common and acceptable in that particular business, as well as necessary, something appropriate and helpful to the business or trade. The IRS requires that business expenses should be separated from other expenses used to figure the cost of goods sold, capital expenses and personal expenses. Furthermore, business expense deductions can only be taken once, either on an individual's income tax return or a separate business tax return — but not on both.

____ **Health Coverage Tax Credit (HCTC)** — The HCTC pays 72.5 percent of qualified health insurance premiums for individuals and families who are eligible for the credit. It is a federally funded program designed to make health coverage more affordable for the certain unemployed seeking jobs or training in a new vocation due to the effects of a trade treaty and for Pension Benefit Guarantee Corporation (PBGC) recipients and their families. The credit is available on a monthly basis to help offset health insurance premiums or on an annual basis for those claiming the credit on their income tax returns. (Provision expired at end of 2013, but available for current tax season filings.)

____ **Child Tax Credit** — New: The maximum child tax credit of $1,000 per child 17-years-old or younger is now permanent. However, the amount of the credit may be less, depending on income level.

____ **Child and Dependent Care Credit** — This credit may be claimed by eligible taxpayers who paid work-related expenses for the care of a qualifying individual in order for an eligible taxpayer to be able to work or look for employment. It is a percentage of the amount paid to a care provider and depends on a taxpayer's AGI. A dependent child must be under 13-years-old when care was provided to qualify.

____ **Adoption Credit** — Newly adoptive parents are eligible to claim up to $12,970 per child for 2013 taxes (a $320 increase from 2012). The adoption credit was also made permanent in 2013 and it's the largest nonrefundable tax credit available to individuals. Those claiming the credit on their income taxes must file Form 8839 and include an adoption order or decree with their return. Documentation of other qualified adoption expenses may also be required.

____ **Earned Income Tax Credit** — Known as the EITC, as well as the EIC, it is a refundable federal tax credit aimed at helping low and moderate income workers keep more of their paychecks. It was enacted in 1975 to offset Social Security taxes for those who qualify and as an incentive for more people to join the workforce. When the EITC exceeds the amount of taxes to be paid, it can then generate a tax refund for eligible taxpayers who claim the credit.

"Taxpayers who check with their tax preparers or take time to research all their options may find they qualify for more tax deductions and credits than they thought," Roth added. "If you think there's even a slight chance that you may or may not be eligible for a specific deduction or credit, it's a good idea to consult with a tax and accounting professional who can add clarity and identify tax breaks you might not have known about."

About CCH, a part of Wolters Kluwer

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Check These Lines Before Signing That Bottom Line: Wolters Kluwer, CCH Examines Common Tax-Filing Blunders to Avoid

(RIVERWOODS, ILL., January 2014) — Preparing all necessary forms and documentation before filling out a Form 1040 return can be challenging in any tax season, especially since numbers for all qualifying credits and deductions need to be crunched and calculated accurately. Honest mistakes do happen, but those attempting to purposely exaggerate a few details or bend the rules in their financial favor could be looking at serious legal penalties — including tax evasion charges, fines and even a prison sentence. CCH, a part of Wolters Kluwer and a leading global provider of tax, accounting and audit information, software and services (CCHGroup.com), highlights a checklist of common mistakes and potential blunders taxpayers need to know — before winding up in hot water with the IRS.

"Some may think they're automatically entitled to certain tax breaks, but it pays to check with a professional preparer or trusted resource to know for sure about expected credits, deductions or new rules regarding specific taxpayer benefits," said Wolters Kluwer, CCH Principal Federal Tax Analyst Mark Luscombe, JD, LLM, CPA. "IRS investigators will dig deep to determine if a mistake was simply an oversight that can be easily corrected or an intentional attempt to avoid paying taxes."

Checklist of frequent errors to avoid:

____ **Not paying taxes on unemployment, wages, tips or other income** — Those receiving unemployment benefits are expected to pay taxes on all government financial support they receive. And those in the work force are expected to report all of their income — whether it comes in the form of wages or tips. All investment income, including interest, dividends and capital gains, also needs to be reported and may be subject to different tax rules.

____ **Not paying taxes on household help** — Taxpayers who hire a nanny or other household workers are required to withhold and pay FICA taxes if cash wages totaled $1,800 or more in 2013. They also must report and pay the required employment taxes for domestic employees on Schedule H, Household Employment Taxes, with the tax amount then transferred to the appropriate line on their Form 1040 or 1040A.

____ **Not reporting gifts given over $14,000** — When someone receives a gift, its value is excludable from their gross income, meaning it's not taxable to them. However, if they later sell it or receive any other income from the gift, that amount is taxable. Taxpayers giving gifts in excess of $14,000 as a single filer or $28,000 as a split gift by joint filers have two options to satisfy their tax obligation: Pay taxes on the amount above the limit or apply it against their lifetime gift tax exemption ($5,250,000 in 2013, up from the $5,120,000 limit for 2012).

____ **Inflating the value of charitable donations** — The IRS expects people donating items to qualified charitable organizations to use fair market value in determining what each item is worth. For non-cash donations of more than $500, a written description of the donated property must also be furnished and non-cash donations of more than $5,000 must be appraised. Additionally, cash donations of any amount require proof, such as a cancelled check, credit card statement or receipt from the charity. And contributions of $250 or more also require a letter from the organization specifying the name of the donor, the amount given and the date received.

____ **Exaggerating business expenses** — The IRS pays close attention to fraudulent tax abuses such as inflating business expenses or attempting to write-off personal and family expenses under the guise of a home-based business, where deductions are clearly invalid or where a business doesn't exist. For expenses to qualify as business deductions they must be ordinary and necessary expenses paid or incurred in carrying on a trade or business. Taxpayers must have proof to legitimize business deductions such as receipts.

Sole proprietorships may claim business expenses on Schedule C, Profit or Loss from Business. Partnerships and joint ventures generally report expenses on Form 1065 or 1065-B.

____ **Under-withholding of taxes** — Generally, income tax follows a pay-as-you-go approach, meaning taxpayers must pay taxes on income they earn during the year it's earned. This is done through preparing a Form W-4 so your employees can withhold the correct amount or by paying estimated taxes on a quarterly basis. Under-withholding results in owing back taxes as well as a possible penalty, which is typically interest on the amount under-withheld.

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____ **Not paying taxes on income earned abroad or from offshore accounts** — Taxpayers must report worldwide income, within and outside of the United States, on their tax returns. That includes income from foreign countries and applies even if you didn't receive Forms W-2, 1099 or their foreign equivalents. Those who don't report all taxable income from overseas business transactions or offshore accounts could face civil and criminal penalties.

____ **Not reporting income from gambling or illegal schemes** — Form 1040, line 21 and Schedule A, line 28 on Form 1040 tax returns are intended for reporting various financial gains and losses. Whether you had a lucky night at the casino or financially benefited from an illegal transaction, such as a Ponzi scheme, embezzlement or other types of fraud, line 21 is the taxpayer's opportunity to tell all. For those who choose not to report gambling winnings or ill-gotten gains, they could be facing income tax evasion charges down the road.

____ **Not filing a tax return** — Ever since the federal income tax began in 1913, there have been many legal challenges to the system that have fallen short. Most people are required to file a federal income tax return. Income thresholds for those who must file range based on age and filing status. For single filers under age 65 for 2013, returns must be filed if they earn $10,000; returns must be filed for married couples under age 65 filing jointly if their income is $20,000 or more. Not filing a tax return when required is considered income tax evasion with penalties including paying back taxes, interest, possible fines and potentially serving a prison sentence in the most serious cases.

Other common mistakes on tax returns:

- Failing to include or use correct Social Security numbers;
- Claiming ineligible dependents — must meet legal definition of a dependent; and
- Failing to check liability on whether the alternative minimum tax applies.

2014 Filing Deadline Remains April 15

Despite the IRS delaying the start of the current tax season — pushing the date to when it would start processing returns to January 31, the tax filing deadline day still remains midnight on Tuesday, April 15. As usual, taxpayers can request a filing extension until October 15, but they must file that request and still pay any tax due (using IRS Form 4868) by April 15.

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Wolters Kluwer, CCH Examines Latest Health Care Taxes, Impact on Returns

(RIVERWOODS, ILL., January 2014) — While health care options, government website issues and heated political debate over the Affordable Care Act (ACA and commonly referred to as "Obamacare") continue grabbing headlines — taxpayers, depending on their income levels, will be getting more familiar with health care-related terms and a couple of new taxes that went into effect last year as they prepare their returns in 2014. CCH, a part of Wolters Kluwer and leading global provider of tax, accounting and audit information, software and services (CCHGroup.com), analyzes the taxes and provisions for healthcare reforms and medical tax deductions.

The 3.8-percent **Net Investment Income (NII) Tax** (applying to net investment earnings) and the 0.9-percent **Additional Medicare Tax** (applying to earned income) were introduced in the ACA. The IRS issued final guidance on both late last year (outlined in this December 2013 CCH Tax Briefing). Each tax is designed to fund different areas of health care reform — based on income thresholds.

NII Filing Status Thresholds for 2013 Taxes

Filing Status	Modified Adjusted Gross Income (MAGI) Threshold
Single	$200,000
Married Joint Return	$250,000
Married Separate Return	$125,000
Head of Household (with qualifying child)	$200,000
Qualifying Widow(er) (with dependent child)	$200,000

Trusts are also subject to NII Taxes above a threshold of $11,950 for 2013.

"Overall, the general framework of the NII Tax remains unchanged, but the IRS did listen to concerns from taxpayers and practitioners relating to the administration of the NII tax," said Wolters Kluwer, CCH Senior Federal Tax Analyst, George Jones, JD, LLM. "In some areas, however, the IRS had little room to make changes. For example, the threshold amounts for triggering the NII Tax are set by statute and are not indexed for inflation. The IRS also did not, contrary to many requests, provide an angel's list of income or deduction items that are excluded from the calculation of NII."

Medical Expense Tax Deductions

Also for 2013, you can deduct qualifying medical expenses from your federal tax return — only if the total amount is greater than 10 percent of your adjusted gross income (AGI), which is reported on line 38 of a Form 1040 tax return. That's up from 7.5 percent for the 2012 tax season, but the 7.5-percent threshold still applies to taxpayers age 65 or older by the end of the year.

Additional Background: Health Care Taxes

- **The 3.8-percent Net Investment Income Tax** — Applies to taxpayers with net investment income whose modified adjusted gross income (MAGI) exceeds $200,000 for single filers and $250,000 for joint filers. The NII tax is applied to the lesser of the excess of their MAGI over the filing status threshold amount or their net investment income.

  Net investment income includes gross income from interest, dividends, annuities, stocks, royalties and rents as well as most proceeds from real estate and passive participation in partnerships. However, while some people were concerned that selling their principal residence would trigger the NII tax, that's generally not likely because of the generous capital-gain exclusion available to most homeowners. But it could be the case with second homes or investment properties.

  "For instance, a married couple has a $500,000 capital gains exclusion on the sale of their principal residence, therefore, their home would have to have appreciated more than that and they would have to also exceed the MAGI requirements in order to be subject to the NII tax on any gains from the home sale," said Wolters Kluwer, CCH Senior Federal Tax Analyst John W. Roth, JD, LLM.

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For most people, interest earned on their bank accounts, capital gains from the stock market, dividends realized on stock investments paid through their brokerage account or mutual funds, and corporate dividends will be the most common investment income. Many corporations made dividend distributions before 2012 year-end in anticipation of the NII tax as well as the concern that dividends would be taxed as ordinary income starting in 2013. Dividends received in 2012 would help investors minimize their exposure to the 2013 taxes.

"Older individuals who rely on interest and dividend income in their retirement potentially may be especially exposed to the NII tax. In 2013, many began to minimize their exposure to the NII tax by shifting to tax-exempt investments, such as municipal bonds whose interest is excluded from net investment income for NII tax purposes," said Roth.

- **The 0.9-percent Additional Medicare Tax** — In previous years, the employee-share of Medicare tax was 1.45 percent of their covered wages (2.9 percent for self-employed). For the 2013 tax year, employees will pay an additional 0.9-percent Additional Medicare Tax on covered wages exceeding $200,000 for single filers and $250,000 for joint filers. Employers are required to withhold the tax from wages paid to an employee in excess of $200,000.

  Complications can quickly arise, however, particularly for married couples filing jointly where neither spouse makes more than $200,000 but their combined income exceeds $250,000. Similarly, individuals who work at more than one job where wages don't exceed the $200,000 limit, but combined they do. In such instances, an employer is not required to withhold taxes.

  If an employer is not withholding the tax, then affected taxpayers are required to file estimated quarterly taxes or be subject to possible tax penalties for underpayment of tax.

  Self-employed taxpayers also are subject to the 0.9-percent Additional Medicare Tax on earnings above $200,000 as single filers, $250,000 as joint filers and should adjust their estimated tax payments.

ACA Child Medical Deductions

One tax break provided by the ACA, since 2010, allows parents who itemize on their federal tax return to include medical expenses for children under age 27 as part of calculating their medical expense deductions. Parents can do so regardless of whether or not the child is covered under the parent's health insurance plan (eligible to be covered up through age 25).

Qualifying, Non-qualifying Medical Deductions

Medical expense deductions can include a variety of other medical-related costs, such as medical and long-term care insurance premiums not covered by an employer. Additionally, transportation costs to get medical care also can be allowable medical expenses.

However, some costs clearly can't be deducted as medical expenses — and some can, but only under certain circumstances. For example, costs for:

- Teeth whitening is not an includible medical expense.
- Marijuana and other controlled substances are not includible as medical expenses at the federal level even though legalized by some states.
- Weight loss cost can be deducted if it is a treatment for a specific disease diagnosed by a physician (such as obesity or hypertension), but can't be included as a medical expense for someone just looking to improve their appearance.

2.3-percent Medical Device Excise Tax

Also potentially indirectly affecting taxpayers as part of the ACA is a tax on certain medical devices equal to 2.3 percent of their sale prices. Certain retail devices are exempt, such as eyeglasses, contact lenses and hearing aids. The House of Representatives passed a bill to repeal the excise tax in the prior Congress; however, the Senate did not take it up. The Senate passed a non-binding repeal resolution in the current Congress.

Changes to FSAs and HSAs

The Affordable Care Act also has affected taxpayers' medical-related savings accounts.

- Flexible Spending Accounts (FSAs). Anyone who enrolled in a health FSA as part of their 2013 annual benefits enrollment period last fall knows that there is a maximum $2,500 limit on health FSA contributions. FSAs allow employees to pay for unreimbursed medical costs including co-payments and prescriptions, but not health care premiums, for themselves and their family on a pre-tax basis. Due to a change made in 2013 to the 'use-or-lose' rule, employers can now structure their FSAs to allow an employee to carry over up to a $500 of unused funds into the following year.

- Health Savings Accounts (HSAs). Taxpayers with high-deductible health plans can make pre-tax contributions and tax-free distributions from their HSA for qualified medical expenses for themselves and their family. Distributions for expenses that are not qualified are treated as taxable income and there is a 20-percent penalty for taking non-qualified distributions. For 2013, the maximum contribution limit is $3,250 ($3,100 for 2012) for individuals and $6,450 ($6,250 for 2012) for families. Those who reach age 55 by the end of the tax year are eligible for a catch-up contribution of $1,000. Contributions cannot be made by someone enrolled in Medicare.

Penalties Related to Health Insurance Coverage

According to the U.S. government website, Healthcare.gov, the amount of the penalty to be paid for not having health insurance in 2014 is calculated two ways — with the higher amount to be paid:

- One percent of the non-health insured's yearly household income. The maximum penalty would be the national average yearly premium for a bronze-level health plan.
- $95 per person per year ($47.50 per child under age 18).The maximum annual penalty per family using this option is $285.

The amount increases in 2015 to 2 percent of income or $325 per person and to 2.5 percent of income or $695 per person in 2016. Percentages and penalty fees will be adjusted for inflation after 2016.

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New, Significant Changes for Taxpayers Who Can Now File as Married: Wolters Kluwer, CCH Examines Updated Federal, State Guidelines

(RIVERWOODS, ILL., January 2014) — Legally, it's known as the Windsor decision, but the Supreme Court's 5 – 4 ruling back in June of 2013 is better known for clearing the way for recognition of same-sex marriages on the federal level. CCH, a part of Wolters Kluwer is a leading global provider of tax, accounting and audit information, software and services (CCHGroup.com), examines newly issued IRS tax rules regarding same-sex married couples as well as other filing status updates taxpayers should know.

DOMA Ruling Background, IRS Impact

The Court's historic decision struck down Section 3 of the Defense of Marriage Act (DOMA) saying it was unconstitutional in denying benefits and equal protection under the law to same-sex married couples. That set in motion a wave of new guidance from the IRS and other federal agencies — enabling married, same-sex couples to enjoy many federal tax-related benefits previously available only to married couples of the opposite sex.

The IRS then announced last August that it will now accept a married tax filing status for federal returns filed by legally married, same-sex couples, whether an affected couple lives in a jurisdiction that recognizes same-sex marriage or not. In addition to income taxes, the IRS also said estate and gift taxes and payroll taxes associated with many employee spousal benefits are also affected by the DOMA decision and new IRS guidelines. Full details are available in the **CCH Tax Briefing: IRS Guidance on Same-Sex Marriage**.

"The IRS said it followed other federal agencies by taking a 'place of celebration' approach rather than using a couple's 'place of domicile' to determine tax status. However, some federal agencies, such as Social Security and Veteran's Administration, have been forced by their enabling statutes to take a 'place of domicile' approach," said Wolters Kluwer, CCH Principal Federal Tax Analyst, Mark Luscombe, JD, LLM, CPA. "Now same-sex married couples generally must file as married filing jointly or married filing separately for the 2013 tax year, and couples may look at amending federal returns from open prior years to see if they may benefit from their new tax filing status."

Furthermore, as long as a couple is married in a jurisdiction that recognizes same-sex marriage, the IRS will recognize their marriage, even if the couple later relocates to a jurisdiction that does not recognize same-sex marriage.

Some confusion still remains though for same-sex couples who are not married. The IRS' actions did not apply to registered domestic partnerships, civil unions, or similar formal relationships recognized under state laws.

Calculating Taxes Twice for Federal, State Returns

Prior to the Court's decision, many same-sex couples in states that recognized same-sex marriages had to calculate their taxes twice, using different sets of rules for federal taxes and for their state returns. Following the Court's decision, many same-sex couples in states that do not recognize same-sex marriages will have to calculate their taxes twice — now that the federal tax recognition rules have changed.

Previously on federal returns, each individual had to use the "single" or possibly "head of household" status. On their state returns, same-sex couples had to file as single or as married, depending on the constitution and laws of each state. Now, legally married same-sex couples must file federal returns as "joint" filers or "married filing separately," but in states that do not recognize the marriage, they may still be required to file as "single" or possibly "head of household."

State Tax Considerations for Same-sex Marriages

Currently, 17 states and the District of Columbia allow same-sex marriages and all of these states allow same-sex couples to file joint state income tax returns. New Hampshire has no broad-based income tax, but does allow joint filing for taxes levied on interest and dividends. Utah recognized same-sex marriages from December 20, 2013 (when a federal district court struck down Utah's same-sex marriage ban) until January 6, 2014, when the U.S. Supreme Court issued a stay of the district court's decision until the case is heard by a federal appellate court.

In addition, Colorado, Missouri and Oregon require same-sex married couples filing joint federal returns to file joint state returns, even though the states do not recognize same-sex marriages.

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Furthermore, seven states and the District of Columbia have income taxes that also recognize either registered domestic partnerships (RDP) and/or civil unions (CU): California, Colorado, District of Columbia, Hawaii, Illinois, New Jersey, Oregon and Vermont. Civil union spouses and registered domestic partners in these states must file joint state returns, (or RDP/CU filing separately) but are required to file single or head of household federal returns. The only exception is Illinois where RDPs must file "single" or "head of household" returns for both state and federal purposes.

State	Same-sex partnerships	Requires joint state tax return
Alabama	Same-sex marriages not recognized	No
Arizona	Same-sex marriages not recognized	No
Arkansas	Same-sex marriages not recognized	No
California	Same-sex marriages recognized Registered domestic partnerships	Yes Yes
Colorado	Civil unions Same-sex marriages not recognized	Yes Yes
Connecticut	Same sex marriages recognized	Yes
Delaware	Same sex marriages recognized	Yes
District of Columbia	Same-sex marriages recognized Registered domestic partnerships	Yes Yes
Georgia	Same-sex marriages not recognized	No
Hawaii	Same-sex marriages recognized Civil unions	Yes Yes
Idaho	Same-sex marriages not recognized	No
Illinois	Same sex marriages recognized 6/1/2014 Civil unions	Yes Yes
Indiana	Same-sex marriages not recognized	No
Iowa	Same-sex marriages recognized	Yes
Kansas	Same-sex marriages not recognized	No
Kentucky	Same-sex marriages not recognized	No
Louisiana	Same-sex marriages not recognized	No
Maine	Same-sex marriages recognized	Yes
Maryland	Same-sex marriages recognized	Yes
Massachusetts	Same-sex marriages recognized	Yes
Michigan	Same-sex marriages not recognized	No
Minnesota	Same-sex marriages recognized	Yes
Mississippi	Same-sex marriages not recognized	No
Missouri	Same-sex marriages not recognized	Yes
Montana	Same-sex marriages not recognized	No
Nebraska	Same-sex marriages not recognized	No
New Hampshire	Same-sex marriages recognized	Yes
New Jersey	Same-sex marriages recognized Civil unions Domestic partnerships	Yes Yes No, unless married in state that recognizes same-sex marriages

State	Same-sex partnerships	Requires joint state tax return
New Mexico	Same-sex marriage recognized 12/19/2013	Yes
New York	Same-sex marriages recognized	Yes
North Carolina	Same-sex marriages not recognized	No
North Dakota	Same-sex marriages not recognized	No
Ohio	Same-sex marriages not recognized	No
Oklahoma	Same-sex marriages not recognized	No
Oregon	Same-sex marriages not recognized Registered domestic partnerships	Yes Yes
Pennsylvania	Same-sex marriages not recognized	No
Rhode Island	Same-sex marriages recognized	Yes
South Carolina	Same-sex marriages not recognized	No
Tennessee	Same-sex marriages not recognized	No
Utah	Same-sex marriages recognized from 12/20/2013 thru 1/6/2014	No
Vermont	Same-sex marriages recognized Civil unions	Yes Yes
Virginia	Same-sex marriages not recognized	No
West Virginia	Same-sex marriages not recognized	No
Wisconsin	Same-sex marriages not recognized.	No

Alaska, Florida, Nevada, South Dakota, Texas and Wyoming do not impose a personal income tax.

"Generally, only in states where same-sex partnerships are recognized for income, inheritance, and gift tax purposes and allowed to file income tax returns jointly, do partners realize some of the tax advantages of being a couple," said Luscombe. "Although filing income tax returns jointly may also come with some tax disadvantages due to marriage penalty provisions."

Marriage Penalty Relief

The American Taxpayer Relief Act extended all existing tax breaks for what's known as the "marriage penalty."

At one time, there were two obvious contributing sources to the marriage penalty. First, the standard deduction allowed on a joint return was less than twice the amount of the standard deduction for single filers. Second, a couple could move into a higher tax bracket when their incomes were combined on their joint return. Add together two incomes that each might be taxed at 15 percent and you could get a joint income taxed at 28 percent.

Now, the standard deduction for joint filers is twice that of singles, and the 10 — and 15-percent tax brackets are twice as high for joint filers, as well. But beyond the 15-percent bracket, the classic "marriage penalty" lingers on. It also lingers on in many other tax breaks where the phase-out for joint filers is less than twice the phase-out for single filers.

"When the income tax was first established, the typical family included only one wage-earner," Luscombe said. "As a result, some people, especially those in 'traditional' families with a principal wage-earner, benefit from the same structures in the tax code that penalize others, such as those in dual-income situations."

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What's the State Tax Picture on Where to Spend Your Retirement? Wolters Kluwer, CCH Analyzes Significant Updates for 2014

(RIVERWOODS, ILL., January 2014) — The weather, distance from family members and a host of other factors can affect decisions on the best places to live — especially when contemplating locations for retirement. Local economic trends, including property values and especially state or municipal tax rates also play a major role on where individuals and families decide to call home. CCH, a part of Wolters Kluwer and a leading global provider of tax, accounting and audit information, software and services (CCHGroup.com) takes a look at state tax rates, changes and compares differences across the nation.

"Costs of living are obviously a huge consideration in deciding where to live or retire to," said Sandy Weiner, JD, State Tax Analyst for Wolters Kluwer, CCH. "Retirees should really do their homework on the types of taxes they'd be responsible for paying and the rates they'd be taxed at when comparing different locations."

Taxes that retirees should consider include:

- State taxes on retirement benefits;
- State income tax rates;
- State and local sales tax;
- State and local property taxes; and
- State estate taxes.

Taxability of Retirement Benefits Varies State-to-State

Seven states do not tax individual income — retirement or otherwise: Alaska, Florida, Nevada, South Dakota, Texas, Washington and Wyoming. Two other states — New Hampshire and Tennessee — impose income taxes only on dividends and interest (5 percent for New Hampshire and 6 percent for Tennessee for 2013 and remain the same in 2014).

In the other 41 states and the District of Columbia, tax treatment of retirement benefits varies widely. For example, some states exempt all pension income or all Social Security income. Other states provide only partial exemption or credits and some tax all retirement income.

States exempting pension income entirely for qualified individuals are Illinois, Mississippi and Pennsylvania. States exempting a portion of pension income include: Arkansas, Colorado, Delaware, Georgia, Hawaii, Iowa, Kentucky, Louisiana, Maine, Maryland, Michigan, Missouri, Montana, New Jersey, New Mexico, New York, Oklahoma, South Carolina, Utah, Virginia and Wisconsin. States generally taxing pension income include: Arizona, California, Connecticut, District of Columbia, Idaho, Indiana, Kansas, Massachusetts, Minnesota, Nebraska and North Carolina beginning with the 2014 tax year, North Dakota, Rhode Island, Vermont and West Virginia.

(See chart for additional detail.)

Significant State Tax Reforms

Among states announcing or proposing changes to income tax for retirement plans in 2013 include:

- **Kentucky:** The Kentucky Blue Ribbon Commission on Tax Reform's proposed reduction in the individual income tax pension exclusion from $41,110 to $30,000 was introduced but not enacted.
- **Maine:** In 2012, a law was enacted to revise the income tax deduction for certain retirement benefits for tax years beginning after 2013. The changes raise the deduction from $6,000 to $10,000 (reduced by the total amount of the taxpayer's Social Security benefits and Federal Railroad Retirement benefits). The deduction is also expanded to include all federally taxable pension income, annuity income and individual retirement account (IRA) distributions, except pick-up contributions for which a deduction has been allowed.
- **Michigan:** The deduction for pension benefits for senior citizens is curtailed based on the taxpayer's birth year and household resources. Previously, this deduction was limited by a dollar amount, but no other limitation applied. Specifically, for persons born before 1946, the deduction for pension benefits is unchanged (see chart). However, for persons who have not yet reached age 67 and who are born in 1946 through 1952, the deduction for pension benefits is limited to $20,000 for

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a single return and $40,000 for a joint return. Once the person reaches age 67, the pension benefits deduction is no longer applicable. However, all taxpayers who are age 67, regardless of the year they are born, claim a deduction of $20,000 for a single return and $40,000 for a joint return against all types of income in lieu of claiming the social security deduction and personal exemption.

- **North Carolina:** The $2,000 deduction for income from private retirement plans is repealed beginning with the 2014 tax year.
- **Oregon:** The pension income credit against personal income taxes was extended for an additional six years.

While some states tax pension benefits, only 14 states impose tax on Social Security income: Colorado, Connecticut, Iowa, Kansas, Minnesota, Missouri, Montana, Nebraska, New Mexico, New Jersey, North Dakota, Rhode Island, Vermont and West Virginia. These states either tax Social Security income to the same extent that the federal government does or provide breaks for Social Security income, often for lower-income individuals.

(**See chart for full detail on Taxation of Retirement Income.**)

State Income, Property, Sales Taxes Can Add Up

In addition to state taxes on retirement benefits, other taxes that seniors should consider when evaluating the financial implications of where they may retire include:

- State income tax rates. For example, income tax rates also can have a significant financial impact on retirees in determining where they want to live and can vary widely across the country.

  While seven states have no income tax and two tax only interest and dividend income, several have a relatively low income tax rate across all income levels. For example, the highest marginal income tax rates in Arizona, Kansas, New Mexico and North Dakota are below 5 percent. Some states have a relatively low flat tax regardless of income, with the three lowest: Indiana (3.4 percent), Michigan (4.25 percent) and Pennsylvania (3.07 percent) for 2014. The Illinois flat tax rate will be reduced from 5% to 3.75 percent in 2015.
- State and local sales taxes. Forty-five states and the District of Columbia impose a state sales and use tax (only Alaska, Delaware, Montana, New Hampshire and Oregon do not impose a state sales and use tax). States with a state sales tax rate of 7 percent include Indiana, Mississippi, New Jersey, Rhode Island and Tennessee. California has a state sales tax rate of 7.5 percent. Local sales and use taxes, imposed by cities, counties and other special taxing jurisdictions, such as fire protection and library districts, also can add significantly to the rate.
- State and local property taxes. While property values have declined over recent years in many areas — that has not necessarily been the case for property taxes. However, many states and some local jurisdictions offer senior citizen homeowners some form of property tax exemption, credit, abatement, tax deferral, refund or other benefits. These tax breaks also are available to renters in some jurisdictions. The benefits typically have qualifying restrictions that include age and income of the beneficiary.
- State estate taxes. Estate taxes also can influence where seniors want to retire. Rules vary from state to state as well as from federal estate tax laws. For example, 18 states impose a tax on estates valued below the $5.25 million federal threshold for 2013 ($5.12 million for 2012); only Delaware, Hawaii and North Carolina use the federal exclusionary amount. However, three states have no estate tax at all — Kansas, Oklahoma and Arizona.

"The American Taxpayer Relief Act brings more clarity on the federal level that only estates above the $5 million mark indexed for inflation will be subject to the federal estate tax," said Wolters Kluwer, CCH Estate Planning Analyst James C. Walschlager, MA. "However, the threshold in some states can be below $1 million for state estate taxes, which can impose additional planning challenges."

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State Taxation of Retirement Income

The following chart shows generally which states tax retirement income, including Social Security and pension income for the 2013 tax year unless otherwise noted. States shaded indicate they do not tax these forms of retirement income.

State	State Tax of Social Security Income	State Tax of Pension Income
Alabama	Not taxed	Generally taxable
Alaska	No individual income tax	No individual income tax
Arizona	Not taxed	Generally taxable
Arkansas	Not taxed	Exempt to certain level
California	Not taxed	Generally taxable
Colorado	Exempt to a certain level	Exempt to a certain level; age restrictions apply
Connecticut	Exemption based on adjusted gross income (AGI)	Generally taxable
Delaware	Not taxed	Exempt to a certain level; age restrictions apply
District of Columbia	Not taxed	Generally taxable
Florida	No individual income tax	No individual income tax
Georgia	Not taxed	Exempt to a certain level; age restrictions apply
Hawaii	Not taxed	Distributions are partially exempt
Idaho	Not taxed	Generally taxable
Illinois	Not taxed	All income from federally qualified pension plans are generally exempt
Indiana	Not taxed	Generally taxable
Iowa	Exempt to a certain level	Exempt to a certain level; age restrictions apply
Kansas	Exemption based on AGI	Generally taxable
Kentucky	Not taxed	Exempt to a certain level
Louisiana	Not taxed	Exempt to a certain level; age restrictions apply
Maine	Not taxed	Exempt to a certain level, excluding IRA and SEP distributions
Maryland	Not taxed	Exempt to a certain level; age restrictions apply
Massachusetts	Not taxed	Generally taxable
Michigan	Not taxed	Exempt to a certain level, excluding certain 401(k) and 403(b) distributions
Minnesota	Taxed	Generally taxable
Mississippi	Exempt in total	Not taxed

State	State Tax of Social Security Income	State Tax of Pension Income
Missouri	Exemption based on AGI	Exempt to a certain level; income restrictions apply
Montana	Exemption based on AGI	Exempt to a certain level; income restrictions apply
Nebraska	Taxed	Generally taxable
Nevada	No individual income tax	No individual income tax
New Hampshire	Only dividends and interest are taxable	Only dividends and interest are taxable
New Jersey	Social Security excluded from gross income	Exempt to a certain level; age and income restrictions apply
New Mexico	Taxed	Exempt to a certain level; age and income restrictions apply
New York	Not taxed	Exempt to a certain level; age restrictions apply
North Carolina	Not taxed	Generally taxable beginning with 2014 tax year.
North Dakota	Taxed	Generally taxable
Ohio	Not taxed	Credit for pension distribution or income allowed; age restrictions apply
Oklahoma	Not taxed	Exempt to a certain level; age restrictions apply
Oregon	Not taxed	Credit for pension distribution or income allowed; age and income restrictions apply
Pennsylvania	Not taxed	Not taxed; age restrictions apply
Rhode Island	Taxed	Generally taxable
South Carolina	Not taxed	Exempt to a certain level; age restrictions apply
South Dakota	No individual income tax	No individual income tax
Tennessee	Only dividends and interest are taxable	Only dividends and interest are taxable; Exemption available with age and income restrictions
Texas	No individual income tax	No individual income tax
Utah	Taxed	Exempt to a certain level; age and income restrictions apply
Vermont	Taxed	Generally taxable
Virginia	Not taxed	Exempt to a certain level; age and income restrictions apply
Washington	No individual income tax	No individual income tax
West Virginia	Taxed	Generally taxable
Wisconsin	Not taxed	Exempt to a certain level; income restrictions apply.
Wyoming	No individual income tax	No individual income tax

State Tax Treatment of Social Security, Pension Income

The following CCH analysis provides a general overview of how states treat income from Social Security and pensions for the 2013 tax year unless otherwise noted. States shaded indicate they do not tax these forms of retirement income.

State	State Tax of Social Security Income	State Tax of Pension Income
Alabama	State computation not based on federal. Social Security benefits excluded from taxable income.	Individual taxpayer's pension income is generally taxable.
Alaska	No individual income tax.	No individual income tax.
Arizona	Social Security benefits subtracted from federal AGI.	Individual taxpayer's pension income is generally taxable.
Arkansas	State computation not based on federal. Social Security benefits excluded from taxable income.	Up to $6,000 total in retirement pay benefits and benefits received from an individual retirement account (IRA) is exempt.
California	Social Security benefits subtracted from federal AGI.	Individual taxpayer's pension income is generally taxable.
Colorado	Pension income, including Social Security benefits, up to $24,000 may be subtracted from federal taxable income by those 65 and older, and up to $20,000 by those 55 and older or those who are second-party beneficiaries of someone 55 or older.	An individual taxpayer 55 through 64 years old can exclude up to $20,000 ($24,000 for a taxpayer aged 65 or older) in pension and annuity income.
Connecticut	Joint filers and heads of households with AGIs under $60,000 and individuals with AGIs under $50,000 deduct from federal AGI all Social Security income included for federal income tax purposes. Joint filers and heads of households with AGIs over $60,000 and individuals with AGIs over $50,000 deduct the difference between the amount of Social Security benefits included for federal income tax purposes and the lesser of 25 percent of Social Security benefits received or 25 percent of the excess of the taxpayer's provisional income in excess of the specified base amount under IRC Sec. 86(b)(1).	Individual taxpayer's pension income is generally taxable.
Delaware	Social Security benefits subtracted from federal AGI.	An individual taxpayer younger than 60 may deduct pension amounts of up to $2,000, and a taxpayer 60 or older may deduct up to $12,500. Eligible amounts for a taxpayer 60 or older include retirement income (dividends, capital gains realization, interest and rental income).

State	State Tax of Social Security Income	State Tax of Pension Income
District of Columbia	Social Security benefits subtracted from federal AGI.	Individual taxpayer's pension income is generally taxable.
Florida	No individual income tax.	No individual income tax.
Georgia	Social Security benefits subtracted from federal AGI.	An individual taxpayer age 62 to 64 may exclude up to $35,000 of retirement income; up to $4,000 of the maximum exclusion amount may be earned income. An individual 65 or older may exclude up to $65,000.
Hawaii	Social Security benefits subtracted from federal AGI.	Distributions derived from employer contributions to pensions and profit-sharing plans are exempt.
Idaho	Social Security benefits subtracted from federal AGI.	Individual taxpayer's pension income is generally taxable.
Illinois	Social Security benefits subtracted from federal AGI.	Income from a federally qualified retirement plan and an IRA, as well as retirement payments to a retired partner and certain capital gains on employer securities, are excluded.
Indiana	Social Security benefits subtracted from federal AGI.	Individual taxpayer's pension income is generally taxable.
Iowa	Subtraction allowed equal to 89 percent of federally taxable benefits for tax year 2013. For tax years after 2013, Social Security benefits are fully exempt.	Married taxpayers age 55 or older filing a joint return may exclude up to $12,000 ($6,000 for an unmarried taxpayer) of pension benefits and other retirement pay. A special rule applies to a spouse filing separately.
Kansas	Taxpayers with a federal AGI of $75,000 or less are exempt from any state tax on their Social Security benefits.	Individual taxpayer's pension income is generally taxable.
Kentucky	Social Security benefits subtracted from federal AGI.	Up to $41,110 of retirement income from a pension plan, annuity contract, profit-sharing plan, retirement plan or employee savings plan, including IRA amounts and other similar income, is exempt.
Louisiana	Social Security benefits subtracted from federal AGI.	Up to $6,000 of the pension and annuity income of an individual taxpayer 65 or older is exempt.

State	State Tax of Social Security Income	State Tax of Pension Income
Maine	Social Security benefits subtracted from federal AGI.	A recipient of pension benefits under an employee retirement plan may generally subtract from federal AGI the lesser of: —$6,000 ($10,000 beginning in 2014) (reduced by the total amount of the recipient's Social Security benefits and Railroad Retirement benefits paid); or —The aggregate of pension benefits received by the recipient under employee retirement plans and included in the individual's federal AGI.
Maryland	Social Security benefits subtracted from federal AGI.	Up to $27,800, generally, in pension income (except income from an IRA, SEP or Keogh) is excludable for an individual taxpayer age 65 or older.
Massachusetts	Social Security benefits subtracted from federal AGI.	Individual taxpayer's pension income is generally taxable.
Michigan	Social Security benefits subtracted from federal AGI.	For individuals born prior to 1946, up to $48,302 in pension and retirement income is deductible on a single return ($96,605 on a joint return); however, distributions from certain 401(k) or 403(b) plans are taxable. For individuals who are under 67 and born between 1946 and 1952, or for persons 67 and over, up to $20,000 is deductible on a single return ($40,000 on a joint return) in lieu of claiming the social security deduction and personal exemption. Additionally, taxpayers age 65 or older may also be able to deduct part of their interest, dividends and capital gains that are included in AGI. The deduction is limited to a maximum of $10,767 for single filers and $21,534 for joint filers.
Minnesota	State computation begins with federal taxable income. No subtraction.	Individual taxpayer's pension income is generally taxable.
Mississippi	State computation not based on federal. Social Security benefits exempt in total.	Retirement allowances, pensions, annuities or "optional retirement allowances" (income from Keogh plan, IRA or deferred compensation plan) are exempt.

State	State Tax of Social Security Income	State Tax of Pension Income
Missouri	Social Security benefits that are included in federal AGI may be subtracted. The maximum amount of benefits that may be deducted is 100 percent for 2012 and after. Married couples with Missouri AGI greater than $100,000 and single individuals with Missouri AGI greater than $85,000, may qualify for a partial deduction.	Married couples with Missouri AGI less than $32,000 and single individuals with Missouri AGI less than $25,000, may deduct $6,000 ($12,000 combined filers) of their private retirement benefits, to the extent the amounts are included in their federal AGI. Partial exemptions available to taxpayers with income levels above the AGI limits listed above.
Montana	Separate calculation to determine taxable Social Security benefits. Benefits exempt if income is $25,000 or less for single filers or heads of households or $32,000 for married taxpayers filing jointly and $16,000 for married taxpayers filing separately.	For an individual taxpayer, up to $3,900 of pension and annuity income is exempt (reduced by $2 for every $1 of federal AGI that exceeds $34,430 or 36,380 if filing joint return).
Nebraska	State computation begins with federal AGI. No subtraction.	Individual taxpayer's pension income is generally taxable.
Nevada	No individual income tax.	No individual income tax.
New Hampshire	Only dividends and interest are taxable.	Only dividends and interest are taxable.
New Jersey	State computation not based on federal. All Social Security benefits are excluded by statute from gross income.	Married taxpayers filing jointly and age 62 or older with an income of $100,000 or less may exclude up to $20,000 of pension or annuity income, or of IRA withdrawals ($10,000 if an individual taxpayer is married and filing separately or $15,000 for a single taxpayer, a head of household or a qualifying widow(er)).
New Mexico	State computation begins with federal AGI. No subtraction.	An individual taxpayer age 65 or older may exempt up to $8,000 of income (100% of income if age 100 or older and not claimed as a dependent on another return), including pension income, depending upon the individual's filing status and federal AGI. Joint filers, a surviving spouse or a head of household with AGI of $51,000 or more are ineligible for this exemption. A married individual filing separately becomes ineligible at $25,500. A single individual becomes ineligible at $28,500.
New York	Social Security benefits subtracted from federal AGI.	For an individual taxpayer age 59½ or older, $20,000 of pension and annuity income is exempt.

State	State Tax of Social Security Income	State Tax of Pension Income
North Carolina	Social Security benefits subtracted from federal taxable income.	Prior to the 2014 tax year, up to $2,000 in retirement benefits, other than railroad retirement benefits, received during the tax year from one or more private retirement plans and included in federal gross income is deductible. For a married couple filing a joint return, the maximum amount that may be deducted applies separately to the benefits received by each spouse.
North Dakota	State computation begins with federal taxable income. No subtraction.	Individual taxpayer's pension income is generally taxable.
Ohio	Social Security benefits subtracted from federal AGI.	A recipient of retirement income may claim an annual credit ranging from $25 to $200, depending on the amount of benefit received during the year. Also, in lieu of the $50 senior citizen income credit (credit eligibility is dependent on age not retirement income) an individual taxpayer age 65 or older may claim a credit for a lump-sum distribution from a retirement, pension or profit-sharing plan equaling $50 times the taxpayer's expected remaining life years. If they choose the lump sum distribution credit, however, they are no longer eligible for the annual senior citizen credit.
Oklahoma	Social Security benefits subtracted from federal AGI.	Up to $10,000 of retirement benefits from a private pension is exempt for an individual taxpayer age 65 or older, but not to exceed the amount included in federal AGI.
Oregon	Social Security benefits subtracted from federal taxable income.	An individual taxpayer age 62 or older with household income of less than $22,500 ($45,000 for joint filers) may claim a credit for pension income from a public or qualified private pension benefit plan in the amount of the lesser of 9% of the individual's net pension income or the individual's state personal income tax liability.
Pennsylvania	State computation not based on federal. Social Security benefits not included in state taxable income.	Individual taxpayer's pension income is not taxed if taxpayer eligible to retire and has retired.
Rhode Island	State computation begins with federal taxable income. No subtraction.	Individual taxpayer's pension income is generally taxable.
South Carolina	Social Security benefits subtracted from federal taxable income.	An individual taxpayer receiving retirement income may deduct up to $3,000. A taxpayer age 65 or older may deduct up to $10,000.

State	State Tax of Social Security Income	State Tax of Pension Income
South Dakota	No individual income tax.	No individual income tax.
Tennessee	Only dividends and interest are taxable.	Only dividends and interest are taxable. Taxpayers 65 or older with total income from all sources of $33,000 or less are exempt.
Texas	No individual income tax.	No individual income tax.
Utah	State computation begins with federal taxable income. No subtraction.	An eligible retiree age 65 or older is allowed a nonrefundable retirement credit of $450. An eligible retiree under age 65 and born before 1953 is allowed a nonrefundable retirement credit equal to the lesser of $288 or 6 percent of the eligible retirement income for the taxable year for which the retiree claims the tax credit. These credits are phased out at 2.5 cents per dollar by which modified AGI exceeds $16,000 for married individuals filing separately, $25,000 for singles and $32,000 for heads of household and joint filers.
Vermont	State computation begins with federal taxable income. No subtraction.	Individual taxpayer's pension income is generally taxable.
Virginia	Social Security benefits subtracted from federal AGI.	A $12,000 deduction is available to an individual taxpayer age 75 or older. For taxpayers 65 and older born after 1938, the deduction is reduced dollar for dollar for every $1 that the taxpayer's adjusted federal AGI exceeds $50,000 ($75,000 for married taxpayers). For a married taxpayer filing separately, the deduction is reduced by $1 for every $1 that the total combined adjusted federal AGI of both spouses exceeds $75,000.
Washington	No individual income tax.	No individual income tax.
West Virginia	State computation begins with federal AGI. No subtraction.	Individual taxpayer's pension income is generally taxable. However, subject to some qualification, an individual taxpayer who, by the last day of the tax year, has reached age 65 may deduct up to $8,000 to the extent that amount was includable in federal AGI.
Wisconsin	Social Security benefits subtracted from federal AGI.	Taxpayers age 65 or older may subtract up to $5,000 if federal AGI is less than $15,000 ($30,000 for married taxpayers).
Wyoming	No individual income tax.	No individual income tax.

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Uncertain Future for "Tax-free" Online Shopping: Wolters Kluwer, CCH Examines Developments, Details

(RIVERWOODS, ILL., January 2014) — While the popularity of online shopping continues to grow, with more shoppers heading to their keyboards instead of the malls, confusion still persists over sales taxes collected on purchases, especially for transactions that cross state borders. Although buyers are supposed to report any taxes they didn't pay for Internet purchases, federal legislation designed to simplify the patchwork of state rules requiring online retailers to collect taxes has fallen short from being signed into law. CCH, a part of Wolters Kluwer and a leading global provider of tax, accounting and audit information, software and services (**CCHGroup.com**), takes a look at the current status of collecting online sales taxes.

In 2013, the U.S. Senate passed the Marketplace Fairness Act, which would grant states authority in requiring most remote sellers to collect sales and use tax on sales to in-state customers — protecting "bricks-and-mortar" businesses from an unfair advantage. However, the legislation has still not passed the House of Representatives. Full details of the Act are available in this **CCH Tax Briefing**.

"Although the legislation received strong bipartisan support in the Senate, its future passage in the House isn't a sure thing," said Wolters Kluwer, CCH Principal Federal Tax Analyst, Mark Luscombe, JD, LLM, CPA. "Supporters claim the issue is about fairness and that Internet sellers shouldn't enjoy an unfair advantage, but critics say it amounts to a tax increase."

State Sales Tax Breakdown

Overall, 45 states and the District of Columbia currently have a sales tax. Sales tax is generally imposed on retailers who collect it from consumers when they make an in-state purchase of an item, or in some instances a service. Use tax applies when a consumer makes a purchase from an out-of-state retailer for use in their resident state. Generally, if the out-of-state retailer does not collect the use tax, the consumer still owes it to the state department of revenue.

However, many consumers are unaware of their obligation, even though more than one-half of states include directions with their income tax returns advising taxpayers on how to report and pay the tax.

As a result, states are projected to be losing billions of revenue dollars annually from uncollected use tax. The National Conference of State Legislators estimates that in 2012 states collectively lost $23 billion in revenue from uncollected sales or use tax.

"Although there is some likelihood that federal legislation will be enacted, many states have not waited," said Wolters Kluwer, CCH Senior State Tax Analyst Carol Kokinis-Graves, JD. "More than one-half have proposed or have already enacted legislation requiring remote sellers to collect use tax from consumers and further proposals are expected in 2014."

More States Enacting "Amazon" Laws

In the absence of federal legislation, states continue to press ahead with their own laws. Collectively, these state-initiated remote seller collection laws require online retailers (such as Amazon.com) to collect state use tax in circumstances in which the remote seller has some type of connection with the state, albeit not a physical presence.

New York enacted its click-through nexus law in 2008. Amazon.com and Overstock.com challenged the statute, but the New York Court of Appeals held that online retailers who sold their products solely through the Internet failed to demonstrate that the statutory provision that required out-of-state Internet retailers with no physical presence in New York State to collect sales and use taxes was unconstitutional — under either the Commerce Clause or the Due Process Clause. Ultimately, the U.S. Supreme Court, in December 2013, denied the requests of Amazon.com and Overstock.com to review that ruling.

Once the states began to enact their own laws to address the taxation of remote sales, the final arbiter on the issue would have to be either the U.S. Supreme Court or Congress. The refusal of the U.S. Supreme Court to review the New York cases involving Amazon.com and Overstock.com now paves the way for Congress to act. Failing that, states will likely continue to enact such "Amazon" laws or go on losing revenue from uncollected taxes.

According to Kokinis-Graves, the broader nexus provisions already enacted by 23 states generally fall into two categories:

- Click-through nexus provisions generally require online retailers to collect and remit use tax if they enter into an agreement under which an in-state person, for a commission, refers potential purchasers to the retailer, whether through an Internet-based link or a website, provided certain total cumulative sales thresholds are met; and
- Affiliate-nexus provisions generally require online retailers to collect use tax if they have an affiliation with a company doing business in the state.

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States following one or more of these nexus rules include: Arkansas, California, Colorado, Connecticut, Georgia, Illinois, Iowa, Kansas, Kentucky, Maine, Minnesota, Missouri, New York, North Carolina, Oklahoma, Pennsylvania, Rhode Island, South Dakota, Texas, Utah, Vermont, Virginia and West Virginia. The Vermont provisions are not yet in force, however.

Additionally, several states have reached an agreement with Amazon under which Amazon.com has agreed to start collecting and has begun doing so. Those states include: Arizona, Connecticut, Indiana, Massachusetts, Nevada, New Jersey, Tennessee and Virginia.

"Online retail sales are projected to grow," said Kokinis-Graves. "A federal law would resolve the issue for the nation but in the absence of such legislation, states will continue to consider everything in their arsenal to enforce and collect the tax that is due."

Some states also require retailers be more proactive in informing consumers of their obligation to pay the use tax. This includes Colorado, Oklahoma, South Dakota and Vermont. Some states may also require that the remote seller provide the state department of revenue with an accounting of the sales made to in-state customers.

To view an updated national map of state sales tax laws, please visit: **http://www.cch.com/cchamazontaxmap.pdf**.

Proposed Federal Legislation

Under existing law, retailers nationwide are required to collect sales taxes for purchases made in states in which they have a physical presence, or nexus. But they are not required to collect the tax in states where they have no physical nexus based on a 1992 U.S. Supreme Court decision (Quill Corp. vs. North Dakota). However, the Supreme Court also noted that Congress did have the authority to change this policy and enact legislation requiring all retailers to collect sales tax.

Two decades and many proposals later, Congress is still working on a solution. The Marketplace Fairness Act would give states — following the Streamlined Sales Tax (SST) Agreement rules — the authority to require retailers to collect sales tax on online purchases, regardless of nexus. It would, however, exempt small businesses that earn less than $1 million annually from out-of-state sales.

The SST effort is an initiative to simplify state sales tax so that there are common definitions for taxable products and uniform procedures across the states. To date, 24 states have passed laws to abide by SST rules.

Reporting Use Tax on 2013 State Income Tax Returns

While many taxpayers may still not know they are required to pay the tax if it's not collected by a retailer, 28 states include instructions with their state tax returns for people to report any uncollected use tax and allow them to pay uncollected tax when filing their state income tax returns.

State returns providing use tax collection instructions:

Alabama	Massachusetts	Pennsylvania
California	Michigan	Rhode Island
Connecticut	Mississippi	South Carolina
Idaho	Missouri	Utah
Illinois	Nebraska	Vermont
Indiana	New Jersey	Virginia
Kansas	New York	West Virginia
Kentucky	North Carolina	Wisconsin
Louisiana	Ohio	
Maine	Oklahoma	

Realizing that taxpayers may not keep track of all their unpaid use tax, some states take extra steps to try to help them comply. For example, taxpayers in California can refer to a use tax table for estimating their use tax liability based on California adjusted gross income for non-business purchases of individual items that cost less than $1,000.

Frequent Business Travelers Can Expect Many, If Not Happy Returns: Wolters Kluwer, CCH Examines Tax Rules for Road Warriors

(RIVERWOODS, ILL., January 2014) — Although paperless options are growing in popularity, those who regularly rack up frequent flier miles for business travel or hit the road to cover territories still need to collect and prepare tax returns from many states where they've worked over the past year. And despite calls to simplify the process through federal legislation, road warriors must make sure they file all required state tax returns in addition to their federal Form 1040s. CCH, a part of Wolters Kluwer and a leading global provider of tax, accounting and audit information, software and services (CCHGroup.com), reviews what business travelers need to know for tax season.

"It's not just the professional athletes and entertainers who are required to file state income tax returns," said Wolters Kluwer, CCH State Tax Analyst, Sandy Weiner, JD. "Income tax rules also apply to other nonresident workers who cross state borders, even if only working for a short period of time."

While employers should be withholding the required amount, it can be very difficult to keep track of the varying rules for each state or to determine where employees are performing the work if the company has not set up effective tracking.

"Many workers are unaware of the rules, but ultimately, they are the ones responsible for paying taxes. So regardless of whether or not your employer is withholding the correct amount, you are still required to report your income to the appropriate state revenue departments," Weiner added.

Wolters Kluwer, CCH highlights the current rules as well as proposed federal legislation that seeks to streamline compliance.

Working Across State Borders

Currently, 41 states impose a personal income tax on wages, and each has different rules regarding when income tax is imposed on nonresidents. Some state withholding thresholds are based on the number of days worked in the state while others are based on the wages earned in the state. For example:

- Louisiana requires nonresidents who must file a federal return to also file a Louisiana state tax return if they received income from state sources.
- Maine requires nonresidents to file a state tax return if they have enough income from state sources to trigger a state income tax liability, but there are exceptions based on the number of days spent in the state, the type of work and the amount earned.
- Massachusetts has different income filing thresholds for residents vs. nonresidents. Namely, the 2013 filing threshold is $8,000 for residents regardless of filing status; however, the threshold for nonresident single filers is just $4,400; $6,800 for head of households; and $8,800 for marrieds filing jointly.

Most states require residents to file income tax returns reporting all their income, regardless of whether they earned the income in that state or another state. An employee working in multiple states would then also file nonresident income tax returns in each state in which they met the income tax filing thresholds. Helping to avoid double taxation, most states allow residents to take a tax credit on their tax return for income taxes they paid to other states.

Some states also have reciprocity agreements allowing individuals to work in neighboring states without owing income taxes to the nonresident state. Overall, more than one-third of states have reciprocity agreements with one or more other states, including:

- **Illinois:** Residents of Iowa, Kentucky, Michigan or Wisconsin who work in Illinois do not have to pay Illinois income taxes on their wages;
- **Ohio:** Residents of Indiana, Kentucky, Michigan, Pennsylvania or West Virginia who work in Ohio do not have to pay Ohio income taxes on their wages; and
- **Pennsylvania:** Residents of Indiana, Maryland, New Jersey, Ohio, Virginia or West Virginia who work in Pennsylvania do not have to pay Pennsylvania income taxes on their wages.

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"Typically, reciprocity agreements are between adjacent states, so they don't apply when workers are crisscrossing the country," said Weiner.

An exception is the District of Columbia, which does not require residents of any state to pay District of Columbia income taxes on their wages, unless they lived in the District of Columbia for at least 183 days during the year. Most states also have special rules exempting members of the military and their families from having to file multiple state tax returns.

Conspicuously absent from the states providing one another reciprocity are New York, Connecticut and New Jersey. As a result, workers who live in one of these states and work in another have to file nonresident income tax returns if they meet the filing thresholds. They can, however, take a tax credit for taxes paid to the other state.

Federal Mobile Workforce Legislation Would Simplify, But State Resistance Expected

In response to the complexity, many businesses are supporting federal legislation that seeks to streamline the rules. Passed by the House of Representatives in 2012, the Mobile Workforce State Income Tax Simplification Act, if enacted, would require that a nonresident employee would have to be present and working in a state for more than 30 days during the year before the state could tax his or her wages. The Act would not apply to professional athletes, professional entertainers or certain public figures.

Furthermore, the legislation only applies to employees, not independent contractors. As a result, independent contractors would continue to be subject to the varying state rules.

Impact for 2013 Filing Season

Because there's still no federal legislation in place, employees and employers need to make sure they're following the various rules of all the states. As states continue to look for more revenue sources, businesses may also start to see more payroll audits seeking to determine where employees are performing their work.

"Auditors may look more closely at reimbursed travel expenses, particularly for higher income earners, and then look to see if the company has been withholding income for employees in the locations they've been traveling to," said Weiner.

In addition to employment income, other reasons a taxpayer may need to file a nonresident state income tax return include receiving income from:

- A share of a partnership, LLC or S-corporation based in another state;
- A trade or business in another state, such as working as a consultant or a repairman;
- Rental property in another state;
- The sale of real estate in another state; and
- Lottery or other gambling winnings from another state.

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New Tax Rules for Charitable Contributions: Wolters Kluwer, CCH Analyzes the Tax Impact

(RIVERWOODS, ILL., January 2014) — Because of new tax laws enacted as part of the American Taxpayer Relief Act (ATRA) which was signed into law last year, many retirees found themselves trying to beat the clock in order to take advantage of a provision which allowed them to make significant, tax-free charitable distributions from individual retirement accounts (IRA). For retirees and all taxpayers, CCH, a part of Wolters Kluwer and a leading global provider of tax, accounting and audit information, software and services (**CCHGroup.com**), takes a look at new and current rules for taking tax deductions for charitable donations.

Deadline Passes for Direct IRA Donations

Up until December 31 of 2013, individuals age 70½ (the age at which required minimum distributions must be taken) or older were able to give tax-free, direct distributions of up to $100,000 per year from their IRAs to qualifying charities. The provision benefitted seniors who no longer had significant expenses, such as paying down home mortgages, to donate funds from their retirement accounts as tax-deductible charitable donations — without having to report the donated amount as retirement income or claim itemized deductions instead of the standard deduction. That was one of 55 tax breaks which expired at the end of the year.

"It was a popular win-win provision for retirees who didn't need all the money they had saved in retirement and for charitable organizations getting their donations," said Wolters Kluwer, CCH Principal Federal Tax Analyst, Mark Luscombe, JD, LLM, CPA. "Donations below the $100,000 limit weren't taxed and didn't increase adjusted gross incomes, which could lead to more tax breaks."

ATRA also puts further restrictions on the value of tax deductions — including those for charitable donations — coming from individuals with incomes of $250,000 or more and for married couples filing jointly with incomes above $300,000.

As a result of ATRA taking effect in 2014, the previous itemized deduction limits known as Pease limitations for high-income earners are back. Pease limitations, which had been repealed under the Bush-era tax cuts, reduce the total amount of a higher income taxpayer's allowable itemized deductions. Allowable itemized deductions can include charitable contributions, as well as mortgage interest, state and local income taxes and real estate taxes.

How Pease Limitations Work:

The deduction is reduced by 3 percent of the amount by which the taxpayer's adjusted gross income (AGI) exceeds the income threshold. The income threshold at which Pease kicks in for 2013 is $250,000 for individuals and $300,000 for married couples filing jointly (adjusted for inflation in subsequent years). However, the amount of itemized deductions under Pease cannot be reduced by more than 80 percent. Also, certain items, such as medical expenses, investment interest and casualty or theft losses are excluded from the Pease limitation.

Trying to understand Pease can quickly become confusing. Following are a few examples of how it can apply:

- **Example 1:** Alan and Mary, a married couple, file a joint return with an AGI of $350,000. They have itemized deductions, all charitable contributions, of $40,000. They are over the Pease AGI threshold by $50,000 ($350,000 – $300,000). Their deductions are reduced by the lesser of 80 percent of their total deductions (80% x $40,000 = $32,000) or 3 percent of the amount over the threshold (3% x $50,000 = $1,500). Thus, even though they donated $40,000 to charity, they can only claim $38,500 in itemized deductions ($40,000 – $1,500) for income tax purposes.
- **Example 2:** Assume the same facts as above, except the couple's income is $2 million. They now are over the Pease threshold by $1.7 million ($2,000,000 – $300,000). Their deductions are reduced by the lesser of 80 percent of their total deductions (80% x $40,000 = $32,000) or 3 percent of the amount over the threshold (3% x $1,700,000 = $51,000). Thus, even though they donated $40,000 to charity, they can only claim $8,000 in itemized deductions ($40,000 – $32,000) for income tax purposes.

"Since about a third of taxpayers claim itemized deductions, individuals subject to the Pease limitation may be surprised to realize their deductions, including those to charity, have a lower value than they thought," Luscombe said.

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Pease: A Potential Resurgence of Donor Advised and Charitable Trusts

While some may be surprised by Pease, taxpayers anticipating its return may have taken actions in 2012 to ensure they could both continue to maximize their deductions while also maximizing their charitable contributions. For example, donor-advised funds allow you to place your money in a charitable fund and take the contribution at that time. You can then advise the fund to make distributions to charities of your choosing over as many years as you choose.

Checklist for Claiming Charitable Contributions

Whether taxpayers are affected by new ATRA rules or not, everyone filing returns should know the basic rules checklist for claiming charitable contributions as tax deductions:

____ Deductions must be included as itemized deductions — This is done on Form 1040, Schedule A.

____ Donations must be for qualified charitable organizations — In order to receive a deduction, your contribution must be to a qualified charitable organization, typically given Code Sec. 170(c) status by the IRS and listed on their website. Deductions are not allowed for contributions to individuals, political organizations or unions for example.

____ Proper acknowledgement, proof of donation — For any cash or property valued at $250 or more, you must have a receipt (bank record, payroll deduction or written acknowledgment) identifying the organization, the value and a description of the property. If your overall noncash contributions exceed $500, you must file IRS Form 8283, Noncash Charitable Contributions, with your return; for items valued at more than $5,000, you must also generally include an appraisal by a qualified appraiser.

____ Text message donations records — If you made a quick, text message, charitable donation from your cell phone during the year, mobile phone bill records generally meet the record-keeping requirement. The billing item should include the name of the charity, date of donation and amount.

____ Know the special rules for certain noncash donated property. For example, clothes and household goods must generally be in good used or better condition to be tax deductible.

____ Subtract any benefit you received for the value of your donation. For example, if you bid on football game tickets at a charity's silent auction that had a listed value of $400, but you secured them with a high bid of $600, you may only deduct the amount that exceeds the fair market value — or $200.

About CCH, a part of Wolters Kluwer

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What to Consider When Estate, Gift Tax Planning: Wolters Kluwer, CCH Looks at Recent Changes

(RIVERWOODS, ILL., January 2014) — The change of year for estate and gift tax planning was relatively uneventful, compared to the mounting uncertainty of future laws that were being debated in Congress during the "fiscal cliff" negotiations more than a year ago. However, some changes may have a significant impact on estate tax planning in 2014 and beyond. CCH, a part of Wolters Kluwer and a leading global provider of tax, accounting and audit information, software and services (CCHGroup.com) takes a look at changes and updates taxpayers should know.

ATRA Impact

With the signing of the American Taxpayer Relief Act (ATRA) into law last year, a permanent maximum estate tax rate of 40 percent was implemented. It also provides an exclusion from estate taxes of up to $5 million dollars (indexed for inflation), as well as other changes.

"Not only did the law create a new permanent top tax rate, it also made portability permanent," said Wolters Kluwer, CCH Senior Estate Tax Analyst, Bruno Graziano, JD, MSA. "But some estate tax planning tools may offer limited opportunities in future years as the government looks to close what it considers 'tax loopholes' while it seeks additional sources of revenue."

Specifically, under ATRA, for 2013 onward, the maximum federal estate, gift, and generation-skipping transfer (GST) tax rate increased to 40 percent (up from 35 percent); the $5 million inflation-adjusted exclusion available since passage of the Tax Relief, Unemployment Insurance Reauthorization, and Job Creation Act of 2010 remains intact; and portability, which allows a surviving spouse to use the unused portion of his or her deceased spouse's gift and estate tax exclusion and has been available to estates since 2011, is now permanent.

Without ATRA, the estate tax after 2012 would have returned to a maximum rate of 55 percent; with a 5-percent surtax applied to large estates (i.e., those in excess of $10 million up to $17,184,000), the exclusion would have been $1 million (not adjusted for inflation), and portability would have been repealed.

Finalizing Estate Planning for 2013 Taxes

The immediate effect of the passage of ATRA is that the law now allows for surviving spouses to be eligible for the benefits offered by portability knowing that those benefits will not be going away. However, in order to take advantage of portability the estates of married decedents must decide whether they want to file a federal estate tax return (Form 706), even if one would not otherwise have been required. Estates have up to 9 months after a person dies to file an estate tax return, but can, and often do, request a six-month extension.

Estates that fall below the exclusion amount are not required to file Form 706, but they must do so in order to make the portability election. The inflation-adjusted lifetime exclusion amount for decedents dying (and gifts made) in 2014 is $5.34 million (up from $5.12 million for 2013). As a result, the estates of a married couple could exempt up to $10.68 from estate (or gift taxes) in 2014 (up from $10.24 million in 2013).

For example, if one spouse died in 2013 after using only $2.5 million of his exclusion for lifetime gifts, his wife would still have her $5.34 million exclusion (or a higher amount depending on the inflation adjustment in the year of her death) as well as the remaining $2.84 million of her husband's exclusion, which is not indexed for inflation beyond the year of his death. The remaining exclusion would also be available to the surviving spouse for gift tax purposes.

"Without ATRA, the estate tax exclusion would have been only $1 million and portability would have been repealed as of 2013," said Graziano. "This would have greatly increased the number of estates potentially exposed to the federal estate tax."

While the permanency of portability may cause some decedent's estates to consider filing an estate tax return to claim portability, many estate planners believe more traditional strategies may be more effective.

"The estate tax return (Form 706) is very lengthy, with multiple schedules and involves valuation issues and complex tax laws that can make it very cumbersome and expensive to complete," said Graziano. "Someone who is unlikely to exceed his or her own exclusion amount may not want to go through the expense."

Additionally, other limitations of portability include the following:

- It is not indexed for inflation. As a result, a spouse who survives considerably longer could see assets worth $3 million, for example, more than double. As a result, any amount in excess of the then available estate tax exclusion could now be taxed as high as 40 percent.

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- Additional marriages complicate matters. If a spouse remarries or has additional children, he or she can decide where the property will go; which may not be the same intentions of the decedent spouse.
- Assets are not protected from creditors.

"Some estate planners favor using traditional credit shelter trusts to address these issues," Graziano added. "But establishing and maintaining such trusts can also present certain costs."

Estate Planning for 2014 and Beyond: Clear for Now, But Certain Tools May Become Limited

The $5.34 million estate tax exclusion for 2014 (up from $5.25 million in 2013) is inflation-adjusted. The annual gift tax exclusion remains at $14,000 for 2014, as it was in 2013; permitting tax-free gifts of up to $14,000 per donee or $28,000 per couple using gift splitting.

While this means more estates may be shielded from estate taxes, many lawmakers are looking at ways to minimize the use of some estate planning strategies implemented to further reduce estate taxes. For example, the Administration's revenue proposals in recent years have targeted Grantor Retainer Annuity Trusts (GRATs) and Family Limited Partnerships (FLPs), among others.

While these techniques were not affected for fiscal year 2013 or 2014, they could be targets again in future revenue-raising proposals. However, estates that move to establish them now, will likely be able to continue to use them.

"If proposals to limit these tools succeed, it's likely that estates already using them would be grandfathered in, which will ensure that estate tax planning will be a top priority for many wealthy families in 2014," said Graziano.

Developments in State Estate Taxes Continue to Shift

Most states follow federal estate tax and would have seen a windfall to state coffers had the estate tax sunset to the pre-Bush era maximum 55-percent tax rate on estates over $1 million. However, even though that did not happen, some states have decoupled from federal estate tax law over the past several years as a way of holding onto tax revenues. In many of these states, residents can expect to pay taxes on estates well below the $5.34 million federal threshold for 2014.

"States that have stayed with the federal estate tax law, assuming it would be returning to the lower exclusion amounts, may now reconsider," said Wolters Kluwer, CCH Estate Planning Analyst James C. Walschlager, MA.

States currently following the pre-Bush era estate tax provisions include: Delaware, Hawaii, Illinois, Maine, Maryland, Massachusetts, Minnesota, New Jersey, New York, North Carolina, Rhode Island and Vermont as well as the District of Columbia. Only Delaware and Hawaii follow the federal estate tax exclusion threshold. A few other states have enacted their own estate tax law separate from federal law. These include Connecticut, Delaware, Maine, Oregon and Washington. Ohio repealed its standalone estate tax and has now recoupled with the federal estate tax law effective as of 2013.

Fifteen states and the District of Columbia also allow same-sex married and/or domestic partners to file joint tax returns. This allows the partners to be recognized under their state's estate tax laws and thereby enables the surviving spouse to avoid paying any taxes on the decedent's estate.

Five states have no estate tax at all: Arizona, Indiana, Kansas, North Carolina and Oklahoma.

In addition to estate taxes, seven states also collect an inheritance tax. This is a tax on the portion of an estate received by an individual. It is different from an estate tax, which taxes an entire estate before it is distributed to individual parties. These states are Iowa, Kentucky, Maryland, Nebraska, New Jersey, Pennsylvania and Tennessee — which is phasing out its inheritance tax in 2015. Assets transferred to a spouse are exempt from the inheritance tax, and some states exempt assets transferred to children and close relatives.

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Ways for Lowering Taxes, Even If Your Key Deductions Expired: Wolters Kluwer, CCH Examines Steps to Reduce Taxable Income

(RIVERWOODS, ILL., January 2014) — As taxpayers rang in the New Year with celebrations, many weren't too happy at the thought of entering a new tax season without several deductions they had counted on to minimize tax exposure. In fact, 55 tax breaks were phased out at the end of 2013, coupled with an increased maximum tax rate of 39.6 percent (up from 35 percent) for high-income earners ($400,000 for individual filers and $450,000 for married couples filing jointly). CCH, a part of Wolters Kluwer and a leading global provider of tax, accounting and audit information, software and services (**CCHGroup.com**) examines some tax-favorable investment opportunities available all year that can help lower tax payouts.

"Despite all the changes in available tax breaks, there are always specific investments, such as retirement, education and health care accounts, which are more tax-friendly and encourage savings," said Mildred Carter JD, Wolters Kluwer, CCH Senior Federal Tax Analyst. "If you're primarily relying on traditional savings or brokerage accounts, it may be worth looking at other options that can also be beneficial for tax planning."

Checklist of Tax-friendly Investment Options

For taxpayers looking to get the most out of their investments, the following options may lower current taxes owed, allow investments to grow tax-free or a combination of both.

____ **Maximize 401(k) matching contributions** — If your employer offers matching 401(k) contributions, contributing to the maximum matched amount is a great first tax-savings investment step.

"If your employer matches 3 percent of your contribution, that's free money to you as well as a significant amount of tax-free savings that many people may have a hard time putting aside on their own," said Carter.

Roth 401(k)s also have increased in popularity. Like traditional 401(k)s, money grows tax-free. However, unlike traditional 401(k)s, individuals pay taxes on the initial contribution rather than on the gains at future distribution. Additionally, while traditional 401(k)s have required minimum distributions (RMDs) starting at age 70 ½, Roth 401(k)s do not have RMDs.

"Even with higher current taxes, contributing to Roth 401(k)s can be a good choice, especially for younger individuals who anticipate the value of their accounts will appreciate considerably over time," Carter added.

The maximum amount an employee can contribute in 2014 to a 401(k) is $17,500 ($23,000 for those age 50 and over). The same rules apply for 457 and 403(b) retirement plans.

____ **Contribute to an IRA** — Both traditional IRAs and Roth IRAs allow contributions to grow tax free. The maximum contribution to either in 2013 and 2014 is $5,500 for those under age 50 and $6,500 for those 50 and older. A $1,000 catch-up contribution also is allowed in each year for taxpayers 50 and older.

Contributions to traditional IRAs are tax deductible.

In 2014, if you are covered by a retirement plan at work, your deduction for contributions to a traditional IRA is reduced (phased out) if your modified AGI is:

- More than $96,000 ($95,000 for 2013) but less than $116,000 ($115,000 for 2013) for a married couple filing a joint return or a qualifying widow(er)
- More than $60,000 ($59,000 for 2013) but less than $70,000 ($69,000 for 2013) for a single individual or head of household

As with Roth 401(k)s, contributions to Roth IRAs are not tax deductible, but there are no taxes on capital gains on distribution and no RMDs. The AGI restriction for Roth IRAs in 2014 for single filers is $114,000 ($112,000 for 2013) phasing out at $129,000 ($127,000 for 2013) and for married, filing jointly, $181,000 ($178,000 for 2013) phasing out at $191,000 ($188,000 for 2013).

Taxpayers have until April 15, 2014, to make an IRA contribution for 2013.

____ **Contribute to a 529 education savings plan** — Named after Section 529 of the Internal Revenue Code which created these plans in 1996, 529 plans allow you to make after-tax contributions to pay for college costs for your child or other family members. The contributions grow tax-deferred and the funds can be withdrawn tax free if used for qualified college tuition and other expenses.

Nearly every state operates a plan as well as many educational institutions. In most instances, the state plan you select does not limit your choice of schools. For example, a resident in Illinois can invest in a California plan and send the student to a university in New York. The amount put into a 529 plan may be tax deductible under some state income taxes and distributions for qualified tuition and expenses are not taxed.

Additionally, while a beneficiary has to be named in order to open a 529 plan, the beneficiary can be changed to another family member at a later date. For example, if the initially designated beneficiary earns scholarships or chooses not to go to college, a different family member can be named beneficiary.

"Because 529 plans are funded with after-tax dollars, you don't have immediate tax savings, but avoiding future taxes on capital gains and dividends means you'll have saved more to cover education costs," said Carter.

____ **Contribute to an HSA** — High-deductible health plans continue to increase in popularity as people look to lower their monthly health care premiums. Taxpayers with these plans also can open Health Savings Accounts (HSA) and make pre-tax contributions and take tax-free distributions for qualified medical expenses for themselves and their families. These distributions can be made at any time, for example, they could be made to pay for qualified expenses in the near-term or saved to cover health care expenses in retirement.

In order to be a high-deductible health plan under IRS standards, the plan must have a minimum annual deductible for 2013 and 2014 of $1,250 for individual coverage or $2,500 for family coverage.

For 2014, the maximum amount you can contribute to an HSA is $3,300 ($3,250 for 2013) for individuals and $6,550 ($6,450 for 2013) for families. Those who reach age 55 by the end of the tax year are eligible for a catch-up contribution of $1,000. Contributions cannot be made by someone enrolled in Medicare.

As with IRAs, taxpayers also have until April 15, 2014, to make their 2013 HSA contributions.

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2013–2014 Tax Brackets

Married Filing Jointly (& Surviving Spouse)

2014 Taxable Income	Tax Rate	2013 Taxable Income	Tax Rate
Not over $18,150	10%	Not over $17,850	10%
$18,151 - $73,800	15%	$17,851 - $72,500	15%
$73,801 - $148,850	25%	$72,501 - $146,400	25%
$148,851 - $226,850	28%	$146,401 - $223,050	28%
$226,851 - $405,100	33%	$223,051 - $398,350	33%
$405,101 - $457,600	35%	$398,351 - $450,000	35%
Over $457,600	39.6%	Over $450,000	39.6%

Married Filing Separately

2014 Taxable Income	Tax Rate	2013 Taxable Income	Tax Rate
Not over $9,075	10%	Not over $8,925	10%
$9,076 - $36,900	15%	$8,926 - $36,250	15%
$36,901 - $74,425	25%	$36,251 - $73,200	25%
$74,426 - $113,425	28%	$73,201 - $111,525	28%
$113,426 - $202,550	33%	$111,526 - $199,175	33%
$202,551 - $228,800	35%	$199,176 - $225,000	35%
Over $228,800	39.6%	Over $225,000	39.6%

Single Filers

2014 Taxable Income	Tax Rate	2013 Taxable Income	Tax Rate
Not over $9,075	10%	Not over $8,925	10%
$9,076 - $36,900	15%	$8,926 - $36,250	15%
$36,901 - $89,350	25%	$36,251 - $87,850	25%
$89,351 - $186,350	28%	$87,851 - $183,250	28%
$186,351 - $405,100	33%	$183,251 - $398,350	33%
$405,101 - $406,750	35%	$398,351 - $400,000	35%
Over $406,750	39.6%	Over $400,000	39.6%

Head of Household

2014 Taxable Income	Tax Rate	2013 Taxable Income	Tax Rate
Not over $12,950	10%	Not over $12,750	10%
$12,951 - $49,400	15%	$12,751 - $48,600	15%
$49,401- $127,550	25%	$48,601 - $125,450	25%
$127,551 - $206,600	28%	$125,451 - $203,150	28%
$206,601 - $405,100	33%	$203,151 - $398,350	33%
$405,101 - $432,200	35%	$398,351 - $425,000	35%
Over 432,200	39.6%	Over $425,000	39.6%

Standard Deduction Amounts

Filing Status	2014	2013	Increase
Married Filing Jointly (& Surviving Spouse)	$12,400	$12,200	$200
Married Filing Separately	$6,200	$6,100	$100
Single	$6,200	$6,100	$100
Head of Household	$9,100	$8,950	$150

Standard Deduction for Dependents ("Kiddie" Standard Deduction)

2014	2013	Increase
$1,000	$1,000	$0

Income Level at Which 3-Percent Itemized Deduction Limitation Takes Effect (Adjusted Gross Income)

Filing Status	2014	2013	Increase
Married Filing Jointly (& Surviving Spouse)	$305,050	$300,000	$100
Married Filing Separately	$152,525	$150,000	$100
Single	$254,200	$250,000	$150
Head of Household	$279,650	$275,000	

Personal Exemption Amounts

2014	2013	Increase
$3,950	$3,900	$50

Threshold for Personal Exemption Phaseout

Filing Status	2014	2013
Married Filing Jointly (& Surviving Spouse)	$305,050	$300,000
Married Filing Separately	$152,525	$150,000
Single	$254,200	$250,000
Head of Household	$279,650	$275,000

Gift Tax Exemption

2014	2013	Increase
$14,000	$14,000	$0

Wolters Kluwer, CCH Charts Available Education Tax Breaks

What Students, Parents and Teachers Should Know

Many education-related tax break opportunities remain available to students and families looking to save on tuition and other school expenses, but figuring out which ones you may qualify for can be confusing. CCH, a part of Wolters Kluwer and a leading global provider of tax, accounting and audit information, software and services (CCHGroup.com), takes a look at proposed changes and charts the current status of educational tax breaks.

Legislation to Consolidate, Simplify Options

In response to criticism of specific requirements for various education tax breaks that can be confusing, a bill was introduced in the House of Representatives back in October of last year that called for consolidating the American Opportunity Tax Credit (AOTC), the Hope Credit, the Lifetime Learning Credit along with the Tuition and Fees deduction. It calls for matching the maximum $2,500 credit offered in the American Opportunity Tax Credit, but would start phasing out at $86,000 of adjusted gross income (AGI) for joint tax filers — significantly less than the current joint AGI filing level of $160,000. The bill has not moved to the Senate yet for consideration.

Gone for 2014

Although the American Taxpayer Relief Act (ATRA) preserved some education tax breaks from expiring, one that did phase out at the end of 2013 was the provision that enabled teachers to deduct up to $250 of their own out-of-pocket expenses for buying classroom supplies. Also coming to an end in 2013 was the $4,000 deduction for qualifying tuition and other education-related expenses that taxpayers spent on themselves, a spouse or a dependent.

Comparing Tax Credits

Two popular education tax breaks are the American Opportunity Tax Credit, which provides up to a $2,500 credit for qualifying educational costs, and the Lifetime Learning Credit. The table below examines specifics and qualifications for each:

	American Opportunity Tax Credit	Lifetime Learning Credit
What it is	An enhanced Hope Credit of up to $2,500 per student per year for the first four years of post-secondary qualified tuition and expenses.	A credit of up to $2,000 per return based on expenses for post-secondary education or courses to improve job skills.
Credit amount	100% of the first $2,000 of qualified tuition and related expenses plus 25% of the next $2,000. Use Form 8863, Education Credits.	20% of the first $10,000 in qualifying expenses, to a maximum $2,000 credit. Use Form 8863, Education Credits.
Qualifying expenses	Qualified tuition and related expenses, including expenditures for course materials, such as books, supplies and equipment.	Tuition, student activity fees and course-related fees paid directly to the educational institution.
Credit phaseout ranges	Modified adjusted gross income (AGI) is $80,000-$90,000 for single filers, $160,000-$180,000 for joint returns. Up to 40% of the credit amount is refundable if the taxpayer's tax liability is insufficient to offset the nonrefundable credit amount. These numbers are not subject to inflation adjustment.	Modified AGI increases to $54,000-$64,000 for single filers for 2014 (was $53,000-$63,000 for 2013) and $108,000-$128,000 for joint returns for 2014 (was $107,000-$127,000 for 2013).

	American Opportunity Tax Credit	Lifetime Learning Credit
Who can/can't claim it	Can't be taken if married filing separately. Can't be taken by student claimed as dependent child on another person's return, but parent can claim credit for paying dependent child's expenses. Student must be enrolled in program leading to degree or other recognized credential, studying at least half-time. Can't be used for graduate or professional level programs or by anyone with a felony conviction for a state or federal drug offense. Cannot be claimed by the student if he or she has unearned income subject to the "kiddie tax."	Can't be taken if married filing separately. Can't be taken by a student if claimed as dependent child on another person's return, but parent can claim credit for paying dependent child's expenses.
What to watch out for	Can't be taken if Lifetime Learning Credit or tuition and fees deduction is taken for the same student.	Can't be taken if American Opportunity Tax Credit or tuition and fees deduction is taken for the same student. Can be taken in same year as a distribution from a Coverdell Educational Savings Account (Coverdell ESA) or qualified tuition program (529 plan), but not for same expenses. Can be taken for expenses paid for with student loan. Credit applies per return.

'Above-the-line' Deductions

Students can also claim the loan interest deduction over more time under ATRA and at higher income levels. Voluntary interest payments may also be deducted. The Tuition and Fees and Student Loan Interest Deductions are compared below.

	Tuition and Fees Deduction	Student Loan Interest Deduction
What it is	A deduction from gross income of up to $4,000 ($2,000 if modified AGI exceeds $65,000) based on expenses for post-secondary education.	A deduction from gross income of up to $2,500 based on interest paid on a student loan for post-secondary education. This deduction would only have been allowed to be claimed for the first 60 months of the required payments starting in 2013. Under the ATRA, this rule was permanently suspended.
Deduction amount	100% of the first $4,000 ($2,000 if modified AGI exceeds $65,000 for single filers, $130,000 for joint filers) in qualifying expenses. Taken on Form 1040A or 1040.	100% of the first $2,500 in qualifying expenses. Taken on Form 1040A or 1040.
Qualifying expenses	Tuition, student activity fees and course-related fees paid directly to the educational institution.	Loan may cover books, supplies, equipment, room and board, transportation and other necessary expenses in addition to tuition, student activity fees and course-related fees paid directly to the educational institution. Interest payments are deductible for the entire period of the loan.

	Tuition and Fees Deduction	Student Loan Interest Deduction
Deduction phaseout ranges	Full deduction is only allowed if modified AGI is not greater than $65,000 for a single filer, $130,000 for joint filers. Taxpayers whose income exceeds that limit but does not exceed $80,000 for a single filer or $160,000 for joint filers may deduct up to $2,000 in qualified expenses in 2014.	For 2014, modified AGI is $65,000-$80,000 for a single filer, $130,000-$160,000 for joint filers.
Who can/can't claim it	Can be taken by qualifying individuals including themselves, a spouse or a dependent. Can't be taken if married filing separately. Can't be taken if claimed as dependent on another person's return, but parent can claim credit for child's expenses.	The ATRA allows the deduction to be taken even for voluntary payment of interest. Must have been in degree program and at least half-time student to take the deduction. Can't be taken if married filing separately. Can't be taken if claimed as dependent on another person's return. Can be taken only by the person who is responsible for the loan and who actually makes the payments.
What to watch out for	Can't be taken if AOTC or Lifetime Learning Credit is taken for the same student. Can be taken in same year as a distribution from a Coverdell ESA or qualified tuition program but not for same expenses. Can be taken for expenses paid for with student loan. Deduction is not available on Form 1040EZ. Deduction is taken on Form 8917, Tuition and Fees Deduction.	Must reduce qualified educational expenses by the total amount paid through tax-free sources such as tax-free withdrawals from Coverdell ESAs. Deduction is not available on Form 1040EZ.

529 Educational Savings Plans, Coverdell Accounts

With the ATRA, the $2,000 contribution level for Coverdell Education Savings Accounts (Coverdell ESA) was made permanent. Had this not occurred, the contribution level would have reverted to $500 beginning in 2013. Below are tax break comparisons between Coverdell accounts and 529 college savings plans.

	Coverdell Education Savings Account (ESA)	Qualified Tuition Program (529 Plans)
What it is	A savings account for educational expenses in which earnings grow tax-free. Withdrawals also are tax-free if used to pay for qualified educational expenses.	Three general types of 529 plans exist: • Pre-paid tuition plans — generally guaranteeing future tuition coverage at a state university. • State 529 college savings plans — generally sponsored by a state, allowing you to use saving plan proceeds to attend a state or private university. • Independent 529 plans — sponsored by a consortium of private colleges, whereby you can lock in current tuition rates for future years at participating schools. In each savings program, investment earnings are not taxed if withdrawals are used for qualified expenses. Contributions to state-sponsored programs are partially or fully deductible on some state tax returns.
Contribution limits	The ATRA makes permanent the $2,000 maximum annual contribution per year per beneficiary. As with IRAs, contribution can be made up to the tax filing deadline, which is April 15, 2014. Can contribute to both a Coverdell ESA and a qualified tuition plan in the same year.	Contributions cannot be more than is necessary to provide for the higher education expenses of the beneficiary. These amounts are set by the state or educational institutions sponsoring the plan and may be in excess of $300,000. In the case of many 529s, accounts can be opened with as little as $25 and contributions as little as $15 per pay period. There are no other specific annual contribution limits for the plans.
Qualifying expenses	Can be used to pay for tuition, fees, books, supplies and equipment for both K-12 and post-secondary. For K-12, can also pay for uniforms, transportation, supplementary items and services such as extended day programs, room and board, and purchase of computer technology and Internet access (but cannot be used for sports, games or hobby software unless it is predominantly educational). For post-secondary education, can cover expenses for room and board if the student is enrolled at least half-time and the amount meets certain guidelines. Can also be used to fund a qualified tuition program.	Distributions can be used for accredited post-secondary books, supplies, equipment, room and board, transportation and other necessary expenses in addition to tuition, and student activity fees and course-related fees paid directly to the accredited post-secondary educational institution. Expenses related to the cost of computer equipment, technology or Internet access are not considered qualifying expenses for excluding qualified tuition plan distributions from gross income.

	Coverdell Education Savings Account (ESA)	Qualified Tuition Program (529 Plans)
Qualifying expenses	Can be used to pay for tuition, fees, books, supplies and equipment for both K-12 and post-secondary. For K-12, can also pay for uniforms, transportation, supplementary items and services such as extended day programs, room and board, and purchase of computer technology and Internet access (but cannot be used for sports, games or hobby software unless it is predominantly educational). For post-secondary education, can cover expenses for room and board if the student is enrolled at least half-time and the amount meets certain guidelines. Can also be used to fund a qualified tuition program.	Distributions can be used for accredited post-secondary books, supplies, equipment, room and board, transportation and other necessary expenses in addition to tuition, and student activity fees and course-related fees paid directly to the accredited post-secondary educational institution. Expenses related to the cost of computer equipment, technology or Internet access are not considered qualifying expenses for excluding qualified tuition plan distributions from gross income.
Contribution phaseout ranges	The phaseout ranges from modified AGI of $95,000-$110,000 for single filers, $190,000-$220,000 for joint filers; no phaseout for corporation or other entities, including tax-exempt organizations. These numbers are not subject to inflation adjustment.	No income limitations.
Who can/can't claim it	Beneficiary must be younger than 18 years old or be a special needs beneficiary in the year contributions are made. Anyone can set up an account for a beneficiary as long as the annual contribution limits for that beneficiary are not exceeded.	Someone funding a qualified tuition program for another individual can use the annual gift tax exclusion ($14,000 and $28,000 for 2013 tax filing) or combine five years' worth of exclusions in a single year. The beneficiary can exclude funds withdrawn from the qualified program from income if they are used for qualified expenses.
What to watch out for	Beneficiary is taxed on any withdrawals not used to pay for qualified educational expenses. (Penalty-free withdrawals can be made in connection with service academy appointments, such as Annapolis or West Point.) All funds must be withdrawn by the time beneficiary reaches age 30 (except if special needs individual), but an account can be transferred from one beneficiary to another. All contributions must be made in cash. As with a conventional IRA, owner of the account can exercise wide discretion as to investments. The funds, however, cannot be used to reimburse the taxpayer for home schooling.	Check tax treatment of contributions for state income tax purposes. Limited ability to change investment options. Possible 10% penalty if distributions are not used for qualified expenses. Beneficiary can be changed if new beneficiary is a member of the same family. In the case of the Independent 529 plans, if your child does not attend a member college and you either withdraw the money or transfer it to a state-run plan, you won't be able to collect more than a 2% gain on the money you invested — even if the return realized was in excess of this. Penalty-free withdrawals can be made in connection with service academy appointments, such as Annapolis or West Point.

Exclusions

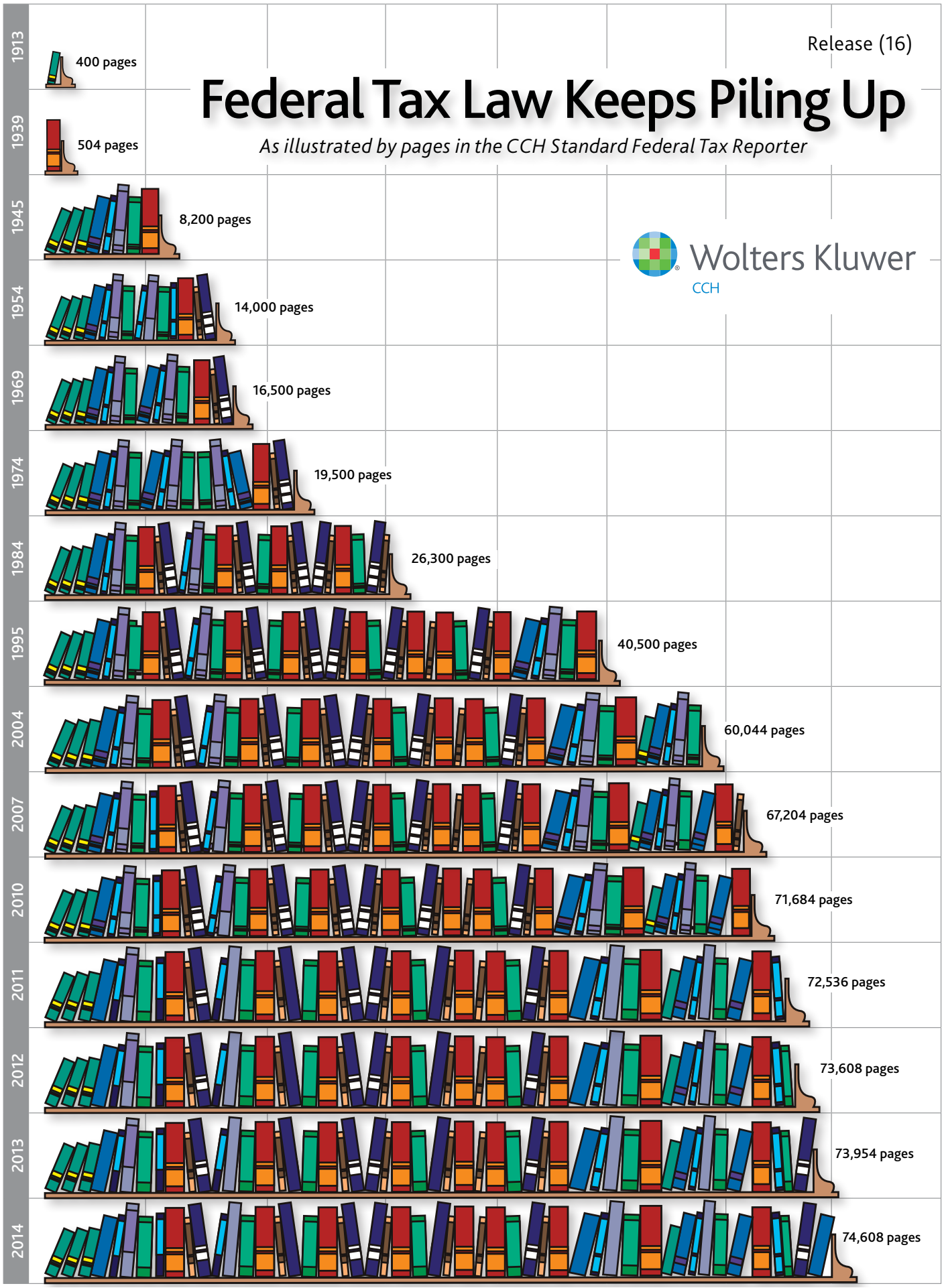
Several exclusions also are available for taxpayers related to education:

- **Bond interest:** All or part of the interest on proceeds of qualified savings bonds (specifically, Series I bonds or qualified Series EE bonds issued after 1989) cashed to pay education expenses. For 2013 tax filing, modified AGI eligibility phaseout ranges are $74,700-$89,700 for single filers, $112,500-$142,050 for joint returns; and increase in 2014 to $76,000-$91,700 for single filers, $113,950-$143,950 for joint returns.
- **Employer assistance:** For 2013 tax filing, employer-provided educational assistance (up to $5,250 annually) can be excluded from income for undergraduate or graduate level coursework and expenses. Set to expire after 2012, the ATRA made this tax break permanent.
- **Scholarship funds:** Scholarship money or tuition reduction from income up to the amount spent on qualified expenses; generally cannot claim exclusion if scholarship or tuition reduction represents payment for teaching, research or other services. Also made permanent by ATRA is the exclusion for Armed Forces and National Health Service Corps scholarship programs.
- **Student loans:** The amount of a cancelled student loan is also excluded from gross income. (Normally, a cancellation of indebtedness counts as income.) The discharge must be made under the terms of a loan agreement and made because the person works for a specified period in certain professions for certain kinds of employers — for example, as a doctor or nurse in underserved areas.

Release (16)

Federal Tax Law Keeps Piling Up

As illustrated by pages in the CCH Standard Federal Tax Reporter



Wolters Kluwer
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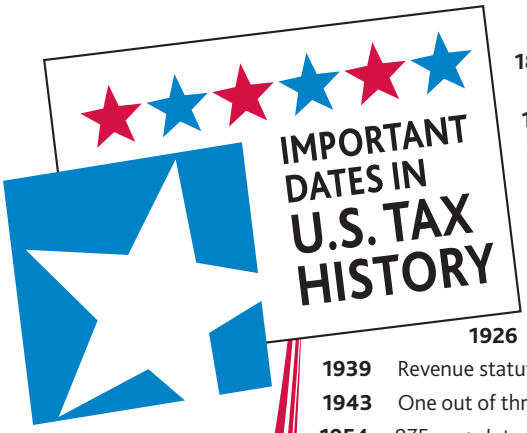
Release (17)



1862 Abraham Lincoln enacts emergency measure to pay for Civil War: Minimum 3% tax rate.

1872 Lincoln's income tax law lapses.

1894 2% federal income tax enacted.

1895 Income tax ruled unconstitutional by U.S. Supreme Court in Pollack v. Farmer's Loan and Trust.

1909 16th amendment that authorizes Congress to collect taxes on income is proposed.

1913 Wyoming casts 37th vote, ratifying the 16th amendment. One in 271 people pays 1% rate.

1926 Revenue Act of 1926 reduces taxes: Too much money being collected.

1939 Revenue statutes codified. One out of 32 citizens pays 4% rate.

1943 One out of three people pays taxes. Withholding on salaries and wages introduced.

1954 875-page Internal Revenue Code of 1954 passes. Considered the most monumental overhaul of federal income tax system to date. 3,000 changes to tax rules.

1969 Tax Reform Act: Major amendments to 1954 overhaul.

1984 Reagan Tax Reform Act: Most complex bill ever, requires over 180 technical corrections.

1986 Tax Reform Act reduces tax brackets from five or two.

1993 Clinton's Revenue Reconciliation Act passes by one Vice Presidential vote.

1996 Four bills make over 700 changes, including Medical Savings Accounts and SIMPLE plans.

1997 Taxpayer Relief Act brings more than 800 changes. Child tax credit, Roth IRAs, capital gains reduction, breaks for higher education enacted.

2001 Tax Relief Act creates 441 changes. Lowers tax rates, repeals estate tax, increases contribution limits on 401(k)s and IRAs.

2002 The Job Creation and Worker Assistance Act brings business tax relief, including a 5-year net operating loss carryback and extends and adds depreciation.

2003 Jobs and Growth Tax Relief Reconciliation Act lowers taxes on capital gains and dividends, accelerates marginal tax rate cuts, brings marriage penalty relief, increases child tax credit, extends bonus depreciation and more. Bills passed late in the year bring military tax relief and Medicare reform.

2004 Back-to-back tax bills, Working Families Tax Relief Act and American Jobs Creation Act, brought the most tax law changes since 1986. The American Jobs Creation Act gave ordinary taxpayers, as well as businesses of all sizes, tax relief.

2005 Congress used the tax code to encourage energy savings and cope with natural disasters in the Energy Policy Act of 2005, the Katrina Emergency Tax Relief Act of 2005 and the Gulf Opportunity Zone Act of 2005.

2006 Congress passed three major laws affecting taxes and several minor ones, making more than 500 changes to the Internal Revenue Code altogether. Among other things, temporary capital gains and dividend rates of 15% (0% for the bottom two brackets) were extended for two years beyond 2008 and the AMT exemption was increased, but for 2006 only.

2007 Congress passed another temporary "fix" for the AMT, extended the reach of the "kiddie tax" to age 18 (age 23 for students) beginning in 2008 and changed the rules on forgiveness of debt to benefit homeowners facing foreclosure or reworking their mortgages.

2008 Six big tax laws passed: Economic Stimulus Act; Heroes Earnings Assistance and Relief Tax Act; Housing Assistance Tax Act; Emergency Economic Stabilization Act; Worker, Retiree and Employer Recovery Act; and Heartland, Habitat, Harvest and Horticulture Act. Among the major provisions of these laws were economic stimulus rebates, a first-time homebuyers credit, an additional standard deduction for real property taxes, extension of expiring deductions and yet another temporary AMT "fix."

2009 Congress passed a major stimulus bill with nearly $300 billion in tax relief, providing for a Making Work Pay Credit, an American Opportunity Credit to expand on existing higher education credits, expansion of the first-time homebuyer credit, an enhanced child credit, expanded net loss carrybacks for business and expanded energy credits. The homebuyer credit and net loss provisions were later extended and expanded in the Worker, Homeownership, and Business Assistance Act.

2010 Congress at year-end extended tax breaks that had expired at the end of 2009 for two years through 2011 and extended tax breaks from the 2001 and 2003 Tax Acts scheduled to sunset at the end of 2010 for two years through 2012; a payroll tax reduction was also enacted for 2011. Other legislation enacted during the year included tax provisions with respect to health care reform, hiring stimulus and small business stimulus.

2013 Congress permanently extends tax cuts from 2001 and 2003 for all but the highest income taxpayers. New Net Investment Income tax and Medicare Contribution tax become effective. Leading tax, accounting and audit information, software and services provider CCH celebrates its 100th anniversary serving professionals since 1913 — the year the modern federal income tax became law in the United States.

2014 New penalty for failure to obtain health insurance and credit to assist with health insurance premiums become effective.

Source: CCH, 2014
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Average Itemized Deductions (Data Based on Preliminary 2011 IRS Statistics)

Based on the latest IRS statistics, itemized deductions were claimed on almost 32 percent of all tax returns filed and represented an estimated 60 percent of the total deductions amount. The average for total itemized deductions (after limitation) was $25,230, a 0.4-percent increase from the average of $25,119 for 2010.

The following are preliminary figures released by the IRS (their reports lag behind the current tax year because of the time needed to compile figures). These are averages only. The IRS cautions taxpayers that they should not base their claimed deductions on these figures.

The numbers are useful, however, for two purposes: 1) to see if your actual deduction is out of line (so you can take extra care to document your claim) and; 2) to see if the deductions meet the expectations of policymakers.

Also, note that these averages take into account only those individuals who claimed an itemized deduction for that type of expense. Zero deductions are not factored in. Thus, the "average" taxpayer with adjusted gross income between $50,000 and $100,000 did not take an "average" medical expense deduction of $7,376, only the "average" taxpayer who itemized did.

Adjusted Gross Income	Medical Expenses	Taxes	Interest	Charitable Contributions
under $15,000	$8,351	$3,137	$7,414	$1,443
$15,000 to $30,000	$7,838	$3,249	$7,346	$2,127
$30,000 to $50,000	$6,943	$3,988	$7,436	$2,287
$50,000 to 100,000	$7,376	$6,235	$8,768	$2,881
$100,000 to $200,000	$10,003	$10,853	$11,266	$3,890
$200,000 to $250,000	$16,814	$18,083	$15,217	$5,703
$250,000 or more	$34,797	$47,616	$20,685	$18,490

SOURCE: Wolters Kluwer, CCH: 2014
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Release (19)

Avoiding an Audit

(or making it less painful if you do get audited)

Be aware: The IRS has resumed its practice of conducting random audits as a way to evaluate its audit selection criteria. Burdensome complete audits of taxpayers are rare. Random selection, however, makes these audits hard to avoid.

Here are some automatic problems:

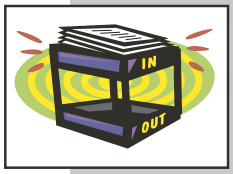
Missing information

- The IRS will contact you if you omit identifying information or information required to compute your tax. Missing Social Security Numbers are typical (including the Social Security Numbers of dependents and ex-spouses who are receiving alimony from you).
- This probably doesn't change your odds of a real audit *unless* you can't or won't comply with the IRS request to supply the information *or* there is something else glaringly wrong with the return. If all goes well, your return will just go back into the "pile" to await possible selection in the normal audit "lottery."

Math error procedures

- If the return contains a math or clerical error, the IRS may assess and send a notice of additional tax due without following the normal tax deficiency procedures. Congress has extended this power to certain other omissions and claims on a return that one would not normally think of as math or clerical errors.
- If you are claiming certain credits that require a Taxpayer Identification Number (TIN) on the tax return, make sure the information that the TIN issuer has is correct. If there is a discrepancy between the number you provide, and that provided to the IRS by the TIN issuer (such as the Social Security Administration), the IRS will assume that the information provided by the TIN issuer is valid and treat your return as if you omitted a valid number. The IRS can then use the math error procedure to summarily assess any additional taxes due as a result of the disallowed credits.

Items not to claim

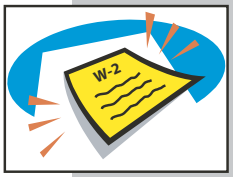


- The IRS will automatically disallow the following as contrary to law:
  - losses on the sale of your home or personal property;
  - surviving spouse filing status for more than two years;
  - medical deduction for (a) unnecessary cosmetic surgery, (b) funeral expense, (c) diet foods;
  - itemized deduction for the following taxes (a) FET on tires, (b) car registration (vehicle tax based on value is deductible), (c) import duties (and others);
  - personal interest expense deduction (except on a qualified home mortgage);
  - personal insurance expense deduction, except medical, long-term care, mortgage; and
  - moving expense deduction in excess of legal limit.

Married filing separately

- Both must itemize or both must take the standard deduction.

W-2s and 1099s



- Make sure you report the exact numbers you get on your W-2 wage statement or 1099 statements of interest, mutual fund gains, dividends, stock basis, gambling winnings, pensions, etc. The IRS can match these to your return and a discrepancy can trigger an audit.
- If you get a W-2 or 1099 that is in error, immediately try to have a corrected form filed. Discrepancies between information on your return and tax forms are a red flag for the IRS.
- If you are required to divide the numbers up between various lines on your return or the numbers are wrong, be sure you can explain (and get the issuer of the statement to correct errors).

-- MORE --

Avoiding an Audit

(or making it less painful if you do get audited)

The IRS has access to a lot of information beyond your return and beyond W-2s and 1099s. For example:

Partnerships, S corporations, trusts	■ Make sure your return is consistent with the return of any partnership or S corporation you are a part of; any trust you receive income from, etc.
Prior dealings with the IRS	■ If you have been audited before, the IRS will remember. Don't repeat past mistakes. ■ If you have requested a ruling from the IRS, make sure your return is consistent with the ruling — unless you want to go to court on the issue.
Tax items that affect more than one year	■ If you took depreciation on a piece of property and you've now sold it, make sure that the gain or loss you report this year is consistent with the costs and write-offs you reported in previous years.

Here are some common problems that could come up if you are audited:

If you own rental property	■ If you live on the premises, do you keep personal and business expenses separate (including depreciation)?
Job-related expenses (unreimbursed)	■ Do you have proper records? ■ Did you properly deduct meals and entertainment expenses (usually 50% is allowed)? ■ If you used a car or computer (or other property) partly for work and partly for pleasure, did you deduct only the work portion of the expense?
Job-related expenses (reimbursed)	■ There shouldn't be a deduction unless the reimbursement failed to cover the expense. ■ Was the reimbursement under an "accountable plan" maintained by your employer? Did you have to give the records to your employer and was the reimbursement limited to the expense, as required?
Tips	■ Are you in an occupation that normally receives tips (waiter, cab driver, porter, beautician)? The tips you report should be reasonable, given the type of job and the hours you devote to it.
Unusually large interest expense	■ Are you taking a large interest deduction without the apparent funds to repay the loan? The IRS will suspect you are receiving income without reporting it.
Foreign Asset Reports (FATCA and FBARs)	■ Did you indicate on Form 1040 Schedule B, line 7a that you have a foreign account and fail to timely file the FBAR (Form TD F 90-22.1)? Did you have foreign assets that you failed to include on Form 8938? The IRS will suspect that you are hiding foreign income. Substantial penalties can apply.

The IRS is currently focusing its limited audit resources on offshore income and assets; high-risk/high-income taxpayers; small businesses; abusive tax shelter schemes and their promoters; non-filing by high-income taxpayers; unreported income; and tax exempt entities.

-- MORE --

Release (19)

Avoiding an Audit

(or making it less painful if you do get audited)

If you have a business, here are some items the IRS looks for:

Completed returns prepared by professionals	■ A return that is complete, has all schedules in place and is prepared by a professional is less likely to be audited. (The IRS does rely on your accountant's unwillingness to do certain improper things.)
Related corporations have higher audit risk	■ Don't think you can put one over on the IRS by creating multiple corporations. Groups of corporations under common control are more likely to be audited.
Small businesses	■ Small businesses tend to lack "internal controls" — accounting systems that the IRS can rely on. ■ If you are worried about being audited some day, put a good accounting system in place today. And stick to it. The IRS will take that as a sign that you are making an effort to comply.
The IRS will know your business	■ IRS auditors are becoming more knowledgeable about your specific business. (The MSSP program is part of this.) They will know what to expect on your return and what is bogus. The restructuring of the IRS into units that serve groups of taxpayers with similar needs (individuals, small businesses, large businesses and tax exempts) is improving the agency's ability to scrutinize taxpayer activity.
Fringe benefits	■ There are strict rules for health insurance, life insurance and pensions to assure that the expense is a business expense and not a personal expense solely for the welfare of your family.
Credit card and Internet payments	■ Credit card and Internet payment processors are now required to report payments on Form 1099-K. Make sure the tax return reflects those amounts.
Employment taxes	■ The IRS takes a dim view of classifying employees as "independent contractors," just to avoid withholding taxes and other obligations. ■ If the IRS finds that you've issued a lot of 1099s rather than W-2s (or worse — you didn't issue any statements but attempted to deduct the expense) for this kind of work, you'd better be on solid ground for your "independent contractor" classification, or the IRS will sock you for a lot of back tax and penalties. ■ A growing concern for the IRS is companies' attempts to avoid liability for employment taxes for independent contractors by maintaining the employee works for the customer, not the company. Although recent cases have upheld the classification of certain employees as independent contractors without the filing of 1099s, the IRS is paying very close attention to this area.
Lots of money or investments in the business	■ There are special taxes to prevent you from holding excess money in a corporation or running your personal investments there. The IRS will see this on your balance sheet.
Tax-motivated transactions	■ The IRS is on the lookout for transactions undertaken solely for tax avoidance with no business purpose.

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Individual Audit Data*

Individual Returns Filed	Percentage Audited
Total Individual Tax Returns	1.1%
TPI < $200,000	
— 1040 without Schedule C, E, F, Form 2016 or Earned Income Tax Credit **	0.4%
— 1040 without Schedule C, F or Earned Income Tax Credit; with Schedule E or Form 2106***	0.1%
TPI $200,000 < $1 million, non-business returns	2.8%
TPI $1 million or more	12.1%

TPI = Total Positive Income

Individual Returns Filed	Percentage Audited
Sch. C TGR < $25,000	1.2%
Sch. C TGR $25,000 < $100,000	2.4%
Sch. C TGR $100,000 < $200,000	3.6%
Sch. C TGR $200,000 or more	3.4%

TGR = Total Gross Receipts; does not include returns with Earned Income Tax Credit.

* Data is from returns filed in calendar year 2011 and is the most current available.

**Includes individual tax returns filed without a Schedule C (nonfarm sole proprietorship); Schedule E (supplemental income and loss); Schedule F (profit or loss from farming); or Form 2106 (employee business expense).

***Includes individual tax returns filed with a Schedule E (supplemental income and loss) or Form 2106 (employee business expenses) but without a Schedule C (nonfarm sole proprietorship) or Schedule F (profit or loss from farming).

Source: Wolters Kluwer, CCH: 2014
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Retirement By the Numbers: Employer Plans, IRAs and the Saver's Credit

Saving Opportunities Remain the Same Across Retirement Plans for 2014

Both IRA contribution levels and contribution limits to employer-sponsored programs are subject to cost of living adjustments (COLAs), which did not increase for 2014. As a result, the contribution levels for IRAs, 401(k)s and employer-sponsored programs remained the same from 2013 to 2014.

The allowable adjusted gross income (AGI) parameters for IRAs, however, did increase for 2014. Income thresholds for 2014 also increased under the Retirement Savings Contributions Credit, commonly known as the Saver's Credit, which is a nonrefundable tax credit that allows lower- and middle-income retirement plan participants to use elective contributions to reduce their federal income tax on a dollar-for-dollar basis.

Employer-sponsored Programs		
Retirement Vehicle	**Maximum 2014 Employee Contribution***	**Catch-up Contributions**
401(k), 457 and 403(b) plans	$17,500 — pre-tax dollars (same as 2013)	$5,500 (same for 2013)
Roth 401(k), 403(b), and 457 plans	$17,500 — after-tax dollars (same as 2013)	$5,500 (same for 2013)
SIMPLE plans	$12,000 — pre-tax dollars (same as 2013)	$2,500 (same for 2013)
SARSEP** (Salary Reduction SEP)	$17,500 — pre-tax dollars (same as 2013)	$5,500 (same for 2013)

* Subject to COLAs.

** SARSEPs must have been established prior to January 1, 1997. The maximum contribution and catch-up amounts are the same as for 401(k), 457 and 403(b) plans.

IRAs***			
Retirement Vehicle	**2014 Maximum Contribution Limits***	**Catch-up Contributions**	**Adjusted Gross Income (AGI) Restrictions**
Traditional Deductible IRA	$5,500 (same as 2013)	$1,000 (same for 2013)	For active participants in employer provided plan: **Single filers:** under $60,000 phasing out completely at $70,000 ($59,000 phasing out completely at $69,000 for 2013) **Married, filing jointly:** under $96,000 phasing out completely at $116,000 (under $95,000 phasing out completely at $115,000 for 2013)
Traditional Nondeductible IRA	$5,500 (same as 2013)	$1,000 (same for 2013)	N/A
Roth IRA Nondeductible	$5,500 (same as 2013)	$1,000 (same for 2013)	**Single filers:** under $114,000 phasing out completely at $129,000 (under $112,000 phasing out completely at $127,000 for 2013) **Married, filing jointly:** under $180,000 phasing out completely at $190,000 (under $178,000 phasing out completely at $188,000 for 2013)

Retirement Savings Contributions Credit ****		
Retirement Vehicle	**2014 Maximum Credit**	**Adjusted Gross Income (AGI) Restrictions**
IRAs, Roth IRAs, SIMPLE Plans, 401(k)s and other qualified retirement plans	$1,000 for single filers $2,000 for joint filers	**Single filers:** $30,000 or less ($29,500 for 2013) **Head of household filers:** $45,000 or less ($44,250 for 2013) **Married, filing jointly:** $60,000 or less ($59,000 for 2013)

*** Individuals have until April 15, 2014, to make contributions to their IRAs for 2013.

**** Depending on AGI, the Retirement Savings Contribution Credit, commonly referred to as the Saver's Credit, provides a credit ranging from 10% to 50% with lower income taxpayers being eligible for a higher credit. For example, a married taxpayer filing jointly with an AGI of less than $36,000 making a $2,000 retirement plan contribution in 2014 could be eligible for a 50% credit, or $1,000. By contrast, if that same taxpayer had an AGI between $36,000 and $38,999, would be eligible for a 20% credit, or $400; an AGI between $39,000 and $59,999 would make that same taxpayer eligible for a 10% credit, or $200.

SOURCE: Wolters Kluwer, CCH: 2014
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A Historical Look at Capital Gains Rates

Year	Individuals	Corporations
	Maximum capital gains rates	Maximum capital gains rates
1913 - 1921	same as regular rate	same as regular rate
1922 - 1933	12.5%	12.5%
1934 - 1935	17.7%*	13.75%
1936 - 1937	22.5%*	15.0%
1938 - 1941	15.0%	same as regular rate
1942 - 1951	25.0%	25.0%
1952 - 1953	26.0%	26.0%
1954	25.0%	26.0%
1955 - 1967	25.0%	25.0%
1968	26.9%	25.0%
1969	27.5%	25.0%
1970	30.2%	25.0%
1971	32.5%	25.0%
1972 - 1974	35.0%	25.0%
1975 - 1977	35.0%	30.0%
1978	33.8%	30.0%
1979	35.0%	30.0%
1980 - 1981 (June 9)	28.0%	28.0%
1981 (after June 9) - 1986	20.0%	28.0%
1987 - 1992	28.0%	34.0%
1993 - 1997 (May 6)	28.0%	35.0%
1997 (after May 6) - 2003 (May 5)	20.0%	35.0%
2003 (after May 5) - 2012	15.0%	35.0%
2013-2014	20.0%	35.0%

*Assumes 10-year holding period, 30% of gain recognized (sliding scale for exclusion based on holding period).

Please note: Tax law is complex. While an accurate representation of capital gains rate history, this chart may not reflect various factors (such as excess profit taxes, phase-ins, rates on special categories of gain and AMT) that could have affected capital gains taxes throughout the years.

SOURCE: Wolters Kluwer, CCH: 2014

A Historical Look at Top Marginal Income Tax Rates

Note: For much of tax history, the top rate is figured by adding a "surtax" rate to a basic rate.

Year	Regular	Surtax	Total Top Rate
1913-1915	**1%**	**6%**	**7%**
1916	2%	13%	15%
1917	4%	63%	67%
1918-1921	8%	65%	73%
1922-1923	8%	50%	58%
1924	6%	40%	46%
1925-1931	5%	20%	25%
1932-1933	8%	55%	63%
1934-1935	4%	59%	63%
1936-1940	4%	75%	79%
1941	4%	77%	81%
1942-1943	6%	82%	88%
1944	3%	91%	94%
1945-1963	3%	88%	91%
1964	3%	74%	77%
1965-1981	70%		70%
1982-1986	50%		50%
1987	38.5%		38.5%
1988-90*	33%		33%
1991-1992	31%		31%
1993-2000	39.6%		39.6%
2001	39.1%		39.1%
2002	38.6%		38.6%
2003-2012	35%		35%
2013-2014	39.6%		39.6%

*During 1988-90, tax on top income could not be determined without using a worksheet, but 33% appears to have been the highest rate paid.

Source: Wolters Kluwer, CCH: 2014

Historical Look at Estate and Gift Tax Rates

MAXIMUM ESTATE TAX RATES (1916 – 2014)	
In effect from September 9, 1916, to March 2, 1917	10% of net estate in excess of $5 million
In effect from March 3, 1917, to October 3, 1917	15% of net estate in excess of $5 million
In effect from October 4, 1917, to 6:55 p.m. EST, February 24, 1919	Basic estate tax of 15% of net estate in excess of $5 million plus war estate tax of 10% of net estate tax in excess of $10 million
In effect from 6:55 p.m. EST, February 24, 1919, to 10:25 a.m. EST, February 26, 1926	25% of net estate in excess of $10 million
In effect after 10:25 a.m. EST, February 26, 1926, to 5 p.m. EST, June 6, 1932	20% of net estate in excess of $50 million*
In effect from 5 p.m. EST, June 6, 1932, to May 10, 1934	45% of net estate in excess of $50 million*
In effect from May 11, 1934, to August 30, 1935	60% of net estate in excess of $50 million*
In effect from August 31, 1935, to June 25, 1940	70% of net estate in excess of $50 million*
Estates of decedents dying after June 25, 1940, but before September 21, 1941	70% of excess of net estate over $10 million* plus a defense tax of 10% of the total tax computed under the basic and additional estate taxes (in effect, maximum tax was 77%)
Estates of decedents dying after September 20, 1941, but before August 17, 1954	77% of excess of net estate over $10 million*
Estates of decedents dying after August 16, 1954, but before 1977	77% of excess over $10 million
Estates of decedents dying after 1976 but before 1982	70% of excess over $5 million
Estates of decedents dying in 1982	65% of excess over $4 million
Estates of decedents dying in 1983	60% of excess over $3.5 million
Estates of decedents dying after 1983 and before 1988	55% of excess over $3 million
Estates of decedents dying after 1987 and before 1998	55% of excess over $3 million (effectively 60% for estates in excess of $10 million but less than $21,040,000 because of a surtax to phase out benefits of the graduated rates and unified credit)
Estates of decedents dying in 1998 through 2001	55% of excess over $3 million (effectively 60% for estates in excess of $10 million but less than $17,184,000 because of surtax to phase out benefits of only the graduated rates)
Estates of decedents dying in 2002	50% of excess over $ 2.5 million**
Estates of decedents dying in 2003	49% of excess over $2 million
Estates of decedents dying in 2004	48% of excess over $2 million
Estates of decedents dying in 2005	47% of excess over $2 million
Estates of decedents dying in 2006	46% of excess over $2 million
Estates of decedents dying in 2007 and 2008	45% of excess over $2 million***
Estates of decedents dying in 2009	45% of excess over $3.5 million

MAXIMUM ESTATE TAX RATES (1916 – 2014)	
Estates of decedents dying in 2010	35% of excess over $5 million and stepped-up basis for inherited assets, or election for no estate tax, but carryover basis for inherited assets****
Estates of decedents dying in 2011	35% of excess over $5 million*****
Estates of decedents dying in 2012	35% of excess over $5,120,000 (as adjusted for inflation)*****
Estates of decedents dying in 2013	40% of excess over $5,250,000 (as adjusted for inflation) ******
Estates of decedents dying in 2014 and later	40% of excess over $5,340,000 (as adjusted for inflation) ******

For Estate Taxes:

* Estate tax was composed of a basic estate tax plus an additional estate tax; in effect, estates never paid more than the amount of the additional estate tax.

** Beginning in 2002, the surtax on estates in excess of $10 million is repealed. In addition, the maximum estate tax rate began to decrease, while the applicable exclusion amount for estate tax purposes (i.e., the lifetime amount shielded from estate tax) began to increase. During the years 2002 through 2009, the estate tax applicable exclusion amount was $1 million in 2002 and 2003, $1.5 million in 2004 and 2005, $2 million in 2006 through 2008, and $3.5 million in 2009.

*** Although the estate tax rate schedule for 2007 through 2009 (Code Sec. 2001) shows the 45% rate being imposed on estates in excess of $1.5 million, the estate tax applicable exclusion amount effectively precludes taxation of any transfers in an amount below $2 million in 2006 through 2008 and $3.5 million in 2009.

**** The Tax Relief, Unemployment Reauthorization and Job Creation Act of 2010, reinstates the estate tax effective for decedents dying after December 31, 2009. However, the Tax Relief Act of 2010 also provides an election for the estates of decedents dying in 2010 to use the Economic Growth and Tax Relief Reconciliation Act of 2001 (EGTRRA) rules of no estate tax, but a carryover basis for inherited assets. Accordingly, few estates of decedents dying in 2010 will actually be subject to the estate tax. In addition, although the estate tax rate schedule for 2010 through 2012 (Code Sec. 2001) shows the 35% rate being imposed on estates in excess of $500,000, the estate tax applicable exclusion amount effectively precludes taxation of any transfers in an amount below $5 million in 2010 and 2011, and $5,120,000 in 2012.

***** Beginning in 2011, the Tax Relief Act of 2010 allows a surviving spouse to utilize the unused portion of the applicable exclusion amount (as otherwise increased under the Act) of his or her last predeceased spouse. An election by the predeceased spouse's estate is required.

****** The Tax Relief Act of 2010 reinstates the estate tax at a lower rate and a higher exclusion amount than would have been the case if the sunset called for under EGTRRA had occurred. However, the Tax Relief Act of 2010 was only to apply to estates through 2012. It was scheduled to sunset in 2013, leaving the law as if EGTRRA and the Tax Relief Act of 2010 had never been passed. The American Taxpayer Relief Act of 2012 struck the sunset provisions of EGTRRA and the 2010 Tax Relief Act, thus making the changes enacted by those laws permanent. The 2012 American Taxpayer Relief Act also raised the maximum estate tax rate to 40%. Although the estate tax rate schedule for 2013 and beyond (Code Sec. 2001) shows the 40% rate being imposed on estates in excess of $1,000,000, the applicable exclusion amount effectively precludes taxation of any transfers in an amount below $5,340,000 in 2014 (it was $5,250,000 in 2013).

MAXIMUM GIFT TAX RATES (1924 – 2014)	
1924-1925	40% on transfers in excess of $10 million over the course of the donor's lifetime
June 7, 1932-1934	33.5% on transfers in excess of $10 million over the course of the donor's lifetime
1935	45% on transfers in excess of $10 million over the course of the donor's lifetime
1936-1940	52.5% on transfers in excess of $50 million over the course of donor's lifetime
1941	52.5% on transfers in excess of $50 million over the course of the donor's lifetime, plus a defense tax of 10% of the total tax computed (in effect, maximum tax was 57.75%)
1942-1976	57.75% on transfers in excess of $10 million over the course of the donor's lifetime
1977-1981	70% of transfers in excess of $5 million over the course of the donor's lifetime
1982	65% of transfers in excess of $4 million over the course of the donor's lifetime
1983	60% of transfers in excess of $3.5 million over the course of the donor's lifetime
1984-1987	55% of transfers in excess of $3 million over the course of the donor's lifetime
1988-1997	55% of transfers in excess of $3 million over the course of the donor's lifetime (effectively 60% for transfers in excess of $10 million but less than $21,040,000 because of a surtax to phase out the benefits of the graduated rates and unified credit)
1998-2001	55% of transfers in excess of $3 million over the course of the donor's lifetime (effectively 60% for transfers in excess of $10 million but less than $17,184,000, because of a surtax to phase out the benefits of only the graduated rates)
2002	50% of transfers in excess of $ 2.5 million over the course of the donor's lifetime
2003	49% of transfers in excess of $2 million over the course of the donor's lifetime
2004	48% of transfers in excess of $2 million over the course of the donor's lifetime*
2005	47% of transfers in excess of $2 million over the course of the donor's lifetime
2006	46% of transfers in excess of $2 million over the course of the donor's lifetime
2007-2009	45% of transfers in excess of $1.5 million over the course of the donor's lifetime
2010	35% of transfers in excess of $1 million over the course of the donor's lifetime**

MAXIMUM GIFT TAX RATES (1924 – 2014)	
2011	35% of transfers in excess of $5 million over the course of the donor's lifetime***
2012	35% of transfers in excess of $5,120,000 (as adjusted for inflation) over the course of the donor's lifetime***
2013	40% of transfers in excess of $5,250,000 (as adjusted for inflation) over the course of the donor's lifetime****
2014	40% of transfers in excess of $5,340,000 (as adjusted for inflation) over the course of the donor's lifetime****

For Gift Taxes:

* Beginning in 2004, the applicable exclusion amount for gift tax purposes (i.e., the lifetime amount shielded from gift tax) differed from the amount used for estate tax purposes. During the years 2002 through 2010, the gift tax applicable exclusion amount remained constant at $1 million, while the estate tax applicable exclusion amount was $1 million in 2002 and 2003, $1.5 million in 2004 and 2005, $2 million in 2006 through 2008 and $3.5 million in 2009.

** Although the gift tax rate schedule for the years 2010 through 2012 (Code Sec. 2502) shows the 35% rate being imposed on transfers in excess of $500,000, the gift tax applicable exclusion amount effectively precludes taxation of any transfers in an amount below $1 million in 2010, $5 million in 2011, and $5,120,000 in 2012.

*** Beginning in 2011, the Tax Relief Act of 2010 allows a surviving spouse to utilize the unused portion of the applicable exclusion amount (as otherwise increased under the Act) of his or her last predeceased spouse. An election by the predeceased spouse's estate is required.

**** The Tax Relief Act of 2010 lowered the top tax rate and increased the exclusion amount to $5 million compared to what would have been the case if the transfer tax provisions of EGTRRA had been allowed to sunset as planned. However, the Tax Relief Act of 2010 was only to apply to gift taxes through 2012. It was scheduled to sunset in 2013, leaving the law as if EGTRRA and the Tax Relief Act of 2010 had never been passed. The American Taxpayer Relief Act of 2012 struck the sunset provisions of EGTRRA and the 2010 Tax Relief Act, thus making the changes enacted by those laws permanent. The 2012 Taxpayer Relief Act also raised the maximum gift tax rate to 40%. Although the gift tax rate schedule for 2013 and beyond (Code Sec. 2502 by reference to Code Sec. 2001) shows the 40% rate being imposed on gifts in excess of $1,000,000, the applicable exclusion amount effectively precludes taxation of any transfers in an amount below $5,340,000 in 2014 (it was $5,250,000 in 2013).

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