Tax Tidbits

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Health Care Choices for 2014

There are important decisions that must be made concerning health care coverage in 2014. Starting in 2014, you must choose either to have basic health insurance coverage (known as minimum essential coverage) for yourself and everyone in your family for each month or go without health care coverage for some or all of the year.

If you do not maintain health insurance coverage, you will need either to seek an exemption or to make an individual shared responsibility payment for the period that you are not covered with the 2014 income tax return you file in 2015.

If you choose to have health care coverage, qualifying coverage includes:

- health insurance coverage provided by your employer (including COBRA and retiree coverage),
- health insurance coverage you purchase through the Marketplace,
- Medicare, Medicaid or other government sponsored health coverage including programs for veterans, or
- coverage you buy directly from an insurance company.

If you purchase health insurance coverage through the Marketplace, you may be eligible for financial assistance including the premium tax credit, which will help lower the out of pocket cost of your monthly insurance premiums.

Qualifying coverage does not include certain coverage that may provide limited benefits, such as coverage only for vision care or dental care, workers' compensation or only for a specific disease or condition.

If you choose to go without coverage or experience a gap in coverage, you may qualify for an exemption if you do not have access to affordable coverage, if you have a gap of less than three consecutive months without coverage or if you qualify for one of several other exemptions. A special hardship exemption applies to individuals who purchase their insurance through the Marketplace during the initial enrollment period but due to the enrollment process have a coverage gap at the beginning of 2014.

If you (or any of your dependents) do not maintain coverage and do not qualify for an exemption, you will need to make an individual shared responsibility payment with your 2014 tax return. In general, the payment amount is either a percentage of your household income or a flat dollar amount, whichever is greater. You will owe 1/12th of the annual payment for each month you (or your dependents) do not have coverage and are not exempt. The annual payment amount for 2014 is the greater of:

- 1 percent of your household income that is above the tax return filing threshold for your filing status, such as Married Filing Jointly or Single, or
- your family's flat dollar amount, which is $95 per adult and $47.50 per child, limited to a maximum of $285.

The individual shared responsibility payment is capped at the cost of the national average premium for the bronze level health plan available through the Marketplace in 2014. You will make the payment when you file your 2014 federal income tax return in 2015.

For more information about the individual shared responsibility provision and the premium tax credit, please contact our office at 607-733-9022 or our insurance affiliate, Valicenti Insurance Services, Inc. at 607-215-0242.

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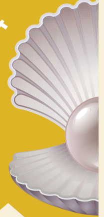

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AMT: What Is It and How Can I Avoid It?

Alternative Minimum Tax (AMT) is a separate tax system that taxes certain types of income that are tax-free under the regular tax system and disallows some regular tax deductions. Congress instituted the AMT to make the tax system more fair. In the past, the AMT was never indexed to inflation and more and more middle income taxpayers were subject to this tax. The AMT exemption amounts are now indexed to rise with inflation. It is difficult to identify exactly who will or who will not be hit by the AMT because of the interacting factors. Listed are some factors that increase your exposure to AMT:

- If your income is $250,000 or more, most of your AMT exemption is phased out.
- If you have relatively large deductions for state and local income and property taxes of $20,000 or more, these deductions are disallowed under the AMT rules.
- If you have four or more personal and dependent exemption deductions under the regular tax rules, these deductions are disallowed under the AMT rules.
- If you exercised one or more incentive stock options (ISOs), the difference between the market value of the shares on the exercise date and the ISO exercise price does not count as income under the regular tax rules, but it does count as income under the AMT rules.
- If you have a significant deduction for home equity mortgage interest, under the regular tax rules, you can deduct the interest on up to $100,000 of home equity loans. Under the AMT rules, you can deduct only the interest on loan balances of up to $100,000 that are used to acquire or improve your first or second residence.
- If you have write-offs for miscellaneous itemized deduction items (such as investment expenses, fees for tax advice and preparation and unreimbursed employee business expenses) under the regular tax rules, these deductions are disallowed under the AMT rules.
- If you have business depreciation write-offs for personal property assets such as machinery, equipment, computers, furniture and fixtures used in a sole proprietorship or a partnership, LLC, or S corporation in which you own an interest, these assets must be depreciated over longer periods under the AMT rules, so a portion of your regular tax deductions is disallowed for AMT purposes.
- If you have private activity bond interest which is tax-free under the regular tax rules, it is taxable under the AMT rules.

With some tax planning, you can reduce your AMT exposure. Listed are ways to reduce the AMT:

- Reducing your adjusted gross income (AGI) is important in claiming a larger AMT exemption and possibly reducing your AMT. Some ways to reduce your AGI include: making a deductible IRA contribution if you qualify, contributing the maximum to your tax deferred retirement plan (401K) at work, contributing more to your cafeteria benefit plan and health and dependent care flexible spending accounts, considering selling some investments that have declined in value, and offsetting capital gains with capital losses. Also, consider deferring sales of securities that will produce taxable gains until next year.
- Taxes – The AMT does not allow an itemized deduction for state and local income taxes, real estate taxes or personal property taxes. In a year that you have to pay the AMT, don't prepay the fourth quarter state estimated tax payment in December. Prepaying will not benefit you.
- Miscellaneous Itemized Deductions – Miscellaneous itemized deductions are not deductible for AMT purposes. If your employer has a non-accountable plan for unreimbursed employee expenses, encourage your employer to switch to an accountable plan.
- Private Activity and Tax-Exempt Bond Interest – In general, tax-exempt interest from private activity bonds is not tax-exempt for AMT purposes. If you are subject to the AMT, invest in tax-exempt bonds issued before 2009 that are not private activity bonds.
- Incentive Stock Options – If you exercised an ISO, but did not sell the stock in the year that it was exercised, it is not taxable for regular tax purposes. The difference between the exercise price and the fair market value of the stock on the day of the exercise is used to calculate AMT. You will need to consider the timing in exercising an ISO.

Every taxpayer has a unique situation. The best way to forecast the tax consequences and reduce your AMT is to consult your tax advisor.

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Expired Deductions and Benefits

At the end of 2013, there were 55 provisions of the tax law that expired and, until these tax provisions are reinstated by Congress, they are not in the law. Tax law is usually a motivator for certain behavior within the taxpayer base. Right now, we are not being motivated and we are not sure if that motivation is returning. One could say that this is "inconsistent parenting." Several of these provisions will be covered in this article.

First is the Educator Expense Deduction. Eligible educators can deduct up to $250, per spouse, of qualified out of pocket expenses paid during the year. This is a deduction that is used in arriving at the adjusted gross income (AGI). Any expenses in excess of $250 may be deductible as a miscellaneous itemized deduction, subject to the 2% AGI limitation.

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Next, the Mortgage Insurance Premiums Deduction has expired. This provision in the law covers premiums paid for acquisition indebtedness for insurance contracts issued after December 31, 2006 on a first or second home and is treated as deductible mortgage interest. This particular deduction is subject to phase-out rules. Basically, there is no deduction when the AGI exceeds $109,000 ($54,500 for MFS).

A set of tax credits that expired in December is the eligible property expenditures that are included in the Nonbusiness Energy Property Credit. Remember, a tax credit reduces tax liability on a dollar for dollar basis. A tax deduction is only as valuable as the tax bracket or marginal tax rate applicable to your individual tax situation. The favorite eligible property expenditures in this category are energy efficient windows including skylights, exterior doors, insulation and/or systems which reduce heat gain or loss, heat pumps, central air conditioners and water heaters. Among other qualified residential energy property items are natural gas, propane or oil furnaces or hot water boilers. There are dollar limits per type of expenditure and lifetime limits on the tax credit as a whole. There is no guarantee that Congress will put this tax credit back in place. In 2008, Congress failed to put the credit back into law.

Another popular deduction that expired in December 2013 is the sales tax deduction instead of the state income tax deduction. This requires an election to use the sales tax or income tax, whichever is higher. Additionally, a choice must be made as to whether to use actual expenses or the optional sales tax tables. This deduction is especially valuable in states that do not have income taxes.

There are several other key expiring tax provisions such as the $2 million exclusion from gross income of qualified principal residence indebtedness, the ability of people 70½ and older to transfer up to $100,000 from their IRAs directly to a charity, the Section 179 deduction increase from $25,000 to $500,000, tuition and fees deductions. These other expiring provisions, if not revived, have implications for the 3.8% Medicare surtax on net investment income. Although the proceeds may result in more income, the more important issue is that these items in their post expiring position would cause an elevated AGI, which has the potential to trigger or increase the tax payer's liability for the surtax on other investment income.

Remember, a tax credit reduces tax liability on a dollar for dollar basis. A tax deduction is only as valuable as the tax bracket or marginal tax rate applicable to your individual tax situation.

Are the expired provisions going to be reinstated by lawmakers? The general consensus is that the expired tax provisions will most likely be restored after the November elections. *Do not hold your breath and stay motivated!*

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and Business Services

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Start Saving Now

"Will you have enough money to last you through retirement?" asks one commercial. Make saving for retirement a priority and implement smart investment strategies and you will be able to confidently answer "yes" to this question. Current tax laws along with employer sponsored plans provide a variety of options to help you save for retirement. If your employer offers a retirement plan such as a 401(K) or a SIMPLE IRA, sign up! Contribute as much as you can and increase as you are able. The dollars you contribute will not be taxed as wages, providing you with an immediate tax savings. Your employer may contribute additional dollars and the automatic deduction from your paycheck makes the process easy. The maximum elective deferrals an employee can make to his or her 401(K) in 2014 is $17,500 ($23,000 for participants age 50 and older). The maximum elective deferrals an employee can make to his or her SIMPLE IRA in 2014 is $12,000 ($14,500 for participants age 50 and older). Traditional and Roth IRAs are also good options for saving for retirement. Your traditional IRA contribution may be tax deductible depending on your income and whether or not you or your spouse is covered by a retirement plan through work. Roth IRA contributions are not tax deductible, however, once you reach retirement age your distributions will be tax free. One caveat – allowable contributions to a Roth IRA may be limited based on your income. The maximum amount you can contribute to all of your IRAs in 2014 is $5,500 ($6,500 for those ages 50 and older).

Current tax laws along with employer sponsored plans provide a variety of options to help you save for retirement.

One question often asked is, "Should I convert my traditional IRA to a Roth IRA?" The decision to convert a traditional IRA to a Roth IRA is complex and involves many variables and considerations, such as the taxpayer's current and anticipated future marginal income tax rates, age and investment horizon, to name a few. The most obvious disadvantage of converting is the income tax that must be paid on the fair market value of the traditional IRA in the year the conversion takes place. One obvious advantage is that distributions will be tax free once the taxpayer reaches retirement age. In addition, Roth IRAs, unlike traditional IRAs, have no mandatory distribution requirement.

Taxpayers who contribute to an employer sponsored plan or an individual retirement account may be eligible for the Retirement Savings Credit. This credit is 10-50% of eligible contributions up to a maximum credit of $1,000 ($2,000 if married filing jointly) and provides a nice incentive for saving for retirement.

Regardless of which retirement saving option(s) you choose, saving for retirement is one of the most important investments you can make. America is one of the wealthiest countries in the world, but a 2010 survey found that 16% of people do not think they have enough money saved for a comfortable retirement. If you haven't already started saving for your retirement, start now. If you are currently saving for your retirement, continue saving. Increase your contributions as your financial situation allows. Financial security in retirement doesn't just happen. It takes planning and commitment and, yes, money. Work with an investment advisor to devise a plan and set goals that are right for you.

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