

# TAX TIDBITS

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We are pleased to send you the May 2013 edition of the Tax Tidbits. We have tried to include topics that are current and of interest to our clients.

We hope Tax Tidbits is informative and that it helps to further your understanding of the ever changing tax laws. If the articles raise tax questions regarding your own situation, please call us at (607) 733-9022 or, if you are outside New York State, call (866) 734-2665. We look forward to seeing you next tax season or sooner. Enjoy your summer!



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## Intense Times

The 3.8% tax on Net Investment Income, the 0.9% Medicare Surtax, the Alternative Minimum Tax, the Dow Jones Industrial Average 15,000 point market, the Patient Protection and the Affordable Care Act, the American Tax Relief Act, and the new 39.6% tax rate are all new challenges that we as taxpayers may need to deal with in the coming years. Good luck if you try to understand and implement these new rules in your own tax situation. Until the government decides to simplify the tax rules, you will probably need to rely on a tax professional. Please consider contacting us for proactive tax planning.

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## Personal E-mail and the Government Eyes

Under a request by the Freedom of Information Act, the American Civil Liberties Union has obtained documents illustrating that Internal Revenue Service (IRS) agents have not been compelled to obtain warrants before sorting through a person's e-mails, text messages, and other digital communications. The Electronic Communications Privacy Act, put into law in 1986, is not clearly defined and is arcane when applied to current technology. In general, the law protects e-mails that remain unopened or e-mails that have been stored on a server for 180 days or less. Basically, any e-mail that has been opened and kept in your files for more than six months would be open for inspection.

This matter ultimately becomes a Fourth Amendment challenge – which protects against unreasonable searches and seizures by the government. In a 2010 court decision (US vs. Steven Warshak, et al., CA-6.12/14/10), it was decided that probable cause is needed before the government can ask e-mail providers to release messages. As of this writing, it is unclear if the IRS is abiding by this latest ruling; therefore, taxpayers should remain highly vigilant until the privacy issues are resolved. This puts an entirely new spin on records retention.

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## 2013 Tax Rates

Beginning in 2013, the 10%, 15%, 25%, 28%, 33%, and 35% tax brackets from the Bush tax cuts will be made permanent. As a result, tax rates will stay the same for most taxpayers. There is a new 39.6% rate. This rate will begin at the following income levels: \$400,000 (single), \$425,000 (head of household), \$450,000 (joint filers and qualifying widowers), and \$225,000 (married filing separately). The dollar amounts will be adjusted for inflation rates for tax years after 2013.

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## Summer Job Tax Information for Students

When summer vacation begins, classroom learning ends for most students. Students starting summer jobs have the opportunity to learn some important life lessons. Summer jobs offer students the opportunity to learn about the working world – and taxes. Here are 5 things about summer jobs that the IRS wants students to know:

1. As a new employee, you will need to fill out a Form W-4, Employee's Withholding Allowance Certificate. Employers use this form to figure how much federal income tax to withhold from workers' paychecks. It is important to complete your W-4 form correctly so that your employer withholds the right amount of taxes. There is a common misconception that a student's income is tax exempt. **It is not.**
2. If you will receive tips as part of your income, remember that all tips you receive are taxable. Keep a daily log to record your tips.
3. Maybe you will earn money doing odd jobs this summer. Self-employment can include pay you get from jobs like babysitting and lawn mowing.
4. You may not earn enough money from your summer job to owe income tax, but you will probably have to pay Social Security and Medicare taxes. Usually, your employer must withhold these taxes from your paycheck. Additionally, if you are self-employed, you may have to pay self-employment taxes. Your payment of these taxes contributes to your coverage under the Social Security system.
5. If you are a newspaper carrier or distributor, special rules apply to your income. Whatever your age, you are treated as self-employed for federal tax purposes if:
  - a. You are in the business of delivering newspapers.
  - b. Substantially all your pay for these services directly relates to sales rather than to the number of hours worked.
  - c. You are under a written contract that states the employer will not treat you as an employee for federal tax purposes.

If you do not meet these conditions and you are under age 18, then you are usually exempt from Social Security and Medicare tax.

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## IRS Furlough Dates

The IRS will close on Friday, May 24, Friday, June 14, Friday, July 5, Monday, July 22, and Friday, August 30, as sequestration furlough days. Up to two more furlough days in August or September could be added to that list. On these days, the IRS will completely shut down, including phone lines and offices.

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