TaxTips

Keeping You Informed ▪ Winter 2013

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Certain Tax Provisions Set to Expire at the End of 2013

Will you feel the effects?

On January 2, 2013, President Obama signed *The American Taxpayer Relief Act* into law. This bill is over 150 pages and retroactively extends many of the sunset provisions as well as permanently patching Alternative Minimum Tax (AMT). However, the following items were only extended until December 31, 2013, and without additional extension, will expire in 2014:

- **Teachers** - The $250 deduction for classroom expenses of elementary and secondary schoolteachers.
- **Qualified Principal Residence Indebtedness** - The income exclusion for cancelled qualified mortgage debt (up to $2 million).
- **Mortgage Insurance Premiums** - The payment of PMI premiums is treated as deductible qualified residence interest on Schedule A.
- **State and Local Sales Tax** - The election to claim an itemized deduction for state and local general sales tax in lieu of state income tax.
- **Qualified Tuition Expenses** - The above-the-line deduction for qualified tuition and related expenses.
- **IRA Distributions to Charity** - The rule allowing tax-free IRA distributions (for taxpayers over age 70½) of up to $100,000 if donated to charity.

Gift Giving

Are there tax consequences to your kind gesture?

Federal gift taxes can be confusing because of our country's ever-changing tax policy. When you give cash or property to an individual, the gift is not taxable to that person. However, depending on how much you give, you may need to file a return and pay gift tax.

The IRS allows you to give each individual up to the annual exclusion during the year without requiring you to report the gift or file a gift tax return. In 2013, that amount is $14,000. In addition, certain gifts do not count towards the annual exclusion, such as amounts paid directly to qualifying educational institutions for tuition, or amounts paid directly to the person or a medical organization for medical expenses (including health insurance).

If you give more than the annual exclusion to any one individual during the year, you must file a gift tax return to report the taxable gift. Your gift will be taxable to the extent the amount given exceeds the annual exclusion. However, throughout your lifetime, you can give up $5,250,000 (2013 amount) before you are required to actually pay any gift tax.

Collecting an Unemployment Check?

Know your filing requirements

Being unemployed can cause a lot of stress and anxiety. Don't make your situation worse by not paying your taxes. All unemployment compensation and benefits you receive are considered taxable income and need to be reported on your tax return.

Unemployment compensation generally includes any amounts received under the unemployment compensation laws of both the federal and state governments. It includes state unemployment insurance benefits and benefits paid to you by a state from the Federal Unemployment Trust Fund. It also includes railroad unemployment compensation benefits, but not worker's compensation.

Supplemental unemployment benefits received from a company-financed fund are not considered unemployment compensation for this purpose. Instead, these benefits are fully taxable as wages and are reported on Form W-2, *Wage and Tax Statement*.

Unemployment benefits from a private fund to which you voluntarily contribute are taxable only if the amounts you receive are more than your total payments into the fund. This taxable amount is not unemployment compensation; it is reported as other income.

If you received unemployment compensation during the year, you should receive Form 1099-G, *Certain Government Payments*, showing the amount you were paid. Any unemployment compensation received must be included in your income. You can voluntarily elect withholding to ease any resulting tax liability.

IRS Issues Tax Guidance for Same-Sex Marriages

Couples can file joint federal returns

On June 26, 2013, the Supreme Court overturned Sec. 3 of the *Defense of Marriage Act* (DOMA) as unconstitutional because it violates the equal protection clause of the Fifth Amendment. In layman's terms, this means that same-sex couples who are legally married, under the laws of either their state or a foreign country, are afforded many federal tax benefits that were previously only allowed to opposite-sex couples.

Same-sex couples will be treated as married for federal, estate and gift tax purposes. Going forward, same-sex couples will be required to file their federal tax return using the married filing jointly or married filing separately status. They also have an option to amend previous year returns. This federal filing status is required regardless of whether or not the couple lives in a state that recognizes same-sex marriage. However, the ruling does not apply to registered domestic partnerships, civil unions or similar formal relationships recognized under state law.

In light of the Supreme Court's decision, states are still allowed to do what they want, and since the laws regarding marriage vary widely from state to state, many unanswered questions remain.

Offering to Host an Exchange Student?
Some expenses may be deductible

Are you thinking about hosting either an American or a foreign exchange student? You may be able to claim a charitable deduction for the additional expenses of having the student live with you. To qualify:

1. The student must live in your home under a written agreement between you and a qualified organization as part of a program of the organization to provide educational opportunities for the student;
2. The student must not be your relative or dependent; and
3. The child must be a full-time student in grade 12 or under at a school in the United States.

You can deduct up to $50 a month as a charitable contribution for each full calendar month the student lives with you. Any month when the above conditions are met for 15 or more days counts as a full month. In addition, you may be able to deduct the cost of books, tuition, food, clothing, transportation, medical and dental care, entertainment and other amounts you actually spend for the well-being of the student.

You cannot deduct depreciation on your home, the fair market value of lodging, and similar items not considered amounts actually spent by you. Nor can you deduct general household expenses, such as taxes, insurance and repairs.

In most cases, you cannot claim a charitable contribution deduction if you are compensated or reimbursed for any part of the costs of having a student live with you. However, you may be able to claim a charitable contribution deduction for the unreimbursed portion of your expenses if you are reimbursed only for an extraordinary or onetime item, such as a hospital bill or vacation trip.

You cannot deduct the costs of a foreign student living in your home under a mutual exchange program through which your child will live with a family in a foreign country.

If you claim amounts paid for a student who lives with you, you must submit the following information with your return:

- A copy of your agreement with the organization sponsoring the student placed in your household;
- A summary of the various items you paid to maintain the student; and
- A statement that gives: (1) the date the student became a member of your household; (2) the dates of his or her full-time attendance at school; and (3) the name and location of the school.

Quik *Tips*

1	For 2014, the annual limitation on Health Savings Account contributions for an individual with family coverage under a high deductible health plan (HDHP) is $6,550 up from $6,450 in 2013. For an individual with self-only coverage under an HDHP, the annual limit is $3,300, up from $3,250 for 2013.
2	Beginning in tax year 2013, a new tax rate of 39.6 percent has been added for individuals whose income exceeds $400,000 ($450,000 for married taxpayers filing a joint return).
3	The Nonbusiness Energy Credit allows you to claim a credit of 10 percent (up to $500) of the cost of certain energy-saving property that you add to your main home.
4	For 2013, the standard mileage rates for the use of a car are 24 cents per mile driven for medical or moving purposes and 14 cents per mile driven in service of charitable organizations.

Storing Tax Records
Important tips to keep in mind

The IRS requires documentation when it comes to claiming deductions and tax credits. Though the IRS doesn't require any special method for keeping records, it's always a good idea to keep them organized and in one place. If you are ever faced with a tax audit, it's likely the IRS will want you to show proof of the items you claimed on your return. In addition, good recordkeeping makes it easier when you come in for your appointment during tax season. Here are some important tips to keep in mind:

- Keep copies of your filed tax returns along with your tax records. They'll be helpful in the preparation of future returns and might come in handy when applying for a bank loan.
- Federal law requires you to keep records to support items reported on your tax return. You should keep basic records that relate to your federal tax return for at least three years. Basic records are documents that prove your income and expenses. This includes income information such as Forms W-2 and 1099. It also includes information that supports tax credits or deductions you claimed. This might include sales slips, credit card receipts and other proofs of payment, invoices, cancelled checks, bank statements and mileage logs. Check with your state's department of revenue for record retention guidelines. They can vary.
- If you own a home or investment property, you should keep records of your purchases and other records related to those items. You should typically keep these records—including those related to home improvements—at least three years after you have sold or disposed of the property.

Lost Your Social Security Card?
You'll need certain documents to replace it

You need a social security number to get a job, collect social security benefits and receive some other government services. Because you don't usually need to present your social security card, don't carry it with you; instead, keep it in a safe place with your other important papers. However, if you happen to lose your card and want a replacement, here's what you need to know.

You are limited to three replacement cards in a year and ten during your lifetime. Legal name changes and other exceptions do not count toward these limits. For example, changes in immigration status, which require a card update, may not count toward these limits. Also, you may not be affected by these limits if you can prove you need the card to prevent a significant hardship.

When requesting a new card, you'll need certain documents to prove your citizenship and your identity. To prove your citizenship, you can present your U.S. birth certificate or U.S. passport. To prove your identity, you can present your U.S. driver's license, state-issued nondriver identification card or U.S. passport. You may use one document for two purposes. For example, you may show your U.S. passport as proof of both citizenship and identity. All documents must be either originals or copies certified by the issuing agency. The Social Security Administration cannot accept photocopies or notarized copies of documents, nor can they accept a receipt showing you applied for the document.

The Social Security Administration will mail your card as soon as they have all of your information and have verified your documents. Your replacement card will have the same name and number as your previous card.