Lassus Wherley

Certified Public Accountants

NewsNotes

January 2015

People and Puppy News

No people changes in the tax department again this year! That's always good news! Everyone is back and looking forward to ANOTHER tax season. We do have a new Investment/Financial Planning employee. She is Vanessa Franco. Vanessa graduated from William Patterson University last June. She is ready for her first tax season at Lassus Wherley.

LW News

Awarded *"Best Places To Work in New Jersey"* for 4th consecutive year

Lassus Wherley Recognized in USA Today Women's Choice Award For Financial Advisors

Clare Wherley and Pat Daquila named 2015 Five Star Certified Public Accountant

Chadderdon W. O'Brien named one of New Jersey's Forty Under 40

Diahann Lassus named 2015 Five Star Wealth Manager

30th Anniversary

On March 27, 2015 we will celebrate our 30th anniversary

Nothing New Other Than the Affordable Care Act

Tax law in 2014 wasn't about anything new but rather whether Congress was going to take away numerous provisions that had been built in over the years. It was only at the last minute that many of these provisions were reinstated. Among the most common were the tax-free distributions from individual retirement plans for charitable purposes, the deduction for education expenses by elementary and secondary school teachers, a deduction for state and local sales taxes if higher than state income taxes, and an above-the-line deduction for qualified tuition and related expenses. There were more than 50 provisions but most were related to business taxes.

The Affordable Care Act (Obamacare) continues to evolve. This will be the first year that significant reporting will be required for those individuals who have insurance from an exchange—federal or state run. We have outlined the requirements on page 3.

Tax Planning for 2015

Periodically we are asked to share tips for reducing a tax burden. Thirty years ago it was a favorite pastime to discuss tax avoidance schemes, which usually were partnership investments which created accelerated deductions or were certain types of miscellaneous itemized deductions like business expenses. While some of these deductions still exist, Congress long ago eliminated any significant impact these opportunities presented.

HOWEVER…

There are still some very basic practices that can lower taxes significantly. Here are several to consider:

Contribute to Retirement Accounts

If you contribute to tax deferred accounts such as 401(k) and 403(b) accounts, your contribution will lower your taxable income. When these funds are withdrawn in retirement they will be taxed at your future tax rate which is typically lower.

Contributions to an IRA may or may not lower current taxable income. If your income level is below a certain threshold the contribution will be treated the same as that for a 401(k) or 403(b). If your income exceeds the threshold then it may not lower current taxes but the contributions will not be taxed again on withdrawal. If you qualify to make a Roth contribution you will not lower current taxes, but the contribution and all growth withdrawn will be tax free in retirement.

Charitable Gifting

If you donate to charity think in terms of donating appreciated assets. Anything that's worth more than what you paid is a great tax deduction because you get to deduct the market value. The most common examples are stock, real property like land or buildings, art and vintage cars.

If you're over 70 1/2 and taking minimum required distributions (MRD), consider gifting some or all of the MRD amount out of your retirement account. The biggest benefit is that those amounts are not included in taxable income. This is particularly beneficial if you take the standard deduction rather than itemizing.

How the Affordable Care Act Impacts Your Taxes

Intuit.Com

You enrolled in a health plan through an employer, private insurance, Medicare or Medicaid.

All you will need to do is indicate that you have minimum essential coverage , a general term that includes individual market policies, job-based coverage, Medicare, Medicaid, Children's Health Insurance Program , TRICARE (civilian benefit for the Military) and certain other coverage.

New tax forms to expect but not required for 2014

Form 1095-C: Your employer may provide a separate Form 1095-C to you and to the IRS, which provides information about your plan and who was covered.

Form 1095-B: Private insurers and self-funded plans may provide each policyholder and the IRS with information summarizing the coverage provided on Form 1095-B.

You purchased a health plan through a Health Insurance Marketplace (Health Exchange)

You may have received a government subsidy in the form of a tax credit to purchase health insurance through the online Health Insurance Marketplace.

New tax forms to expect

Form 1095-A: If you purchased insurance through the Health Insurance Marketplace you will receive a new form, Form 1095-A, which will show details of your insurance coverage including the effective date, amount of premium and the advance premium tax credit.

Form 8962: If you are eligible to receive a premium tax credit in 2014, information about your advance premium tax credit will be reported and the actual premium tax credit will be determined on Form 8962.

If you don't have health insurance

Individuals who did not have health insurance for more than three months in 2014 must pay a tax penalty.

The Affordable Care Act recognizes there are legitimate reasons people may be exempt from paying a tax penalty for not having health insurance.

- Some of the common exemption reasons include:
- You'were uninsured for less than 3 months of the year
- The lowest-priced coverage available to you would cost more than 8% of your household income
- You don't have to file a tax return because your income is too low
- You're a member of a federally recognized tribe or eligible for services through an Indian Health Services provider
- You're a member of a recognized health care sharing ministry
- You were a member of a recognized religious sect with religious objections to insurance, including Social Security and Medicare
- You were incarcerated (either detained or jailed), and not being held pending disposition of charges
- You were not lawfully present in the U.S
- You qualify for a hardship exemption

Seven Facts About U.S. Federal Income Taxes You Should Know

Excerpted From Money Crashers by Michael Lewis

Taxes Are as Old as Civilization Itself

Kings and governments have extracted tribute since the dawn of civilization. In ancient Mesopotamia even before the invention of money 2,500 years ago families were required to deliver cattle or sheep to the ruler depending upon the size of their herds; farmers in Egypt owed pre-calculated, pre-harvest bushels of grain to the pharaohs based upon the size of their field and the height of the annual Nile flood.

If It Weren't for Napoleon, Income Taxes Might Never Have Appeared in America

William Pitt the Younger, Great Britain's Prime Minister and Chancellor of the Exchequer, led Parliament to pass a tax of 10% on total income above £60, the equivalent of about $10,000 today, in order to defend the country from Napoleon. The law, passed in 1799, even provided certain deductions for incomes up to a maximum of £200.

The First Income Tax in the U.S. Occurred During the Civil War

Congress – with the assent of President Abraham Lincoln – passed the Revenue Act of 1861 to fund the costs of the Civil War. The Act imposed a flat tax of 3% on all incomes over $800 (about $20,000 today). In 1862, the Act was amended, replacing the flat tax of 3% with a progressive tax, adding a rate of 5% for all incomes over $10,000 ($221,000 in 2012).

The Constitution Was Amended in 1913 Allowing Congress to Levy Personal Income Taxes

A constitutional amendment was introduced in 1909 and subsequently ratified by 42 of the 48 state legislatures that removed the constitutional prohibition against income tax. The 16th Amendment says, "The Congress shall have power to lay and collect taxes on incomes, from whatever source derived, without apportionment among the several States, and without regard to any census or enumeration."

Not Everyone Pays Income Taxes

The controversial quote during the 2012 presidential election that "47% of Americans do not pay income taxes" is true according to the Tax Policy Center for the above reasons – but also includes more than 4,000 citizens who earned $1 million or more in 2011 and paid no taxes.

Citizens in the U.S. Pay Less Taxes Per Capita Than Most Countries

Citizens of the United States are one of the least taxed populaces in the world, ranking 26th of 28 developed countries. The comparison includes all taxes within a country, income as well as property, social taxes for such things as healthcare and retirement programs, sales and other consumption taxes, and estate or gift taxes.

There Is No Causal Relationship Between Lower Taxes for the Wealthy and Economic Growth

Despite the political rhetoric that lower taxes for the wealthy leads to greater investment and more economic growth, an examination of past tax rates and economic cycles indicates that there is no causal relationship between lower taxes for the upper bracket and growth.