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ClientAdvisor

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Dear Clients & Friends,


Now is the time of year to consider ways to reduce next year's tax burden and to improve your financial well-being. Included here are ideas to help you with both. There are articles discussing the best way to donate a used auto, suggestions on smart uses for your tax refund, an introduction to the new peer to peer lending phenomena, and an outline of some key IRS identified


tax scams. Should you have any questions or concerns on how this impacts your situation please feel free to call.

Thanks for your support.

Maximizing Your Refund Power

One of the highlights of the year for many Americans is the receipt of a refund check from the IRS. Here are some ideas to consider for the use of your refund.

 **Pay down credit card debt.** If you have large credit card debts consider using the bulk of any refund to pay down the balance.

 **Add to your emergency fund.** It is recommended that you have enough money in savings to pay your bills in an emergency. How much is enough? That differs from person to person, but many recommend saving six to nine months worth of expenses. Consider placing some of your



refund into your emergency account to help reach your fund goal.

Any other debt? Pay down your auto loans, home mortgage, student loans, and other debt. Pay those loans with the highest interest first.



Save for retirement. Consider placing some of your refund into your retirement savings account. This way your refund will continue to grow and will pay you back when you retire.



Buy something you need. If you have been saving for a new car, a new house, or a new appliance put aside some of your refund towards this planned purchase.

Everyday Advice

"I find that the harder I work, the more luck I seem to have."

— Thomas Jefferson
former president & statesman

Inside this Issue:

Maximizing Your Refund Power...	1, 3
Caution with Car Donations.....	2
A Time for Tax Planning	2
Understanding Peer-to-Peer Lending.....	3
Key IRS Tax Scams	4



Continued on Page 3

Caution with Car Donations

One of the biggest contributions a taxpayer can make is to donate a used automobile. But if not careful, the value of your donated vehicle could be a lot lower than you think.

The rule

When you donate a vehicle, the value of your donation is either the fair market value of your vehicle when you donate it OR the value received by the charitable organization for your donation. Unfortunately, you do not get to choose the value of the donated vehicle.

- If the organization either uses the vehicle or is in the business of using your vehicle to train others you can deduct the fair market value of the vehicle.
- If the charitable group simply resells your donated vehicle, your donation is limited to what the organization receives for your vehicle and NOT the usually much higher fair market value of the item.

What you should do


- 🔑 **Select the organization wisely.** Select an organization that will either use the vehicle themselves

or will use it to train others. From the IRS perspective, a qualifying charitable organization either:

- makes significant intervening use of the vehicle or,
- makes significant improvement to the vehicle that increases its value or,
- donates the vehicle (or sells it at a below market rate) to a needy person that helps further the cause of the organization.

Qualified organizations include groups that help single mothers obtain transportation to and from work, use the vehicles to deliver meals to seniors, or teach auto repair and body shop work to the unemployed.

- 🔑 **Research the fair market value.** Prior to donating your vehicle go to a reputable source and estimate the value of your vehicle. Online resources like Edmunds.com and kbb.com (Kelley Blue Book) are two reliable sites to do this.
- 🔑 **Obtain the proper tax form.** When donating your vehicle make sure the organization gives you a



proper Form 1098-C at the time you provide your vehicle. Double check the value assigned to your donation form to ensure it meets or exceeds the estimated fair market value of your donation.

- 🔑 **Sell the vehicle and donate the cash.** If you cannot find a charitable organization that will allow you to maximize your fair market value deduction, consider selling the vehicle and then donating the proceeds. If using this approach, take care that you do not create an unplanned taxable capital gain with the transaction and account for any sales taxes that go with the transaction.



With the ink dry on your 2014 tax return, you now know the full impact of your current tax situation. Based on this, what changes do you wish to make in 2015 to manage your tax obligation? Here are some things to consider.

- ☑ **Understand the impact of expiring tax laws.** A number of tax laws expired once again at the end of 2014. This includes the educator expense deduction, the state sales tax itemized deduction option, direct charitable contribu-

A Time for Tax Planning

tions for qualified seniors from retirement plans, and the tuition fee deduction.

- ☑ **Be aware of life events.** A birth, death, divorce, marriage, retirement, college, and kids getting older are all examples of changes in your life that can have a big impact on your tax obligation.
- ☑ **Know the tax-time bombs in health care.** 2015's Affordable Care Act impact will be even greater than 2014's with increases in the shared responsibility payment and the introduction of a small business health care penalty.
- ☑ **Leverage the kiddie tax rules.** Up to \$2,000 of unearned income in

2015 can be taxed at your child's lower tax rate. Create a plan to take advantage of this.

- ☑ **Review the need to make estimated tax payments.** Many of us will need to adjust our withholdings and potentially make quarterly estimated tax payments to avoid under-withholding penalties.
- ☑ **Review new limits and brackets.** All other things being equal, each year the IRS changes tax brackets, phase-out amounts, phase-in limits and more. Try to understand how these changes impact your tax situation.

Remember, now is the time to take action. Please call if you wish to review your situation.

Understanding Peer-to-Peer Lending

Recently the largest peer-to-peer lending company, Lending Club, moved to become listed as a public company. So what is this alternative banking model and what should you know about it?

What is it?

Peer-to-peer lending is an example of using the power of the internet to bring lenders and borrowers together. If you wish to receive a loan you go to a peer-to-peer web site, fill out an application, get approved, and then post your request for a loan. If you have money to lend, you go to the same web site. You become approved as a lender, transfer money into your account, and then select approved loans to fund. The peer-to-peer company receives part of each transaction for bringing lenders and borrowers together.

How is it used?

By borrowers:

Much of the current activity for borrowers is to consolidate credit card debt with lower interest rates. Others use the service for purchasing a car, financing a home

improvement, funding college and financing big events (like a wedding). The approval process versus traditional lending is often quicker and less painful.

By lenders:

Individual lenders use it as a way to receive better returns versus their traditional bank savings accounts. Institutional lenders use it as a quick way to improve returns on their loan portfolios without a lot of paperwork.

Things to consider

Is peer-to-peer lending or borrowing right for you? Here are some things to consider.

For borrowers:

Review the service providers.

There are a number of peer-to-peer lenders out there. Research them and choose a company that has a great track record. Compare this option with your other borrowing options before proceeding.

Read the fine print.

As is true with any lending document, understand the terms of your loan. What happens if you cannot make a payment? What are the penalties? What happens if the note is in collection status? Are there barriers to obtaining future financing from other sources?

For lenders:

Understand the model.

Prior to investing understand each company's business model. How do they make their money? Read the fine print. Is this option right for you?

Unsecured lending is risky.


Most of these loans are unsecured. If the borrower does not pay, you lose your investment.

Institutions have an inside track.

Most of the funding for large peer-to-peer companies is from

Maximizing Your Refund Power

Continued From Page 1

 **Don't forget to spend some on you.** While spending all of your refund on a trip or a big-ticket item is not usually a great idea, give yourself permission to spend part of your refund on something fun. That way you will feel better about spending the rest of it wisely and not feel like you are depriving yourself.

very large banks and investment companies. Are they getting to fund the best deals? What is left for you?

Information to make a good lending decision.

The information made available to you to decide whether to make a loan is controlled by the peer-to-peer company. Each peer-to-peer company has different levels of information available for you to make your lending decision.

Diversify.

If lending money is an option you wish to consider, make sure you diversify and talk to experts to ensure you understand the risk. Even within a single peer-to-peer company you will want to reduce your exposure to any one investment going bad.

The environment could change.

If we experience a redo of the 2008 recession, a number of these peer-to-peer loans are going to default. Can you handle this risk?

Currently peer-to-peer lending is a hot and upcoming trend. Most of us will start to see more information on this lending model in the news and via advertising. It is helpful to begin to understand this new banking model and what it means to you.





ClientAdvisor

Practical Tax & Financial Advice


Key IRS Tax Scams


Each year the IRS announces the "Dirty Dozen Tax Scams" they encounter most frequently regarding frivolous tax arguments and fraud. While seven of the "scams" are related to, "don't cheat we have our eyes on you," the five scams noted here are worth reviewing so we do not become victims.

 **Phone scams.** This tax scam has appeared on the IRS list for many years. What is new this year is the increase in volume and the threatening nature of the calls. These scam artists often have some of your personal information and can fool your caller ID to falsely identify themselves. Remember, never give information over the phone to someone claiming to be from the IRS when they call.


 **Phishing.** This recurring scam involves receiving fake emails

and website links that look like the real deal. The IRS will not send you billing information or refund information via email. Do not click on any link from an email received from the IRS unless you requested it. Remember the IRS does not initiate contact through emails.

 **Identity Theft.** The IRS is taking precautionary measures to curtail this problem. This year the IRS is limiting the number of direct deposits it will make to any single account. There are now taxpayer single use tax ID's attached to tax returns that have had identity problems. Some states even temporarily shut down software e-file transmissions from providers with possible fraud problems.

 **Offshore accounts.** The IRS has taken many enforcement actions

in this area after breaking the long-standing secrecy wall of Swiss bank accounts. If you have money in foreign accounts, you must understand the reporting requirements or you could be subject to substantial fines.

 **Fake Charities.** After major disasters, many charitable givers are scammed into making donations to fake charities. In addition, many charitable organizations have lost their non-profit status. To protect against this, prior to donating funds make sure the charity is both legitimate and deemed a qualified charity by the IRS. If in doubt, you can always check to see if a charity is approved on the IRS web site.

Go to: www.irs.gov