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ClientAdvisor

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Dear Clients & Friends,

Once again a tax season is behind us. With the full impact of 2013 tax law changes known, now is the time to manage your 2014 tax bill.


Included here are some ideas to consider. This includes IRS issued rulings on Indirect IRA rollovers, tax treatment of severance pay, and tax treatment of virtual currencies.

Are you thinking of buying or


leasing an auto? Consider reviewing the article on leasing versus buying a car. As always, please feel free to call with any questions or concerns.


A Time for Planning


With the ink dry on your 2013 tax return, you now know the full impact of the tax law changes. Based on this, what changes do you wish to make in 2014 to manage your tax obligation? Here are some things to consider:

 **Understand the impact of expiring tax laws.** A number of tax laws expired or changed dramatically at the end of 2013. This includes the mortgage insurance premium deduction, the educator expense deduction, the state sales tax itemized deduction option, and the tuition fee deduction. If you took advantage of any of these

provisions in 2013, now is the time to forecast the impact on your 2014 tax return.

 **Understand the impact of 2013 law changes.** In addition to expiring tax laws, many other tax laws are changing. A planning session can help identify those that might impact you in 2014.

 **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.** The new Health

Everyday Advice

*"Don't be pushed by your problems.
Be led by your dreams."*

— **Ralph Waldo Emerson**
writer

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Virtual Currency is Deemed Property

In recent Internal Revenue Service Notice 2014-21, virtual currencies like Bitcoin have been classified as property. The outcome for users is not good. Here is what you need to know:

As property. Property is subject to gains and losses. So if you use a virtual currency like Bitcoin, you must keep track of the original cost of the coin and its value when you use it. As a capital asset you must also know whether your gain or loss is less than one year (short-term) or over one year (long-term.)

As income. Wages paid in virtual currency are taxable to the employee, must be reported on a W-2, and are subject to employment taxes. Virtual currency received as an independent contractor has self-employment tax owed and you must follow Form 1099 reporting requirements.

A currency? Per the IRS, no. Businesses have the ability to calculate foreign currency gains and losses on their financial statements. This foreign currency gain or loss calculation is not available for virtual currencies like Bitcoin.

Determining value. If you purchase or sell something using a virtual currency, you need to determine the fair market

value of the transaction using a valid virtual currency exchange and translating it into U.S. dollars.





Miners have income. Miners are those who receive Bitcoins and other virtual currencies by validating transactions and maintaining public Bitcoin ledgers. If you are someone who "mines" virtual currency, you create income upon receipt of the currency. This is a taxable event.

As the technology of alternative methods to exchange goods and services evolves, so will your need to understand it. Should someone offer to provide you with Bitcoins for products and services, you will now know there are tax implications to saying yes.

Leasing Versus Buying a Car


Become a better buyer


When to purchase

-  You plan to have the car for more than a couple of years
-  Low car loan interest rates and payments
-  You drive more miles than a lease allows
-  A late model used car seems perfect

Know the leasing tricks of the trade

If you think leasing a vehicle is an option for you, here are some tips to ensure you are making the best deal.

-  **Negotiate first.** Negotiate the sale price before telling the dealer you wish to lease. The purchase price you negotiate should be the same price the dealer uses in calculating the lease payments. If it is not, this technique forces the dealer to disclose this fact.

-  **What is the APR?** Ask the dealer to disclose the effective Annual Percentage Rate (APR) built into the lease. If the dealer gives you a lease factor instead of an

interest rate, multiply the lease factor by 24 to get a general interest rate.



Turn in value. Ask what the projected turn-in value of the car is at the end of the lease. This value is often overstated by the dealer to artificially lower your lease payment. It can also impact your ability to purchase your vehicle at the end of the lease.

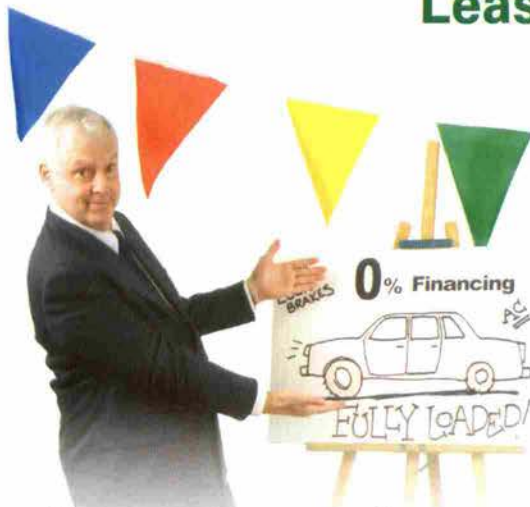


Clarify added costs at lease end. Many customers have been surprised with a high mileage surcharge for excess miles and charges for "excessive" wear and tear when the car is returned at the end of the lease.



Shop around. Since many of the costs associated with a lease are hidden from view, it is best to shop for the best deal.





Knowing the questions to ask before you shop for a new vehicle can help you make the best objective decision regarding a lease versus buy alternative. It may just help you stay in the driver's seat during dealer negotiations.



There are many reasons for you to lease a car versus buy a car, but too often it is the auto dealer's profit motive that determines which method you use. To help make sure you do not become a victim of this, here are some things to consider.

When to lease


Here are things that may sway you toward leasing your next vehicle:


-  Lower up-front cash requirement
-  You prefer a new car every couple of years
-  You do not drive many miles each year
-  You are not hard on your vehicle

Careful with Indirect IRA Rollovers

Background

You can move funds from one qualifying Individual Retirement Account (IRA) to another without paying taxes on the rollover as long as you follow the rollover rules. If the rules are not followed, the funds are deemed a distribution and taxes plus a potential early withdrawal penalty may be owed. There are two primary methods for rolling over the funds from one account to another:

 **Direct Rollover.** Using this method, the taxpayer never takes possession of the rollover funds. Instead, one institution transfers the funds out of one account and sends them directly to the institution that has the receiving account. Since the taxpayer never takes possession of the funds, there is little chance the IRS sees the transfer as a distribution.

 **Indirect Rollover.** In this case, the funds are withdrawn from the IRA and sent to the account holder. The account holder then deposits the same amount into the new account. As long as the transfer takes place within 60 days, it is a valid transfer and no taxes are owed. The taxpayer bears the burden of proof that the transfer was completed within the required time-frame.

Aggregate once per year rule

In a recent court case, the IRS put their foot down on unlimited INDIRECT transfers of funds.* In their ruling they stated that a taxpayer is entitled to make one indirect transfer per 12-month period regardless of the number of IRA accounts. Any additional transfers are not valid and will be deemed a distribution from your IRA.

Why the rule?

Some taxpayers were using a number of rollovers of the same

dollar amount from account to account to give themselves a short-term loan. In the tax case, the defendant removed funds from one IRA. He used the money for a couple of months. He then took the same amount from a second IRA and replaced the money originally removed from the first IRA. He then took the same amount from a third IRA to replace the funds in the second IRA. Finally, the last IRA had funds replaced. This effectively gave him use of the funds for up to 120 days. The court ruling eliminates the ability to make these kinds of transfers.

Effective change

The court ruling creates a change in the IRA indirect rollover rules beginning on January 1, 2015. Effective that date, you may only conduct one indirect IRA rollover per 12 month period. IRS publications will be revised to reflect this change.

Because of this, it is best to employ a direct rollover of funds from one IRA to another using a qualified financial trustee to avoid any potential problems. This ruling does not apply to all conversions and rollovers. Please contact the financial institution receiving the rolled over funds for details on their process to ensure it is handled correctly.

* Source: T. C. Memo 2014-21 Bobrow vs IRS Commissioner


This publication provides only summary information regarding the subject matter. Please call with any questions regarding how this information may affect your situation.





A Time for Planning

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Premium Tax Credit and the medical uninsured tax penalty will impact many in 2014. Could it impact you?

 **Leverage the kiddie tax rules.** Up to \$2,000 of unearned income in 2014 can be taxed at your child's lower tax rate. Do you have a plan to take advantage of this?

 **Review the need to make estimated tax payments.** With the changes in 2013, many more 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. Might some of these changes impact your tax situation?

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





Severance Pay as Wages

A recent Supreme Court decision clarifies that severance payments you receive when you leave your job are wages and subject to employment taxes (FICA).

Background

All employees and employers pay FICA taxes. There are two components:


 **Social Security.** 12.4% of wages up to \$117,000 in 2014 are paid as Social Security taxes. Half of this obligation is paid by the employer and the other half is paid by the employee.

 **Medicare.** 2.9% of all wages are paid as Medicare tax. Half (1.45%) is the employee's obligation and the remaining 1.45% is the employer's obligation. There is also a potential Obamacare surcharge if your wages exceed \$200,000 single and \$250,000 married.


Many employers pay a severance check to employees when they leave and classify these checks as other, non-wage, income. This approach allows both the employer and employee to save on paying FICA taxes.


What you should know

In a recent Supreme Court ruling, these severance checks are now deemed to be wages and subject to employment taxes. The IRS estimates there are currently over \$1 billion in potential wages that are impacted by this decision. Knowing this, here are some things to consider.

 **Check withholdings.** If you leave your job ensure all payments to you are wages on a W-2. Check your last payroll check to see that the correct Social Security

and Medicare taxes have been withheld.

 **The 1099 warning flag.** If you receive a check without a payroll stub, you will probably be receiving a 1099 in the future. In this case, you could be picking up the employer's Social Security and Medicare tax responsibility as well as your own. To avoid this unpleasant surprise, ask for clarification from your former employer. Get the payment reissued as wages, if appropriate.

 **Other things to check.** While you are at it, review that final employer payment to ensure your unused vacation is also paid to you per their employee policy. When you check for withholdings on your last paycheck also ensure the level of withholding is what you requested on your normal paycheck.