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2013 YEAR-END TAX LETTER

INSIDE THIS ISSUE:

*** Please don't overlook page 3 which has some of the most important information in the letter!**

***If you are a sole-proprietor Limited Liability Corporation in New York State, contact us before the end of January so we can file your required annual registration**

***If you need to issue 1099s or W-2s for any employees or contractors you hired this year, give us a call right away. Let us know by January 15th so that we can prepare the forms in advance of the January 31st deadline.**

Dear Clients,

Another year, another Annual Tax Letter to help you organize your year-end tax planning and to help you prepare for your 2013 tax appointment. You will be getting your prescheduled appointment letter within the next week. We try our best to give you a convenient appointment time; *please call us by January 21, 2014 to either confirm or change your appointment*.

This year, two major changes in the law have important implications for your taxes. First, the legalization of same sex marriage will allow for couples married under state law in 2013 or prior to file jointly. See page 3 for helpful instructions on how you may amend prior years for a refund by filing jointly. Second, the implementation of the Affordable Care Act (ACA) levies new taxes on individuals whose income is greater than $200,000. Please read page 3 to see what you can do *this month* to reduce the impact.

If you turned 70 ½ this year, you must begin taking Required Minimum Distributions (RMDs) from your traditional IRA and other retirement accounts by December 31, 2013, or face penalties. (You do have the option of delaying until April 1, 2014, but that would require you to take 2 RMDs in one year.) Contact your investment advisor or us to find out how much you need to take. Please note that this is also the last year you can distribute from your IRA directly to charity.

If you haven't turned 70 ½ yet, you still have retirement accounts to think about! Be sure to fund your IRA by April 15, 2014, even if you are planning to file an extension. If you do plan to file an extension, and your income is above $69,000 ($115,000 if married filing jointly) please check with us first to see whether your contribution will be deductible.

If you paid an individual $600 or more for services rendered in connection with your business, you must file a 1099-MISC by January 31st. Please contact us to get the process started.

Corporation tax returns are due March 15th. If you have to do one of these returns please get the information to us by early February.

Extensions: Remember that *the extension only extends your time to file; it doesn't extend your time to pay*. Please let us know if you plan to file an extension and send us your preliminary information before April 1st. We will let you know if we need direct debit banking info for your extension.

Best wishes for a healthful and fun holiday season, and a happy and healthy New Year.

Sara

Sara and the staff of the Sara Brandston Group.

To the right, a short checklist of what to bring to your appointment.

Visit our website (www.brandstongroup.com) for additional details and descriptions, as well as several fact sheets to guide you through the 2013 tax season.

Income and Assets:

- W-2s
- 1099s
- 1098s
- K-1s
- IRA Year-End Statements
- Compilation of income for rental properties
- Compilation of income for self-employed individuals

Deductions:

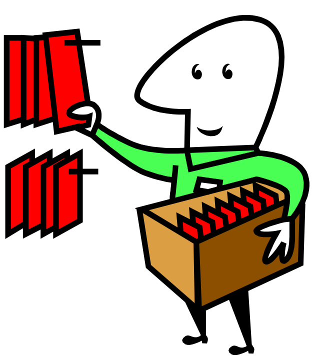
- List of estimated taxes paid (with dates paid)
- All deductions *per taxpayer*
- Student loan interest
- Tuition (Form 1098-T)
- Childcare provider info
- Cost basis on security sales
- Debt forgiveness (Form 1099-C)
- Long-term care expenses

__Caution__: the IRS is very attentive to taxpayers who write off local travel costs.

A daily log of business use is essential. Also, don't forget to record the beginning and the year-end odometer readings.

To avail yourself of tax deductions, you need to be organized and well documented.

Save proof of all tax deductible purchases.



DEDUCTING MILEAGE?

Did you drive for charity? If so, you can deduct **14¢** for every mile you drove.

If your medical expenses are substantial, you may want to calculate a mileage deduction. Medical miles for 2013 are calculated at **24¢ per mile.**

If you drove for business purposes, the situation is a little more complicated: First decide which miles qualify.

Use the following three scenarios to determine how many miles you can deduct:

Keep in mind the following statement: **In general, commuting is not deductible.**

If you have an office or regular place of business outside your home, you may not deduct miles commuting to and from work or to your first or from your last stop, but you may deduct mileage to drive to a *temporary work place* (less than one year's duration) and mileage to and from different work locations during the day.

If you have an office in your home that qualifies for a home office deduction, all of your business-related mileage is deductible.

If you work out of your home but do not qualify for the home office deduction, the distance between home and your first stop and between your last stop and home are nondeductible commuting miles. You should carefully plan to have your first and last stops close to home to maximize the mileage deduction.

A trip to the bank, post office, or a nearby supplier can help increase deductible business miles.

Once you have determined which miles to count, you need to decide whether to use the *standard mileage* rate or actual expenses.

The ***standard mileage rate** for qualified business use* for 2013 is **56.5¢ per mile.**

Which method is best?
In general, the standard method works best if your business miles are high or your vehicle is economical to run.

The actual expense method works best if your vehicle weighs over 6000 pounds, is costly to run, or you do not have that many miles in total.

DO YOU WORK AT HOME?

NEW FOR 2013: The IRS has provided a new simplified home office deduction, if you choose. Instead of calculating all of the above information, $5 per square foot can be deducted (maximum $1,500). The IRS estimates that the new calculation will save taxpayers 1.6 million hours per year.

If you are self-employed, you may qualify for the home office deduction if you use a portion of your home **exclusively** as your principal place of business, to store inventory, or to conduct substantial management or administrative activities. There can be no other fixed location where the above activities can be done.

If you are an employee, your home office must be required by your employer.

The office space still needs to be **used regularly and exclusively for business.** You can not have any other usage of the area whatsoever. Using your office for personal or investment reasons eliminates the deduction as far as the IRS is concerned, so be careful to keep your office space and computer usage all business.

Having a deductible home office means you can deduct all of your local business travel as described earlier, and you will not have to keep a log of computer usage because your computer will be used exclusively for business.

If your office qualifies, you will need additional information: Measure the business space and the total space. You will also need your mortgage interest, taxes, insurance, association fees, repairs, maintenance, utilities, garbage, security, and rent paid. Also, provide an accounting of the total invest ment in your home.

COMPUTER & CELL PHONE GUIDELINES

Did you buy a computer that you would like to deduct? You can use the following guide to determine what is deductible.

If you are an employee, a computer must be required as a condition of employment and for the convenience of your employer to be deductible.

If you are self-employed, the business percentage of computer usage, measured by time, is deductible.

If you are a student, the use of a computer is not deductible, but you can tap your 529 plan for a computer purchase.

Keep a log of computer usage to support your deduction.

Cell phone deductions are as follows:

Employees required to use cell phones for work can deduct cell phone use to the extent used for business.

Self employed individuals can deduct business cell phone usage. The IRS, however, still has a hard time believing a cell phone is 100% for business. It's wise to keep a log of use.

WHAT'S NEW FOR 2013?

Obamacare Surcharges

Is your income over $400,000 (single), $425,000 (head of household), or $450,000 (married/joint)?
● You will be paying tax at a new 39.6% tax rate.
● You will also be paying tax at 20% on qualified dividends and long term capital gains.

Is your income over $250,000 (single), $275,000 head of household), or $300,000 Married/joint)? Your itemized deductions and exemptions will begin to phase out at these levels.

Is your income over $200,000 (single) or $250,000 (married/joint)?
● In order to help fund Obamacare, you will pay an extra 3.8% in tax to the extent your *investment income exceeds the above threshold*.
● You will also pay a Medicare 9% surtax to the extent your *earned income* (from working) exceeds the above levels.

There are 2 strategies you can employ before year's end that could help reduce the impact of ACA surcharges:
● First, check that you've fully funded your 401k. If your employer will allow you to increase your contribution on your last 1 or 2 paychecks, do it. Remember that if you are umder age 50, you can defer up to $17,500, or $23,000 if you're 50 or over.
● If you can't reduce your tax liability, you can try to ensure that you're at least covered against penalties on the additional taxes. You could change your withholding on your last paycheck to single, 0 exemptions, which is the largest withholding category available. Or, check with us for a year-end planning appointment to determine if you can pay additional estimated taxes. Call before January 15th to schedule an appointment.

Same-Sex Marriage

Are you part of a same-sex relationship? If you were **legally married** in 2013 or before, you will file all future federal tax returns as married. You may be able to amend old years in which you were legally married, if you so choose.

Are you married?
● You have been **permanently** saved from the marriage tax penalty in the lower tax brackets.
● On the other hand, Obamacare, as mentioned above, has put a distinctive disadvantage to marriage at high income levels.

Do you have young children? You can still benefit from the Child Tax Credit, the Earned Income Credit, and the Dependent Care Credit at the same levels as in the past. The tax goodies have been extended through 2017.

Do you have children in college? The American Opportunity Tax Credit is still a part of the tax picture until 2017 if you meet the qualifications. This credit of up to $2,500 has helped many taxpayers to finance higher education.

Foreign Asset Holders

Do you have an interest in foreign assets?
● If you have signing authority over one or more foreign accounts (including bank, brokerage, and mutual fund accounts, trusts, and non-governmental retirement accounts), and the assets in those accounts totaled more than $10,000 at any point in 2013, then you must file a "Foreign Bank Account Reporting Form" (as a separate return) no later than June 30th.
● This is an information return, so no payments will be due. However, there are significant fines for failure to file, or for late filing.

Expiring Provisions

2013 is your last chance for the following deductions:
● The $250 teacher's classroom supply deduction
● The deduction for sales tax
● Tax-free distributions from IRAs to charity.

Do you own a home?
● The deduction for mortgage insurance premiums for qualifying taxpayers has been extended through 2013.
● Also, the exclusion from income of principal residence cancelled debt has been extended through the end of the year. These tax breaks will not exist in 2014.

Did you finally buy new windows or insulation? 2013 is your last chance to get an energy credit for these purchases.

Are you paying on student loans? The interest on old loans of up to $2,500 is still deductible. This deduction is scheduled to end after 2013.

● 2013 is also your last chance for $500,000 Sec 179 expensing, the Research Tax Credit, the Work Opportunity credit, 15 year recovery on leasehold improvements, and 50% bonus depreciation.

Miscellany

Do you usually pay AMT? The Alternative minimum tax is still with us, but it was **permanently patched.** Without this patch, 60 million additional households would have paid this unpleasant tax.

Are you funding an IRA? You can contribute an extra $500 in 2013.

Are you an investor? You are still in luck. Capital gains and qualified dividends are still free of Federal tax in the 10% and 15% tax bracket, and 15% in all higher brackets up to the new 39.6% bracket. These tax-advantaged capital gains were scheduled to end on December 31 of 2012.

Obamacare provisions. In addition to the two new surtaxes for high income individuals, 2013 also brings the following changes:
● The threshold for deducting medical expenses will increase to 10% for those under age 65.
● Annual FSA contributions will be capped at $2,500.
● Health plans will pay an annual fee.
● Beginning on October 1, 2013, taxpayers are able to purchase health insurance through online exchanges. Coverage on this insurance begins in 2014.

In 2014:
● Individuals not having health insurance will face a penalty under current law . Lower income taxpayers will qualify for assistance.

In 2015:
● Large employers not offering health insurance must pay a penalty.

YEAR-END TAX SAVING TIPS

GIVE TO CHARITY

Not sure of where to start? Try charitynavigator.org for guidance.

Short of cash? You can still make a last minute gift. Charge your deductions on a credit card and pay later. Consider giving through www.justgive.org. You can privately give to thousands of rated charities with a credit card. Your donation goes directly to the charity, and www.justgive.org will send you a confirmation and a year-end summary to satisfy documentation requirements.

Or, better yet, you don't even have to spend money to take a charitable deduction. Clean out your closets of unwanted items to make a noncash gift. Keep in mind, the items must be in at least good condition. You should omit items of minimal value (socks and underwear), and thoroughly document the donation.

If you plan on donating a vehicle before year-end, beware of the rules. Select a charity that will either use or improve the vehicle, and you will be able to deduct *fair market value*. Otherwise your deduction will be limited to the price the charity got when they sold the vehicle. The charity will give you a 1098C documenting the contribution. The 1098C needs to be attached to your tax return.

If you have stock, mutual funds, or a piece of property that has increased in value, you can deduct the full value and avoid paying capital gains tax by donating it to charity. If you want to give stock that has fallen in value, sell the stock, take the loss, and give the money to charity.

Keep in mind that proof of payment is needed for donations of any size. Proper documentation is essential.

CHECK YOUR TAX PAYMENTS TO AVOID PENALTIES

The IRS will charge a penalty if your tax for 2013 is less than 90% prepaid unless your payments are at least equal to last year's tax. (110% of last year's tax if your income exceeds $150,000). **Higher income taxpayers may want to check out the impact of this year's new rates and surtaxes.**

You can boost your itemized deductions, and possibly save yourself from a penalty, by sending your last state estimated tax payment before December 31st or by stepping up your state withholding.

CHECK YOUR PORTFOLIO

If you are in the 15% tax bracket or lower (gross income under $46,250 single or under $92,500 married) you may be able to sell stocks or property at a gain in 2013 and pay no Federal tax. If you are in the above tax range, or even higher if you itemize, it might be wise to check out the possibility.

If you missed out on last year's credits or deductions because your income went over the limits, it might be wise to check your portfolio for some losses to reduce your income. You can offset up to $3,000 of other income with stock losses. If you wish to repurchase the stock again, wait at least 31 days to avoid wash sale rules.

If you are planning on deducting worthless stock, remember that it's not deductible until it's completely worthless.

In buying mutual fund shares, avoid the year-end tax trap. Year-end dividends may include a years worth of capital gain in a large taxable payout. The value of your shares declines by the amount of payout, so you end up paying tax on profits that reduce your share value.

SELF-EMPLOYED?

Shelter up to 20% of your net income in a SEP retirement plan. Besides current tax savings, money grows tax-deferred on these investments. A SEP contribution can be made up to the due date of your 2013 tax return, including extensions.

Remember: SIngle-Ks must be set up by December 31st.

Pay all bills already received for operating expenses rather than deferring payment until 2014. If you need new equipment, save tax dollars now by purchasing before year-end. Remember that you can charge on a credit card and receive a current deduction.

Note: Equipment must be received and *placed in service* before December 31 to receive a deduction.

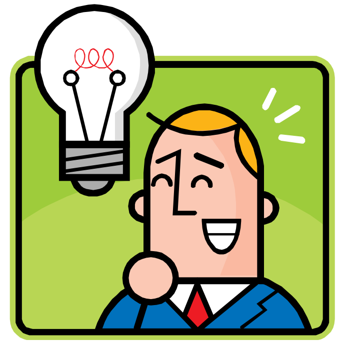
To channel your income into next year for a cash basis business, you must be certain it is not constructively received. You can delay your billing to next year to defer income to 2014.

Remember that in 2013 your self-employment tax will be 2% higher than in 2012. You may want to increase your estimated tax payments if you have not already done so.

If you can afford to, please pay your final quarter 2013 Unincorporated Business Tax and MCTM Tax by 12/31/13, instead of by 1/15/14. You'll be able to deduct the payments on your return sooner if you pay it in 2013.

LONG-TERM CARE INSURANCE

If you deduct Long Term Care premiums from your paychecks, please bring a record of the total amount you paid in 2013. You will get a New York State tax deduction, and you may qualify for some benefit on your federal return, as well.



The basic strategy for year-end tax planning can be summed up in the following two statements:

- *Channel your income into the year where it will be taxed at a lower rate.*
- *Channel your deductions to the year where your income will be taxed at a higher rate.*

If you think that you need year-end tax planning, get in touch with us immediately!