GILLAM & ZETZL, INC.

Certified Public Accountants

December 2013

Enclosed please find your organizer for the 2013 filing season. The organizer will assist you in gathering your tax information by showing you what was reported on your 2012 return. Below we have highlighted some 2013 tax changes and year-end reminders. If you should have any questions, please don't hesitate to contact us.

In addition, 2014 and 2015 will bring key changes related to the Patient Protection & Affordable Care Act (PPACA). In 2014, most individuals will be required to have minimum essential health insurance coverage or pay a penalty. There will also be credits available to eligible individuals to help offset the cost of insurance coverage. In 2015, large employers (those employing 50 or more full-time equivalent employees) will be required to offer affordable minimum essential coverage to full-time employees. If a large employer does not offer the required coverage, it will be subject to penalties if any full-time employee purchases coverage through an exchange with respect to which a tax credit or cost-sharing reduction is allowed. Regulations and guidance are still being developed at this time, and we will continue to monitor these issues and provide updates on our website, www.gillamzetzl.com.

Important Tax Law Items - Individual

- The standard mileage rate for business use of a vehicle was 56.5 cents-per-mile for 2013; for 2014 the rate will be 56 cents-per-mile.
- Tax credits and deductions that are no longer available after 12/31/2013 (these were originally set to expire 12/31/2011):
    - Federal credit for energy efficient appliances (furnaces, hot water heaters and air conditioners), insulation and storm windows. Incentives for solar, wind and geothermal units are available through 2016. Note: Indiana still maintains an insulation deduction.
    - Deduction for unreimbursed expenses of elementary and secondary school teachers
    - Deduction for mortgage insurance premiums (typically a policy required by lenders when the borrower's equity is below 20%)
    - Deductions for state and local general sales taxes (this is particularly important in states with no income tax like Florida and Texas)
    - Tax-free distributions from individual retirement plans for charitable purposes
- 2013 brings changes for the taxation and filing requirements for same-sex married couples. If you and your same-sex spouse were legally married in a state or country that recognizes same-sex marriage, regardless of where you now reside, please discuss your options with us; it is likely that the filing status you used in prior years is no longer an option.
- The 39.6% bracket has been reinstated for 2013 (last year the top bracket was taxed at 35%). This bracket has a built-in marriage penalty to go along with the higher tax rate as well as a higher tax rate for long-term capital gains and for qualified dividends.
- The maximum rate for long-term capital gains for 2013 remains at 15% for many taxpayers; however, if you are in the new 39.6% bracket (see above) your maximum rate is 20%. Qualified dividend income continues to qualify for capital gain treatment in 2013.
- Itemized deductions and personal exemptions phaseouts for higher-income taxpayers are reinstated beginning in 2013. Another change that affects itemized deductions is related to medical expenses. Starting in 2013, medical expenses in excess of 10% of your AGI are deductible (7.5% if you are age 65 or older).
- An additional Medicare tax of 0.9% has been added for 2013. This tax applies to wages, self-employment income, and railroad retirement compensation **in excess of** $250,000 (married filing jointly), $125,000 (married filing separately), and $200,000 (any other filing status).
- A new Net Investment Income (NII) tax of 3.8% has been added for 2013. This tax applies to the smaller of your net investment income or your modified AGI **in excess of** $250,000 (married filing jointly and qualifying widow(er)), $125,000 (married filing separately), and $200,000 (any other filing status). NII generally consists of interest, dividends, capital gains, passive investments and rental income. However, there are exceptions on rental income for "real estate professionals" and in self-rental situations.
- There is a new, simplified method for computing the home office deduction. If you are **required** to have a home office, please discuss your options with us.
- Rental properties require more disclosures than in the past. **For each property**, the physical location, the type of property (single family, duplex, commercial, etc.), the number of days rented, the number of days used for personal purposes, and any Form 1099-Ks received must be reported.
- Reminder – All charitable deductions of any amount must have a receipt. Any individual contribution over $250 must also have an acknowledgement letter from the charity. Several recent court cases have emphasized the importance of documentation in this area.

- Distributions from 529 plans are tax-free when used for tuition, room and board, fees, books, computers and related software. Also keep in mind that Indiana "College Choice" plans are eligible for a credit of 20% of the contribution up to a maximum credit amount of $1,000.
- Reminder - beginning with 2011 returns, Indiana allows a deduction of up to $1,000 for K-12 dependents in private or home schools for expenses related to tuition, books, etc.
- The gift tax exclusion amount is $14,000 per donee for 2013. The federal estate tax exclusion is currently $5,250,000 for 2013. Indiana's inheritance tax has been repealed for individuals who pass away after 12/31/2012.

Business Deductions and Law Changes

The IRS has drastically stepped up their audit division in the last few years. We urge you to develop a mindset that you may be asked to produce your documentation when organizing your records this year end. That said, we thought it might be helpful to again review some of the basics. Please take a moment to review these items and please don't hesitate to contact us regarding specific questions about your business.

- The Code §179 expensing election for equipment remains $500,000 for 2013 but is scheduled to decrease to $25,000 in 2014. The Indiana limit remains only $25,000. For 2013, qualified leasehold improvements are still eligible for §179 deductions (up to $250,000 can be expensed); however, these will no longer be eligible for Code §179 expensing beginning in 2014. In addition, "bonus" depreciation deductions have been reduced from 100% to 50% of the cost of the new items for 2013, and they have been eliminated for 2014. We will discuss the various options with you to maximize your benefit.
- Small employers providing health insurance to employees are allowed a credit for a portion of premiums paid, subject to certain limits. See "Health Care Bill : 2010" at our website for further details. Beginning in 2014, the credit is available only if the health insurance is purchased through an exchange.
- All business expenses must be ordinary and necessary to be deductible. In addition, deductions reported on an income tax return must be verifiable. To corroborate an amount a taxpayer must have a receipt that indicates the vendor, amount, date and a description of the item or service purchased. Merely having a credit card statement (including American Express) that details the charges is not enough. You must have receipts. The backup documents must be maintained for as long as the statute of limitations remains in effect. **We recommend keeping the information for a minimum of six years.**
- Business meals with clients, customers or employees may be deductible only if the meal is (1) directly related to the active conduct of your business and (2) a substantial and bona fide business discussion takes place. Proof that these requirements were met must be documented on the receipt or in a separate journal. Meals where only business owners and their families are present are only deductible when traveling away from home. "Away from home" means requiring an overnight stay.
- Reimbursements to employees for business deductions must fall under an "accountable plan." This means that employees must provide receipts to their employer for the expenses. Reimbursing an employee without substantiating the expense will require treating the amounts as wages, subject to all the related payroll tax burdens.
- The personal portion of automobiles provided to employees must be included in their compensation unless they reimburse the employer for the personal usage. **Contemporaneous logs of automobile usage are required to validate the deduction**. The log should include dates, customers/vendors visited and the business purpose for each trip as well as the total miles driven on the vehicle during the year.
- The IRS continues to scrutinize year-end inventories; therefore, we strongly encourage you to **take a physical count of your inventory** items as of December 31, 2013. Reporting "about the same as last year" may well be a red flag to the IRS.

Other

In an effort to protect taxpayer personal information the IRS is now requiring that we obtain a written consent signed by our clients in order to release any information to a third party. We are happy to accommodate your request to release copies of tax returns, financial statements or other documents to banks, insurance companies and others, but keep in mind that we will need the consent form before processing your request.

Gillam & Zetzl will continue to provide clients with electronic copies of tax returns (in a PDF format), however paper copies are available if you prefer. If the electronic option is chosen, we will email the returns to you, or provide them on a portable storage device. All electronic returns will be password protected, and can be read with a free Adobe PDF application.

Thank you for the opportunity to be of service to you!

Happy Holidays from everyone at Gillam & Zetzl, Inc.