TaxTips

Keeping You Informed ▪ Winter 2014

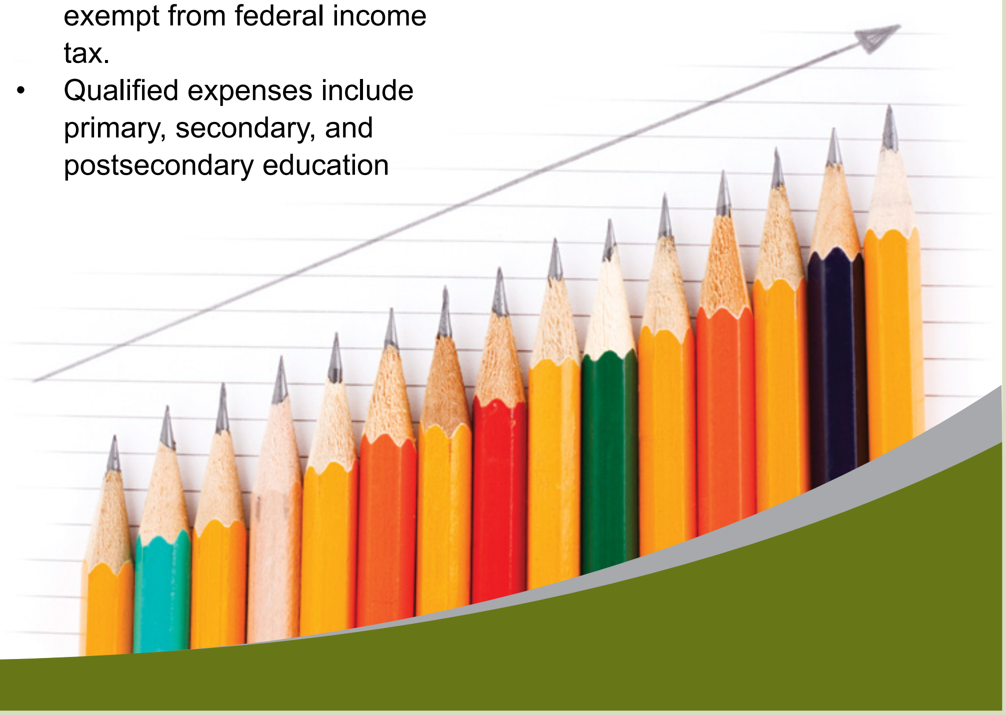
Coverdell Education Savings Accounts

What exactly do they offer?

Coverdell Education Savings Accounts (ESAs), previously known as Education IRAs, are trusts created exclusively for the purpose of paying the qualified education expenses of the designated beneficiary of the trust.

The tax treatment of Coverdell ESAs is similar to that of other education savings plans (529), with a few important differences:

- The maximum contribution amount is $2,000 per beneficiary from all sources per year.
- Coverdell accounts may be owned by the student or the student's parent.
- Contributions may be made until the beneficiary reaches age 18.
- Contributions must be in the form of cash. Contributions of stocks, bonds, and other savings vehicles are not permitted.
- Contributions are phased out for incomes between $95,000 and $110,000 for single filers and $190,000 and $220,000 for married filing jointly.
- The money must be used by the time the child reaches age 30 or the earnings will be taxed as ordinary income plus a 10% penalty.
- Coverdell accounts may be rolled over to the Coverdell account of a family member of the previous beneficiary.
- Coverdell accounts allow almost any investment inside including stocks, bonds, and mutual funds.
- Contributions are not deductible on federal or state income tax returns, but earnings accumulate tax-free.
- Qualified distributions are exempt from federal income tax.
- Qualified expenses include primary, secondary, and postsecondary education expenses, including tuition, fees, tutoring, books, supplies, related equipment, room and board, uniforms, transportation and computers.
- You can claim the American opportunity credit and/or Lifetime Learning tax credit in the same year as you withdraw funds from a Coverdell Account, so long as the credits are claimed using different qualified education expenses than those paid from the Coverdell distribution. You can't use the same expenses to justify two different programs.



Direct Deposit Limits

IRS announces new procedures

In an effort to combat fraud and identity theft, the IRS announced new procedures effective January 2015 that limits to three the number of refunds electronically deposited into a single financial account or pre-paid debit card. The fourth and subsequent refunds automatically will convert to a paper refund check, which will be mailed to the taxpayer listed on the tax return. The direct deposit limit will prevent criminals from easily obtaining multiple refunds.

These new procedures will affect your family if multiple family members deposit their tax refund into the same bank account. If this affects you, please let me know at your tax season appointment.

Moving?

Why you need to notify the IRS and the USPS separately

Moving can be stressful; but not receiving a payment or notice from the IRS will only add to that stress. The IRS only initiates contact with taxpayers by mail, so it's important that they have your correct address.

Just because you submit a change of address with the U.S. Postal Service (USPS) doesn't mean all of your mail will get forwarded automatically. Unfortunately, not all post offices forward all government mail. The good news is that the USPS will update the National Change of Address (NCOA) database when you file an address change.

Interestingly, in order to improve address quality and obtain postal discounts, the IRS utilizes the NCOA to update taxpayer addresses. The IRS systems perform a series of strict matching routines after which a taxpayer's address is updated in the IRS's computer systems. On occasion, a taxpayer's address is not automatically updated through the use of NCOA. This may occur if the information shared between the NCOA and IRS databases don't match. That's why it's important to notify the IRS of your change of address.

There are a couple of simple methods of notifying the IRS:

1. Use Form 8822, *Change of Address*;
2. Mail a written statement to the address where you filed your last return with your full name, old address, new address and social security number; or
3. Call the IRS or go to your local office.

New IRA Rollover Limit

Court case changes the rules

Generally, when a distribution from an IRA is repaid within 60 days, it isn't included in gross income. An individual is permitted to make only one such rollover during any one-year period.

At the beginning of the year, IRS Publication 590, *Individual Retirement Arrangements (IRAs)*, stated that this limitation is applied on an IRA-by-IRA basis. However, in March 2014, the Tax Court determined that the limitation applies on an aggregate basis, meaning that an individual could not make an IRA-to-IRA rollover if he or she had made such a rollover involving any of the individual's IRAs during the preceding one-year period.

Because of this Tax Court opinion, the IRS changed Publication 590. Starting January 1, 2015, you can make only one rollover from a traditional IRA to another (or the same) traditional IRA in any 12-month period, regardless of the number of IRAs you own. A similar limitation will apply to rollovers between Roth IRAs. You can, however, continue to make as many trustee-to-trustee transfers between IRAs as you want. Amounts transferred between traditional IRAs, either by rollover or trustee-to-trustee transfer, are excluded from your gross income.

2014 Standard Mileage Rates

Beginning on January 1, 2014, the standard mileage rates for the use of a vehicle are:

- 56 cents per mile driven for business purposes (22 cents for depreciation).
- 23.5 cents per mile driven for medical or moving purposes.
- 14 cents per mile driven in service of a charitable organization.

IRS Direct Pay

The most secure way to make your tax payments

Paying electronically is the most convenient and secure way to pay your individual tax bill or estimated tax payment directly from your checking or savings account at no cost to you. The IRS uses the latest encryption technology and doesn't store your banking information. When you use the IRS Direct Pay option, it puts you in control of paying your tax bill and gives you peace of mind. You determine the payment date. It's easy and secure, and much quicker than mailing a check or money order. Plus, you'll receive an immediate confirmation from the IRS.

IRS Direct Pay offers 30-day advance payment scheduling, payment rescheduling or cancellations, and a payment status search. Future plans include an option for e-mailed payment confirmation, a Spanish version and one-time registration with a login and password to allow quick access on return visits.

Here are a few more things you'll want to know about the service:

- It's available 24/7.
- To use Direct Pay, you must have a valid SSN. Direct Pay cannot accommodate ITINs.
- To get into the system, you need to verify your identity by entering your SSN, name, address, date of birth, and filing status from a prior return. You can select 2008 through 2013 as the tax year for identity verification. This is helpful if you didn't have to file a return last year.
- To make a payment, enter the bank routing number and the account number. This bank information is not retained in IRS systems after the payment is made.
- After you make a payment, you can use **Payment Look Up** to do the following:
  - Cancel the payment.
  - Reschedule the date or change the amount.
  - Check the status of a payment.

- Taxpayers can pay the following taxes using Direct Pay:
  - Installment agreement (20 years back).
  - Tax return (20 years back).
  - Estimated tax.
  - Proposed Tax Assessment (for example: CP 2000 or audit assessment).
  - Extension.
  - Amended return (20 years back).

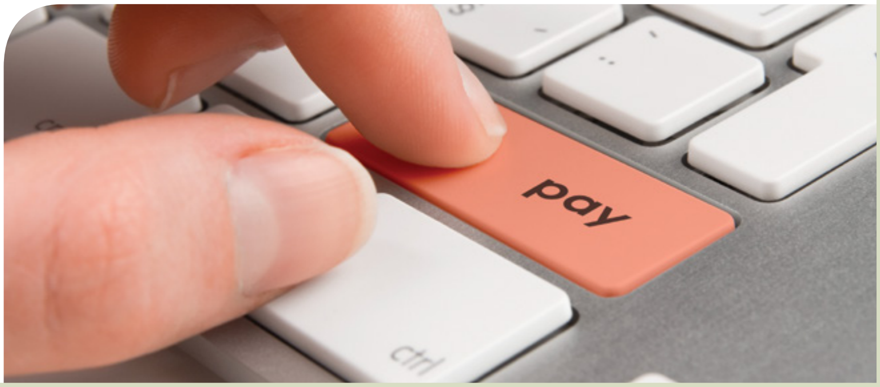
Expired Tax Provisions

Certain items no longer available for 2014

There are quite a few tax provisions that expired last year. It's uncertain whether Congress will act in time to make these benefits available for 2014. Some of these provisions include:

- The $250 above-the-line deduction for certain expenses of elementary and secondary school teachers, also referred to as the eligible educator deduction.
- The deduction for state and local general sales tax as an itemized deduction, instead of deducting state and local income tax.
- The above-the-line deduction for qualified tuition and related expenses.
- The itemized deduction for mortgage insurance premiums as qualified residence interest.
- The exclusion of debt discharge income from gross income known as the qualified principal residence indebtedness exclusion.
- The provision for tax-free distributions from an IRA if distributed to a qualified charitable organization.

It's possible that some of these provisions may be extended due to late Congressional action. If that happens, I'll let you know.



The Individual Shared Responsibility Provision

What this means for you and your family

Under the *Affordable Care Act*, the Federal government, State governments, insurers, employers, and individuals share the responsibility for health insurance coverage beginning in 2014. Many people already have qualifying health insurance coverage (called minimum essential coverage) and do not need to do anything more than maintain that coverage.

The individual shared responsibility provision requires you and each member of your family to either:

- Have minimum essential coverage; or
- Have an exemption from the responsibility to have minimum essential coverage; or
- Make a shared responsibility payment when you file your 2014 federal income tax return in 2015.

You'll report minimum essential coverage, report exemptions, or make any individual shared responsibility payment when you file your 2014 federal income tax return in 2015.

Minimum Essential Coverage

If you and your family need to acquire minimum essential coverage, you have several options. They include:

- Health insurance provided by your employer;
- Health insurance purchased through the Health Insurance Marketplace;
- Coverage provided under a government-sponsored program (including Medicare, Medicaid, and health care programs for veterans);
- Health insurance purchased from an insurance company; and
- Other health insurance coverage that is recognized by the Department of Health & Human Services.

Exemptions

You may be exempt from the requirement to maintain minimum essential coverage and won't have to make a shared responsibility payment when you file your 2014 federal income tax return as long as you meet any of the following criteria:

- You have no affordable coverage options because the minimum amount you must pay for the annual premiums is more than eight percent of your household income;
- You have a gap in coverage for less than three consecutive months; or
- You qualify for one of several exemptions for hardship or belong to a group explicitly exempt from the requirement.

Shared Responsibility Payment

If you or any of your dependents aren't exempt and don't have minimum essential coverage, you'll need to make a shared responsibility payment on your tax return.

The shared responsibility payment (or penalty) for 2014 is the greater of:

- 1% of your yearly household income exceeding the filing threshold ($10,150 for an individual). The maximum penalty is the national average premium for a bronze plan ($208/month).
- $95 per person for the year ($47.50 per child under 18). The maximum penalty per family using this method is $285.

The percentages and flat dollar amounts will drastically increase over the next three years. In 2015, the income percentage increases to 2% of household income and the flat dollar amount increases to $325 per adult ($162.50 per child under 18). In 2016, these figures increase to 2.5% of household income and $695 per adult ($347.50 per child under 18). After 2016, these figures increase with inflation.

It's important to remember that choosing to make the individual shared responsibility payment instead of purchasing minimum essential coverage means you'll also have to pay the entire cost of all your medical care. You won't be protected from high medical bills, which could lead to bankruptcy.