

# Tax Tips

Keeping You Informed • Winter 2015

## Your Tax Appointment

### *How to come prepared*

Your tax appointment—it comes around every year and it's always a good idea to start preparing for it early. In preparation, you should contact me soon to reserve a time for your appointment. Be sure to choose a time when you expect to have all of the documents you need for your appointment. If you're not sure what you need to bring, give me a call and I'll help guide you. For now, here are a few things you'll want to bring along, if they're applicable to your unique circumstances:

- **W-2 forms** from all employers that you had throughout the year. Employers will issue W-2 forms by January 31. If you discover that a form is missing, contact the employer.
- **1099 forms** reporting income from interest, dividends, pensions, self-employment, government payments or the sale of property.
- **A list of other income** that you've received during the year, even if you don't have specific statements.
- **Schedule K-1**, if you were a member of a partnership, a stockholder in an S corporation or a beneficiary of a trust or an estate.
- **Stock sale information** about the sale and original cost of stock.
- **Real estate sale information** showing the cost, sales prices and expenses of the sale.
- **Records of all income** received if you're a business owner or farmer. Be sure to include expense records for inventory, supplies, business equipment and other business expenses. Payroll records may also be necessary.
- **Child care information**, including the name, address and ID number of the provider(s), as well as the amount of the expense.
- **Moving expense records** for unreimbursed job-related moves of more than 50 miles.
- **Medical expense records**, including those for prescription drugs, doctor, dental, hospital bills, medical insurance

*—continued on next page*



premiums and the mileage to and from the doctor's office. These expenses are deductible if they exceed 10% of your adjusted gross income (7.5% for ages 65 and older until December 31, 2016).

- **Health Insurance forms.** If you participate in the Health Insurance Marketplace, be sure to bring along Form 1095-A, which you'll receive in the mail.
- **Charitable contribution receipts.** All contributions of any amount require a receipt. Single contributions of \$250 or more require a detailed statement from the charitable organization prior to the filing of your taxes.
- **Deductible expense records** incurred as an employee, including union dues and tax preparation fees.
- **Property tax bills and mortgage interest statements.** You may be able to itemize deductions if you own a home. The interest on home equity loans and a vacation home may also be deductible.

If relevant to your circumstances, you may also need to bring in social security numbers for all dependents, Form 8332 (if you are a noncustodial parent), last year's tax return and any postcards or tax booklets received from the IRS. If you have any questions about whether you have all of the documents and information you need for our appointment, feel free to give me a call. I'll be glad to help.

## Student Loan Interest Deduction

*Ease the burden of payments*

The cost of higher education is steep and gets worse every year. Fortunately, if you pay interest on a qualified student loan, you're generally able to deduct some of that interest.

Here are a few pointers to help guide you in claiming the deduction:

- You can deduct up to \$2,500 in student loan interest that you paid during the year.
- You can claim the deduction as an adjustment to income, so you don't need to worry about itemizing your deductions on Form 1040, Schedule A.
- You cannot claim the deduction in any tax year in which your filing status is married filing separate.



- For 2015, the deduction is subject to modified adjusted gross income (MAGI) phase-outs for anyone with MAGI between \$65,000 and \$80,000 (\$130,000 and \$160,000 for married filing jointly).
- You can claim the student loan interest deduction indefinitely until the loan is repaid.

If you have any questions on this topic or on any relevant credits that may be available to help you offset the cost of higher education, give me a call.

## Temporary Rental of a Room in Your Home

*Some tax-free income never hurts*

Many taxpayers often leave town when a local festival or event draws in tourists. If you're one of them, you might be able to rent out your house for a few days and earn tax-free income.

Taxpayers who rent out their own homes for fewer than 15 days per year receive tax-free income from the rental. To qualify for this tax-free treatment, you must rent out your home for 14 days or less and personally use the home for 15 days or more during the year.

Please note, no deduction is allowed for any rental-related expense, such as getting the house professionally cleaned before or after your visitors arrive. However, deductions of mortgage interest and property taxes are allowed on Schedule A for the entire year.

## HSAs at Age 65

### *Tips on using your funds*

An HSA works like a savings account into which you deposit money on a tax-deductible basis for medical expenses. HSAs enable you to pay for current health expenses and save for future qualified medical and retiree health expenses on a tax-free basis. Once you reach 65, you can start using your HSA funds to pay for Medicare and other health care coverage.

At this time, you can continue to take tax-free distributions from your HSA for qualified medical expenses.

Nonqualified distributions will be taxable, but not subject to the 20% penalty. Once you enroll in Medicare, you can receive distributions to pay Medicare premiums, deductibles, co-pays and coinsurance under any part of Medicare, but you are no longer eligible to make contributions to your HSA.

If you have retiree health benefits through your former employer, you can also use your account to pay for your share of retiree medical insurance premiums. However, you cannot use your account to purchase Medicare supplemental insurance, such as a Medigap policy.

This topic can get tricky, so if you have any concerns, please give me a call so I can answer your questions.

## Medical Expense Deductions in Unusual Circumstances

### *Do any of these deductions apply to you?*

On occasion, clients will have certain medical expenses that seem obscure on the surface, but are in fact tax deductible. Some of these deductions might surprise you, but they may also apply to you and your unique circumstances. They include:

- Lasik eye surgery.
- Prescribed herbal supplements for migraine headaches.
- Hearing-aid batteries.
- Wigs for those dealing with hair loss.
- Costs associated with buying, training and maintaining a guide dog.
- Breast pumps.
- Remedial reading for dyslexic children.
- In-vitro fertilization treatments.
- New home siding if previous siding had mold that impacted the health of the homeowner.

- The cost difference between a gluten-free diet and a non-gluten-free diet.
- A swimming pool for treating an injury/illness.
- Home improvements benefitting someone with a disability.
- Pregnancy tests.
- Hormone therapy medications.
- Body scans.
- Prescribed mattress for those with back troubles or a sleeping disorder.
- Smoking cessation medication/ programs.

Keep in mind that this is not an exhaustive list and all of these deductions are restrictive to certain circumstances. Even if you believe you are eligible for one or more of these deductions, it's important to consult with me so we can determine whether they apply to you and your particular situation.



## Applying for Social Security Benefits at Age 62

### Thinking about retiring?

Early retirement is an option for many taxpayers. However, before making the decision, you need to be aware of a few facts.

It's important to understand that the more years of work you put in after the age of 62 (the earliest possible social security retirement age), the more social security benefits you'll have to look forward to. Retiring at the age of 62 means that your benefits will be about 25 percent lower than they would be if you waited until you reached full retirement age.

If you still decide to go ahead with retirement at the age of 62, be sure to apply for your benefits about three months before the date you'd like them to start. You'll apply online at [www.ssa.gov](http://www.ssa.gov), by phone at 1.800.325.0778 or in person at your local social security office. During the application process, you'll need some or all of the documents below:

- Your social security number.
- Your birth certificate.
- Your W-2 forms or self-employment tax return from last year.
- Your military discharge papers, if applicable.
- Your spouse's birth certificate and social security number if he or she is applying for benefits.
- Your children's birth certificates and social security numbers if you're applying for children's benefits.
- Proof of U.S. citizenship or lawful alien status if you (or a spouse or child applying for benefits) were not born here.

- The name of your financial institution, the routing number and your account number so that benefits can be deposited directly into your account.

Note: All documents must be original documents or copies certified by the issuing office. You can mail or bring these documents to your local social security office.

Because your age of retirement ultimately impacts the amount of social security benefits that you can expect to receive, it's absolutely crucial for you to consult me about the options you have available. The social security website also contains countless resources to help you make the most informed decision possible.

## Converting a Traditional IRA to a Roth IRA

### Special rules for rollovers

If Roth IRAs are held long enough, the distributions are tax-free, meaning you may never have to pay tax on the earnings. This factor alone makes many taxpayers consider rolling their traditional IRA contributions over to a Roth IRA. While you certainly can do this, it's important to note that the rules for rollover contributions differ from the rules for making regular contributions to a Roth account. Following are a few guidelines.

**Who can make rollover contributions?** Anyone, no matter the filing status or modified adjusted gross income (MAGI), is eligible to roll over a traditional IRA and certain employer accounts to a Roth IRA.

**How much can you roll over?** There is no limit. The rollover can come from one or more accounts and contain both deductible and nondeductible contributions.

### When can you make a rollover?

There is no "grace period" in which to make a rollover. Unlike Roth IRA contributions that can be made until the due date of the return, a rollover cannot be made retroactively. Therefore, the amounts rolled from a traditional IRA to a Roth IRA during the tax year are accounted for on the tax return for that tax year.

### How are contributions taxed?

Deductible contributions from a traditional IRA that are rolled into a Roth IRA are generally taxed in the same year the rollover occurs. The nondeductible amounts are rolled over into a Roth IRA tax free.

There are plenty of other special rules that apply to rollovers to a Roth IRA, so if you're looking to take this action, please contact me for more information.

