TAX NEWS

Fall 2013 TAX CLIENT NEWSLETTER

DEAR CLIENT:

There are many child related tax benefits for which you may qualify depending on your individual tax situation. The most popular child tax benefits are the earned income tax credit (EITC) and the education benefits for which you may qualify. Following is a brief description of the child related tax benefits.

EARNED INCOME TAX CREDIT:

The Earned Income Tax Credit (EITC or EIC) is designed for lower income working families. It is a refundable credit meaning that you receive the amount of the eligible credit regardless of whether you owe taxes or not. The amount of the credit varies depending on your income and how many eligible dependents are claimed on your income tax return. For tax year 2009 through 2017 the amount of the credit is allowed up to three dependents, in 2018 the EITC maxes out with two dependents.

The amount of the earned income credit increases as your income increases until it reaches the income level at which the maximum credit is available. After you hit this income level, then the credit is reduced as your income increases until you hit the maximum income level for your filing status and number of eligible dependents at which point the credit is no longer available. The income level for which benefits start to phase out for married taxpayers is $23,000 and $17,550 for single taxpayers. The EITC is not available for married taxpayers filing separately.

The basic qualifications to claim the EITC include the following:

- Have a valid social security number,
- Not file as "married filing separate,"
- Not file Form 2555 to claim the foreign income exclusion,
- Earn less than $3,200 of investment income,
- Have earned income,
- Not be a qualifying child for another taxpayer, and
- Generally, be a U.S. citizen or resident alien for the entire year.

There are also situations where a taxpayer with no children may qualify for the EITC. You must be between the ages of 25 and 65 to qualify and your income cannot be greater than approximately $12,000

CHILD TAX CREDIT:

This credit is worth up to $1,000 per child under the age of 17, subject to certain criteria. The child must be a dependent of the taxpayer in order to qualify for the child tax credit and there are various other criteria that the child must meet to qualify. There is no limit to the number of eligible children you may claim for this credit. However, there are income limitations for this credit and eligibility starts to phase out when your income exceeds $110,000 for married couples filing jointly, $55,000 if filing separately and $75,000 for other individuals.

If you cannot take full advantage of the child tax credit because the credit is more than the taxes you owe you may receive a payment for some or all of the credit that is not used to offset your taxes. It is a refundable credit, which means you may receive refunds even if you do not owe any taxes.

CHILD AND DEPENDENT CARE CREDIT

If you paid someone to care for your child/dependent or spouse then you may be able to claim the Child and Dependent Care Credit on your tax return. The criteria to be considered when determining if you qualify for this credit include the following:

- Your qualifying child must be younger than age 13,
- The care must be provided so you and your spouse (if married) can work or look for work,
- You and your spouse must have earned income, or be a full-time student, or mentally unable to care for yourself,
- The payments cannot be paid to a family member or to a child who will not be age 19 or older by year end,
- You cannot use the married filing separate filing status,
- The qualifying person must have lived with you for more than half the year (there are exceptions for the birth or death of a child or a child of divorced or separated parents), and
- Any qualifying expenses paid by your employer will reduce the credit available on the tax return.

AMERICAN OPPORTUNITY TAX CREDIT

The American Opportunity Tax Credit (AOTC), which was scheduled to expire at the end of 2012, has been extended through December 2017. The maximum annual credit is $2,500 per student and includes tuition and fees as well as other expenses such as books, computers, lab fees, and internet fees. Also, 40% of the credit may be refundable which means you would get the credit even if you owe no taxes. There is an income limitation for this credit which is $80,000 for individuals and $160,000 for married filing joint. The credit is phased out if your income is above these levels. The credit is not available if you are married and filing separate tax returns.

The AOTC is available for the first four years of post-secondary qualified education. So a student starting college in 2013 or 2014 would qualify for the entire four years as the credit is due to expire at the end of 2017. At that time the credit is scheduled to drop back down to the first two years of post-secondary education costs.

LIFETIME LEARNING CREDIT

The Lifetime Learning Credit is available for all students enrolled in eligible educational institutions. There is no limit to the number of years the credit can be claimed. The maximum credit available is $2,000 per tax return, whereas the American Opportunity Tax Credit is available per student. Qualified expenses for the Lifetime Learning Credit include tuition, mandatory fees, and books and course materials but only if required to be purchased through the school. If the books and course materials can be purchased online or through other retail venues then that is not an allowable expense for the Lifetime Learning Credit.

Note that you cannot claim both the AOTC and the Lifetime Learning Credit for the same student in the same year. However, if there is more than one student in your household then you may qualify for the AOTC for each eligible student and the Lifetime Learning Credit for other students.

Like the AOTC the Lifetime Learning Credit is phased out if your adjusted gross income is greater than $53,000 for individuals and $107,000 for married filing joint. The credit is not available if you are married and filing separate tax returns.

In the following two pages we have provided an easy reference chart to help with some of the child related tax benefits and information regarding the appropriate tax filing status for your specific tax situation.

The following chart shows some of the basic eligibility requirements for tax benefits available to taxpayers with a qualifying child

Criteria	Benefit				
	Earned Income Tax Credit	**Dependency Exemption**	**Child Tax Credit**	**Head of Household**	**Child and Dependent Care Credit**
Age	Child must be: ☐ Younger than you (or your spouse if filing a joint return) and under age 19 at the end of 2012 ☐ Younger than you (or your spouse if filing a joint return) and under age 24 at the end of 2012 if a full- time student ☐ Any age if permanently and totally disabled	Child must be: ☐ Younger than you (or your spouse if filing a joint return) and under age 19 at the end of 2012 ☐ Younger than you (or your spouse if filing a joint return) and under age 24 at the end of 2012 if a full- time student ☐ Any age if permanently and totally disabled	Child must be younger than you (or your spouse if filing a joint return) and under age 17 at the end of 2012.	Child must be: ☐ Younger than you (or your spouse if filing a joint return) and under age 19 at the end of 2012 ☐ Younger than you (or your spouse if filing a joint return) and under age 24 at the end of 2012 if a full- time student ☐ Any age if permanently and totally disabled	Child must be younger than you (or your spouse if filing a joint return) and under age 13 at the end of 2012.
Child's Relationship	Child must be your: ☐ Son ☐ Daughter ☐ Stepson ☐ Stepdaughter ☐ Adopted child* ☐ Foster child** ☐ Brother ☐ Sister ☐ Half brother ☐ Half sister ☐ Stepbrother ☐ Stepsister ☐ Or descendent of any of them	Child must be your: ☐ Son ☐ Daughter ☐ Stepson ☐ Stepdaughter ☐ Adopted child* ☐ Foster child** ☐ Brother ☐ Sister ☐ Half brother ☐ Half sister ☐ Stepbrother ☐ Stepsister ☐ Or descendent of any of them	Child must be your: ☐ Son ☐ Daughter ☐ Stepson ☐ Stepdaughter ☐ Adopted child* ☐ Foster child** ☐ Brother ☐ Sister ☐ Half brother ☐ Half sister ☐ Stepbrother ☐ Stepsister ☐ Or descendent of any of them	Child must be your: ☐ Son ☐ Daughter ☐ Stepson ☐ Stepdaughter ☐ Adopted child* ☐ Foster child** ☐ Brother ☐ Sister ☐ Half brother ☐ Half sister ☐ Stepbrother ☐ Stepsister ☐ Or descendent of any of them	Child must be your: ☐ Son ☐ Daughter ☐ Stepson ☐ Stepdaughter ☐ Adopted child* ☐ Foster child** ☐ Brother ☐ Sister ☐ Half brother ☐ Half sister ☐ Stepbrother ☐ Stepsister ☐ Or descendent of any of them
Can You Claim Without Qualifying Child?	Yes, see rules for claiming without a qualifying child.	Yes, see rules for qualifying relative.	No	Yes, see rules for dependents who are not a qualifying child.	Yes, see rules for qualifying persons.
Residency	Child must have lived with you in the U.S. for more than half of 2012. Exceptions: ☐ Temporary absence ☐ Serving in military overseas ☐ Birth or death of child ☐ Kidnapped child	Child must have lived with you for more than half of 2012. Exceptions: ☐ Temporary absence ☐ Birth or death of child ☐ Kidnapped child ☐ Divorced or separated parents or parents who live apart	Child must have lived with you for more than half of 2012. Exceptions: ☐ Temporary absence ☐ Birth or death of child ☐ Kidnapped child ☐ Divorced or separated parents or parents who live apart	Child must have lived with you for more than half of 2012. Exceptions: ☐ Temporary absence ☐ Birth or death of child ☐ Kidnapped child	Child must have must have lived with you for more than half of 2012. Exceptions: ☐ Temporary absence ☐ Birth or death of child

Criteria	Benefit				
	Earned Income Tax Credit	**Dependency Exemption**	**Child Tax Credit**	**Head of Household**	**Child and Dependent Care Credit**
Support	None. But, if the child is married, generally, you must be entitled to a dependency exemption for the child.	Child must not provide over half of own support for 2012 but see rules for divorced or separated parents or parents who live apart.	Child must not provide over half of own support for 2012 but see rules for divorced or separated parents or parents who live apart.	Child must not provide over half of own support for 2012. Also, see rules for providing over half the cost of maintaining the household.	Child must not provide over half of own support for 2012 but see rule allowing the custodial parent to claim the credit.
Child Must Have SSN (No ATIN or ITIN)	Yes and the SSN must be valid for employment	No	No	No	No
Child Must Be U.S. Citizen, U.S. National, Or U.S. Resident	N/A but see residency and child must have a Social Security number that is valid for employment	N/A (see next row)	Yes. Child must: • meet the substantial presence test • be admitted for lawful permanent residence, or • make a first-year election	N/A (see next row)	N/A (see next row)
Child Must Be U.S. Citizen, U.S. National, U.S. Resident, Or Resident Of Canada Or Mexico* **	N/A but see residency and child must have a Social Security number that is valid for employment	Yes	N/A (see previous row)	Yes	Yes
Can a Noncustodial Parent Claim Using the Special Rule For Divorced or Separated Parents or Parents Who Live Apart.	No, the rule does not apply	Yes	Yes	No, the rule does not apply	No, only the custodial parent can claim the credit
Can Disabled Child be Any Age?	Yes	Yes	No	Yes	Not as a qualifying child but see qualifying persons
Am I Required to Complete and Submit a Schedule or Form with my Form 1040 or 1040A?	Yes, Schedule EIC Form 8862 if EITC previously disallowed	No, but must show name and taxpayer identification number on tax return	Yes, Schedule 8812	No, but if child isn't listed as a dependent, name must be on tax return	Yes, Form 2441

IDENTITY THEFT

The Internal Revenue Service has announced their commitment to help taxpayers who are victims of identity theft. Most times you are not aware that your Social Security number has been used to file a fraudulent return until you go to file your own return. It is then rejected by the IRS as a return has already been filed with your Social Security number. The other concern is with your children's Social Security number. Many times you may not be aware that your children's Social Security number has been used as a return may not be filed for them for many years. Or again, you receive that reject notice from the IRS that the Social Security number has already been used on a previously filed tax return.

The IRS has provided the following tips to help you avoid becoming a victim of identity theft

➢ The IRS will not initially contact you by email or social media to request confidential information.

➢ If you receive a scam email claiming to be from the IRS, submit to the IRS at phishing@irs.gov.

➢ Be sure to protect your personal assets including your wallet or purse, do not reveal information to someone who requests information about you through a phone call or email, shred confidential documents so they cannot be retrieved from your trash, and do not provide information to an unsecured website.

➢ Visit the Federal Trade Commission website to learn how to identify a secure website. If you suspect you are the victim of identity theft, report the incident to the Federal Trade Commission at 877-438-4338 or go to ftc.gov/complaint.

➢ If you receive a letter or CP2000 Notice from the IRS regarding unreported income or other discrepancies on your tax return that you do not recognize, respond immediately to the notice by calling the phone number provided on the document.

➢ Be sure to contact the three credit reporting agencies; Equifax, TransUnion, and Experian, to have a fraud alert posted to your account.

The IRS has established the Identity Protection Specialized Unit, 800-908-4490, to also assist taxpayers with identity theft tax issues.

SIMPLIFIED HOME OFFICE DEDUCTION

Effective with the 2013 tax year, the IRS has established a simplified option to report the business use of home deduction on your Schedule C business return. The option to use the simplified option does not change the criteria for who may claim the home office deduction. It is only allowed for that portion of your home that is used exclusively and on a regular basis for business purposes. The regular method for claiming your home office deduction is still available.

The simplified option does not require the recordkeeping for the actual expenses of your home. The simplified option does not depreciate that part of your home being used for business purposes. And the deduction for the business use of home continues to be limited to the net income reported by the business.

The maximum square footage that can be claimed for the simplified option is 300 square feet at a rate of $5.00 per square foot, or a maximum business use of home office deduction of $1,500. Once the tax return has been filed, the taxpayer cannot amend to change from either the simplified or the regular method chosen to the alternate method. However, you can elect each year which method will give you the best tax deduction in your particular situation.

TAX REFUNDS

When selecting a tax professional to assist with the preparation of your income tax return, be aware of the IRS regulations as they relate to tax refunds. Your individual income tax refund cannot be processed through your tax professional's bank account but must be directly deposited into your bank account(s). It is not permissible to use the Form 8888, Allocation of Refund, to divert some of the refund to the tax practitioner's account in order to pay the cost of the tax preparation and the balance to your personal bank account. Arrangements for payment of the tax preparation services must be treated as a separate transaction or payment arrangement with the tax professional.

IRS TAX NOTICES

Each year the IRS sends out millions of letters and notices. Most notices are sent from the IRS computer system and are not reviewed or verified by a real person. They are not always correct and usually require a simple answer to resolve the matter in question. Although you may feel anxious when a notice is received, many are easy to resolve. Here's what to do if you receive a letter or notice from the IRS:

➢ Don't panic. Follow the instructions in the letter.

➢ There are many reasons the IRS sends notices to taxpayers. The notice usually covers a specific issue about your account or tax return. It may request payment of taxes, notify you of a change to your account or ask for additional information.

➢ If you receive a notice about a correction to your tax return, you should review it carefully. You usually will need to compare the information in the notice to the entries on your tax return.

If you agree with the correction, you usually don't need to reply unless a payment is due.

If you don't agree with the correction the IRS made, it's important that you respond as requested. Generally, you will need to respond to the IRS in writing to explain why you disagree. Include any documents and information you wish the IRS to consider, along with the bottom tear-off portion of the notice. Mail the information to the IRS address shown in the lower left corner of the notice. Allow at least 30 days for a response from the IRS.

➢ There is no need for you to call or visit an IRS office to answer most IRS notices. If you have questions, call the telephone number in the upper right corner of the notice. When you call, have a copy of your tax return and the notice available.

➢ Keep copies of any correspondence with your tax records.

HOUSEHOLD EMPLOYEES

If your household hires staff to help with child care or other home needs you may be subject to the "nanny tax" as it has come to be known. The most common mistakes include: 1) Misclassifying the employee as an independent contractor – as with any small business, the classification of employees continues to be defined by the three common law rules; Who controls the behavior of the worker, how is the worker paid, and the type of relationship between the household and the worker; 2) Failure to compensate properly for overtime – as a non-exempt worker they are entitled to overtime for all hours over 40 hours a week; 3) Including the household worker on the corporate payroll – since payroll taxes are not deductible on the Schedule H of the 1040, by processing the household employee through the company payroll the business is receiving an illegal tax benefit; and 4) Not processing payroll reporting on a timely basis – while the Schedule H is filed with the Form 1040 which includes the FICA and FUTA taxes, the household may not be in compliance with the filing of W2s and the W3 which still have a due date of January 31 and February 28 respectively or with their state unemployment filing requirements.

Contact the office if you have any questions regarding this issue or any other changes in your household that may have an impact on your tax filing requirements.