Do I Have to Pay Taxes on Social Security Benefits?

The answer depends on how much income you report to the IRS.

Only about 1/3 of all taxpayers receiving social security benefits will be taxed on a portion of their benefits. The first step is to calculate your eligibility income. The eligibility income is adjusted gross income (not including Social Security) plus 50% of your social security benefits plus any tax-free interest from municipal bonds or other sources.

If that eligibility income is between $25,000 and $34,000 on a single return or between $32,000 and $44,000 on a joint return, then up to 50% of your social security benefits can be taxed. The rest of your benefits are not taxed. If your eligibility income is more than $34,000 on a single return or $44,000 on a joint return, it's likely that 85% of your benefits will be taxed.

I will do all of these calculations when I prepare your tax return, but you can estimate the amount by knowing the basics outlined above. This is vitally important. Has your eligibility income typically been less than the taxable threshold of $25,000 for single taxpayers or $32,000 for married taxpayers? At those levels your social security benefits have not been subjected to tax. But, if you are close

See "Benefits" on Page 3 >

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Your Tax Calendar

Sept 15	3rd quarter estimated tax payments due.
Sept 15	Deadline for extended returns for Corporation, Partnerships and Fiduciaries.
Oct 1	Deadline to establish a Simple IRA for self-employed or small businesses.
Oct 15	Extended Returns for 2014 due.
Dec 15	Last chance for deductions for 2015.
Jan 15, 2016	4th quarter estimated tax payment due.

Anytime you have any questions, don't hesitate to call me. I am here for you!

Tips For You... *Now!*

✔ ***Extensions Expire October 15.*** A few of you still have not filed for 2014. Please make an effort to find all missing information. We have little time left. Make sure I review your information and file your return before time runs out.

✔ ***0% Capital Gains Rate!*** Good news taxpayers. Although the government has enacted a number of tax changes for 2015, the capital gains tax rate is staying the same.

If you sell investments that are held for less than a year, you'll pay your income tax rate on your gains, which ranges between 10% and 39.6%. On the other hand, long-term capital gains are taxed at a rate of 0%, 15%, or 20%, depending on which marginal tax bracket you fall into. Usually, taxpayers in the 10% or 15% marginal tax bracket pay no long-term capital gains taxes. The majority of taxpayers will pay a 15% long-term capital gains tax in 2015. The 20% tax rate was introduced last year and only applies to taxpayers that fall into the highest marginal tax bracket of 39.6%.

Capital Gains Tax Rate Is Staying The Same

Since the 0% capital gains tax rate is available to all taxpayers in the 10% and 15% tax brackets, this could be particularly beneficial to retirees who are starting to use part of their savings to supplement their incomes. For 2015, married taxpayers qualify for the 0% rate if their taxable income is $74,900 or less, for single taxpayers $37,450 or less.

✔ ***Starting Social Security?*** If you are considering receiving your social security benefit, you probably have lots of questions.

See "Tips" on Page 3 >

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Reporting Gambling Income and Losses on Your Tax Return

If you play the ponies, play cards or pull the slots, your gambling winnings are taxable. You must report them on your tax return. If you gamble, these tips can help you at tax time next year:

Gambling Income. Income from gambling includes winnings from the lottery, horse racing and casinos. It also includes cash and non-cash prizes. You must report the fair market value of non-cash prizes like cars and trips.

Reporting forms. If you win, the payer may give you a Form W-2G, Certain Gambling Winnings. The payer also sends a copy of the W-2G to the IRS. The payer must issue the form based on the type of gambling, the amount you win and other factors. You'll also get a form W-2G if the payer must withhold income tax from what you win.

How to report gambling winnings. I will normally report your winnings for the year on your tax return as "Other Income." You must report all

See "Gambling" on Page 3 >

6 Changes We Definitely Know For 2015!

Regardless of what your situation looked like in 2014, there are six changes that will affect a large number of taxpayers starting in January 2015.

1 Health Insurance Penalty. Part of the Affordable Care Act mandates that all Americans have health insurance or pay a tax penalty as a result. In 2014, the penalties were 1% of your household income or $95 per person – whichever is greater. But in 2015, those penalties ramp up significantly to 2% of total household income, or $325 per person. That can really add up for a middle-class family. If you're still not covered and paid a penalty on your 2014 taxes, make sure you get health insurance ASAP to avoid further penalties as we finish out 2015.

2 401(k) Limits. The limit on employee contributions to a 401(k) plan will increase to $18,000, up $500 from 2014's limits. Be sure to contact your employer to make adjustments to maximize your contribution. The "catch-up" allowance for those age 50 or older has also been increased. An additional $6,000 in contributions instead of the previous $5,500 cap can be made. These new contribution levels are also applicable to 403b accounts and most 457 retirement plans as well.

3 Flexible Spending Account Limits. The annual limit on employee contributions to flexible spending accounts for 2015 is now $2,550 for qualified health care expenses. That's up $50 from 2014. If you take advantage of a health care FSA make sure to take advantage of the new maximum amount.

4 Standard Deduction. The standard deduction – that is, the basic tax break extended to all taxpayers each year -- rises to $6,300 for single filers and $12,600 for married taxpayers filing jointly in 2015. That's up $100 and $200, respectively, from 2014 levels.

5 Personal Exemption. The personal exemption amount also goes up for 2015. The personal exemption for 2015 is $4,000, up from $3,950 in 2014.

6 Tax Brackets. For the new 2015 tax year beginning in January, income tax thresholds have again been adjusted up for inflation. The highest tax rate of 39.6%, for instance, will now apply to single filers who make over $413,200 and married couples making $464,850. Both figures are up about 1.6% from tax year 2014.

The "catch-up" allowance has been increased.

Tax Extensions We Hope Will Be Available For 2015.

Many tax laws expired at the end of 2014 and hopefully will be renewed through 2015. Attempts were made earlier in the year to make these "extensions" permanent by Congress; however, the tax cuts under consideration are not paid for and will add to the federal deficit. Stay tuned! Some of the specific items that are on the table until Congress acts are big ticket business items such as the research and development tax credit, Section 179 expensing and bonus depreciation. Waiting for extension on the personal side are the deductions for charitable tax-free IRA distributions to charities, the $4,000 tuition & fees deduction, energy savings tax credits for home improvements, the deduction for mortgage insurance premiums and many more. You will be updated on any action taken on these extenders in the Year-End Newsletter issue.

INSIDE THIS ISSUE OF *TAX NEWS & TIPS*

Tax Tune-Up for Life-Situation Changes

2015 will end in a few short months. This is a good time to ask yourself, "How am I doing?" Is everything in 2015 status quo with 2014? If not, what has changed? In 2015 will you get married, celebrate the birth of a new child, buy a new home, sell your home, divorced your spouse or go (back) to college? Most of the tax benefits related to these events are subject to eligibility and income limitations. Check with me for the specifics.

✔ **Getting Married** – Your filing status will change. If you marry by midnight on December 31, 2015 then you will file as married filing jointly or married filing separately on your 2015 tax return. If your name changes, you must contact the social security administration before using your new name on a tax return.

✔ **Celebrating the birth of a new child or adoption of a child** – If the taxpayer is not married, the dependent child may qualify the taxpayer for the Head of Household filing status. The new dependent may also qualify the taxpayer(s) to the Earned Income Credit, Child Tax Credit, Additional Child Tax Credit and possibly the Child/Dependent Care Credit. A finalized adoption in 2015 could qualify you for the Adoption Credit.

✔ **Buy a New Home** – In addition to the mortgage interest deduction you can also deduct points and mortgage insurance premiums (with certain limitations) and payment of local property taxes paid in 2015.

✔ **Sell Your Home** – If you sell your home at a profit, the amount of gain that you can exclude from your income is $500,000 if you are married filing jointly or $250,000 if married filing separately or single. In order to qualify for this exclusion you generally must have owned the home for two of the last five years, lived in the home as a main home for two of the last five years and not have sold a home using the home sale exclusion within the last two years.

✔ **Divorced Your Spouse** – A taxpayer is not considered married for 2015 if legally separated by the end of 2015 by either a final divorce decree or a final decree of separate maintenance. If you do not have dependent children, then you must file 2015 as single. If you have at least one dependent child then you may be able to file as head of household if requirements are met. Alimony payments are generally taxable to the spouse receiving the alimony. If certain requirements are met they are deductible to the spouse paying the alimony.

✔ **Go (back) to College** – The American Opportunity Credit is available to students in their first four years of post-secondary education and can be claimed only 4 times. For the Lifetime Learning Credit there is no limit to the number of years this credit can be claimed on qualified expenses of an eligible student. The Tuition and Fees Deduction is claimed as an adjustment to income for qualified education expenses incurred by the taxpayer, spouse or dependent. Student Loan Interest can be deducted up to $2,500 subject to limitations.

What Do Others Claim?

The IRS publishes data on our tax returns each year. A few months ago they published figures for 2012 income tax returns. You can find data for several years' returns at www.irs.gov. Search the term "tax return statistics".

The IRS reports that 145 million tax returns were filed in the tax year 2012 reporting $9.1 trillion of adjusted gross income with total income tax at greater than $1 trillion! Total income tax increased by 13.7% from the previous year. To be included in the top 1% of taxpayers by adjusted gross income (not taxable income) in 2012 required an adjusted gross income of $434,682. The top 3% of adjusted gross income tax returns accounted for more than half (51.7%) of the total income tax paid for 2012.

At the IRS website, you can view taxpayer average deductions grouped according to their adjusted gross income. For instance, folks in the $45,000 - $50,000 range deducted $3,427 of real estate taxes and $2,495 for charity. The $75,000 - $100,000 group claimed $3,514 and $3,098 respectively.

67% Of Returns Used The "Standard Deduction" And Are Not Included In These Statistics

When looking at these figures remember that only about 33% of these returns elected to use "itemized deductions". This means that the other 67% of returns used the "standard deduction" and are not included in these averages.

What was the largest deduction for returns with $75,000-100,000 of adjusted gross income? Deductions for mortgage interest head the list at 36% of all deductions. Deductions for taxes came in second at 34%. Contributions accounted for 12% and medical deductions were 6%. If you check these out, be wary! These are only averages. You can't say that you will claim the "standard" or "average" amount in the charitable deduction category. You should claim what your records show.

"Tips" from Page 4 >

The best place to get specific answers about the amount of benefit you are entitled to based upon your personal earnings history is your local social security office.

✔ ***62-66-70.*** These are the "key" ages. "Early" benefits can begin at any month after age 62. "Full Retirement" benefits start at age 66. "Delayed" benefits can start as late as age 70.

✔ ***"Early" Benefits.*** You can start receiving payments at age 62. There are two problems. (1) Your benefits are reduced by 25% of whatever amount the formulas give for your earnings history. Start at an age between 62 and 66, the reduction is prorated over 48 months. This will be your benefit for life. (2) If you do continue working and earn too much in any year, you give back some of the benefit. This earnings limit stops at age 66.

✔ ***"Full Retirement Age"*** *(if you were born from 1943 through 1954).* At age 66, you receive the "full retirement" amount, with yearly inflation adjustments. No earnings limits apply. In fact, earnings will now increase your benefits slightly. Your normal retirement age will increase by 2 months (added on to age 66) for each year of birth from 1955 through 1959. As an example, if you were born in 1957 then your full retirement age is 66 years and 6 months. If you were born in 1960 or later then the full retirement age is 67.

✔ ***"Delayed" Benefits.*** For every month you delay after age 66, your benefit increases, but not past age 70. The annual figure is about 8%. No earnings limits apply.

What's a W-4 and Who Cares?

Every time you earn income, you'll most likely owe taxes. How much you pay (until your tax return is filed to "settle up") is determined by your Form W-4. Your employer deducts taxes based on the number of allowances you claim on your W-4. This system works well if you're a "standard" taxpayer who files single, has one job, and claims a standard deduction. But if you don't fit into this category — and many of us don't — it's likely that you have too much or too little tax withheld.

When you have too much money withheld from your paychecks, you end up giving your favorite uncle (Uncle Sam!) an interest-free loan and as a result you get a tax refund! Ask yourself if there are better ways to use that money. Why not take home more money in your weekly paycheck? Or invest the "extra money" and earn some interest? On the other hand, having too little withheld from your paycheck could mean a large unexpected tax bill and even a penalty for underpayment of tax. Either way, there's a better way to manage your hard-earned money.

The Key To Withholding The Right Amount Of Tax Is To Update Your W-4 Regularly.

The key to withholding the right amount of tax is to update your W-4 regularly. Do this whenever you have a major life-situation change. Some of the life-situation changes which could prompt an update to your W-4 would be getting a second job, having a previously unemployed spouse get a job or being unemployed for part of the year. Additionally, all of the situations listed in the "Tax Tune-Up" section of this issue may trigger the need to update your current W-4. The goal is to reduce the potential for both a tax bill and a tax refund to zero, or close to it. But if you count on a big tax refund every year, you should also pay attention to your withholding, because how much you have withheld directly impacts your refund.

It's easy to adjust your withholding. You can do it on paper or electronically (be sure to check with your employer for the required method). The old-fashioned way is to walk through the worksheets on the W-4 form, or for more complicated tax situations, use the instructions provided by the IRS at www.irs.gov/Individuals/IRS-Withholding-Calculator. If either of these methods seems too daunting, call me for help!

If the results are different from your current withholding, tell your employer that you want to update your W-4.

You can claim as many allowances as warranted by your personal situation. Another way to increase your withholdings is to put the additional amount you want deducted per pay period on Line 6 ("Additional Withholdings") of the W-4.

You can adjust your W-4 at any time during the year. Just remember, adjustments made later in the year will have less impact on your taxes for that year.

"Gambling" from Page 1 >

your gambling winnings as income. This is true even if you don't receive a Form W-2G.

How to deduct gambling losses. I will deduct your gambling losses on Schedule A, Itemized Deductions. You must itemize by filing a Schedule A to deduct gambling losses. The amount you can deduct is limited to the amount of the gambling income you report on your return. You can't deduct losses if you don't have any winnings!

Keep gambling receipts. You should keep track of your wins and losses. This includes keeping items such as a gambling log or diary, receipts, statements or tickets.

"Benefits" from Page 4 >

to the income thresholds AND you withdraw funds from an IRA account (more than you usually do annually) or cash in U.S. Savings Bonds (more than you do annually in the past), then you could be in for an unexpected tax bill. Not only will you be taxed on the IRA withdrawal and/or the amount of interest earned on the savings bonds, you have now made at least a portion of your Social Security benefits taxable! This situation will also affect you with any other types of income that is realized during the year that pushes you above the income thresholds. Some of these types of income you can control like the examples above…so be aware! This is tax planning that you can do on your own or with my help with a simple phone call.