

LARRY'S INCOME TAX & BOOKKEEPING SERVICE INC

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TAX PREPARATION
and PLANNING

Dear Client:

We are sending you this tax letter to help you in tax planning for this current year. Additionally, we are enclosing a newsletter from one of the associations that we belong to, National Association of Tax Professionals. If you have tax questions pertaining to tax planning, give us a call. Don't forget to check our website, www.larrysincometax.com. We post frequent blogs, articles, forms, etc. throughout the year to aid in your tax planning. On the site, you can also like, friend, and follow us on facebook and Twitter.

As of the date of this letter, one of the biggest changes coming up for the future is that everyone in the country will be required to have some form of health insurance for themselves and their dependents. Here is a brief description of the current law, unless implementation is delayed. You will not be required to enroll in one of the Affordable Plan Act (Obamacare) health insurance plans if you already have health insurance plan coverage. Some of those exempt from the Obamacare health insurance coverage are those who already have insurance provided at their job, or Medicare or Medicaid covered individuals or families. Also, if their cost for the insurance exceeds 8% of a families household income, they are exempt from the coverage requirement. Remember that you will need to have insurance coverage for everyone that is your dependent. Even if you have employer provided coverage and you pay for part of the premium, you can check out the rates with the Obamacare insurance website, as you may possibly obtain coverage for a cheaper overall cost. The website to get information or sign up is www.healthcare.gov

If you do not have insurance and fail to enroll in some form of health insurance plan for you and your family by 3/30/14, you will be required to pay a penalty on your income tax starting on the 2014 tax return (to be filed in 2015 year). The penalty will be increased and phased in over three consecutive years. We have not been told how much the penalty will be, as that will be decided by Congress. The penalty will be so much per person living in the house, and it will be subtracted from any refund due to you or added to any tax owed. There will be a new tax credit to be added to refunds or deducted from what is owed if you have low income. The credit purpose will be to offset some of the cost burden to pay to have the mandatory health insurance if you enrolled in it. The credit is only for low income individuals.

Some of the cost reimbursements the government will get for cost of the hospital insurance premium tax credit to the poor will be financed by increasing tax on the so called rich. Some of those provisions are:

1. Increasing the medicare tax deductions coming out of their wages by an extra .9% of the gross payroll over 200,000 for single individuals, 250,000 for married, and 125,000 for married filing separate.
2. Reducing the medical deductions by taking away 10% of Adjusted Gross Income from the total medical expenses on Schedule A instead of the traditional amount of 7.5% that was subtracted in the past (those over 65 can use the 7.5% limit until 2016).
3. A new investment tax on the same high income individuals on their interest, dividends, capital gains, taxable annuities, royalties and passive rental income. Note: Individuals who may be affected by this tax would do well to invest in tax free municipal bonds which still remain non-taxable for purposes of this new investment tax surcharge. You are affected if your income is in excess of the amounts given above. There is no harm in tax avoidance as this is taking legitimate steps to legally minimize tax that is due. Tax avoidance is not tax evasion.

Supposedly, the cost of the Affordable Care Plan (Obamacare) insurance will be less than if you obtained coverage from other sources. The premiums will have to be paid monthly. If you fail to pay your premium and let your coverage lapse, you will be penalized on your income tax starting in 2014. Some information on the Affordable Care Act is provided in the newsletter we are enclosing (see page 2). You can obtain more information on the government website Healthcare.gov. We urge you to read the newsletter and check the website if it affects you. Please don't call us asking about the Affordable Care Act coverage, as we have given you all of the information we have on it. You need to check out the government website for information, if it affects you or your family.

Louisiana currently has a tax amnesty program that is in effect until November 22. If you owe back state taxes, they will waive half of the interest and all of the penalty as long as you pay the remaining adjusted balance, in full, by the November 22 deadline. For the next three years, Louisiana will have this amnesty program in effect during one month of the coming years. Supposedly, the future offerings will not be as generous as the one being offered this year. You must apply at www.ldrtaxamnesty.com to get it.

The Louisiana Citizens Fair Plan assessment tax is still refundable. We have been telling people about this for the last six years, and some individuals are still not taking advantage of it. You are leaving, on average, about \$110 on the table. If you have not been claiming it, check your declaration page for each of the past three years on your hazard insurance to see how much the surcharge is that you paid for the "Louisiana Citizens Fair Plan Assessment". Get the claim forms from our website, if you wish to fill them out, and mail with a copy of the declaration page for each year to the state. We can also complete the form for you, at a charge of \$15 per year, per form. There is no extra charge when you claim it during your tax appointment. However, note that only the current year's amount can be claimed on the income tax form. The past year amounts need to be filed for separately on the forms on our website. Click on "files" and then "tax forms-LA" to get 2010-2012 forms, 540INS (individuals) and 620INS (businesses).

Louisiana is starting to obtain information from some companies that provide them with information as to their buyers names, addresses and sales amounts on internet sales. You should be paying some use tax on these purchases when we file the state income tax otherwise, you may possibly receive a letter with a bill from the state in the future.

For small businesses or sole proprietorships that are in need of business management and consulting services, the Louisiana Small Business Development Center is providing these services free of charge. Call 504-831-3730 or check out their webpage at lsbdc.gnor@lsbdc.org. We have about 100 brochures available that describe their services if you want to pick one up at our office. The brochures will be available first come, first served.

From now on, anyone who makes an appointment with Mr. Larry and fails to show up will not be given another appointment for the remainder of the year to see him. The reason for this is that we have taken the time to give to a client and if they fail to show up, they have wasted this appointment time which could have been given to someone else. It's just not fair to us or other clients. Please show up for an appointment if we have given you the time, and we ask that you please be on time. Mr. Larry will not be seeing walk-ins (those without appointments) this coming year. Anyone who misses their appointment with him, or anyone walking in can see his son (Mr. Carlos) or his daughter (Ms. Michelle). You may reschedule one time if done at least 24 hours ahead of time, no after the fact rescheduling. You can also make an appointment with Mr. Carlos or Ms. Michelle.

On the appointment letter that we send, in the first week of January, we will have the usual list of information that you should bring to the tax appointment. This page is also available on our website. We are also adding a copy of this page to this letter. Please note that we do not desire to see tons of receipts. These items should be totaled by categories such as medical expenses for doctors, dentists, eyecare, medicines, hospital, clinics, and insurance. Also, total up donations by organization such as church, red cross, etc. We will need to know how much property tax you paid, and your mortgage interest/ and or mortgage insurance premium paid. We also need to know about your employee business expenses if applicable. You must keep copies of the actual receipts and information for three years, in case there is ever an audit. Always remember that an audit only ends "badly" when you've kept "bad" records.

Substantiation

The remainder of this letter will discuss substantiation. Substantiation is simply the process of providing proof verifying that what you've stated on your return is true and correct. "Substantiation," "proof," and "verification" come from the Latin words, *substantia*, *probare*, and *veritas*, meaning "substance," "to test," and "truth." Your proof, therefore, has to "have substance," be able to "be tested," and be "truthful." If you are ever audited, you will need actual receipts for medical expenses, mortgage interest, property tax, donations, casualty loss expenses, and employee expenses. Estimates are no good for audits. While the IRS does not specify the exact types of records you must keep, they do specify that you must keep some form of records. As a minimum, they will want to see actual receipts for up to the last three years. They do not accept excuses such as they were lost or misplaced. No one said saving on taxes was easy. It is a year-round job requiring that you keep your receipts, totaling them up by category type and accurately report the deductible expenses on your annual tax return. The best defense against an audit is to audit proof your return by being prepared in the event of an audit. We've seen both extremes when it comes to audits—on one side, those who do not keep good records just can't challenge most of the IRS positions. They are left at their mercy—and we all know they are merciless. Conversely, clients who've kept great records walk out of the audit with a sense of relief and a smile—no change—maybe even a refund!! Which do *you* prefer?

Some of you have a business or rental property. You must have actual receipts for the expenses that are claimed. In some instances, a credit card statement is sufficient however, in most cases, you will also need the receipt as the credit card statement is not enough. That is because the credit card charge could possibly be for a personal item such as a charge to Home Depot. The only way to prove, 100% beyond a doubt, that it was business or rental property related would be to have the actual store receipt. For business meals, you need to have the actual receipts with the name of the individual listed on the back of the receipt and the purpose of the business meal such as "sales solicitation" or "training trip" or "business conference.

For employee expenses, you must have a letter on file from you employer stating that you are required to have these expenses as part of your job. The letter must state whether or not you are reimbursed and how much you are reimbursed, if you in fact are. You must maintain a log on vehicle mileage. One of the purposes of using a log is that you will be able to take the total year business part of the mileage times the prevailing federal mileage rate for the year. You won't need all of the vehicle receipts for gas and repairs, but you do need to keep a few repair or oil change receipts where they record the mileage when you checked the vehicle in, preferably in January, June, and December. The IRS would then be able to note the mileage written on the receipt and compare it to your mileage log to verify your claimed mileage is consistent and accurate. You also need proof that you own the vehicle such as the registration.

A deductible expense must be ordinary and necessary to your job, your business, or your rental property. It must be for something that you need to do your job, or for your business, or your rental property maintenance or management. It depends upon the facts and circumstances. For example: A sports bar or restaurant can deduct the cost of a television set, whereas most businesses and employee expenses can't. A rental property can deduct it if the owner provides the property for rent as furnished.

Cell phones are often used for your job, but only your portion of the rate from a family plan is deductible, not the whole family plan rate for the wife and kids. An office in the home is always a deductible expense when you are self employed, as long as it is in a separate room of your house, and your base of business operations is your home. A home office deduction is never allowed to an employee, unless the employer does not provide the employee with an office. It does not matter that they require that he or she do work at home so long as they provide them with an office at the work site.

We have brochures that are available and go into greater detail on the employee business expense and home office deductions. Some additional brochures cover rental property deductions and recordkeeping. Please stop by our office to pick up any you need.

INFORMATION TO BRING TO YOUR TAX APPOINTMENT INTERVIEW:

1. Wage and or Pension, Social Security, or Unemployment Income statements --your W-2's or 1099 statements, state tax refund or other income or loss end of year statements, Gambling income and losses (W-2 G's) (if you won, obtain loss statements from the casinos).
2. Interest, Dividend, or Investment Income end of year total earnings statements -- 1099's or K-1's from bank or investment firm. If you sold stocks or investments during the year, we need to know when you originally bought the investment and what you originally paid for it, also if you reinvested earnings. We also need to know date of sale, and amount you sold it for. The IRS will send notices of balance due as a result of neglecting to report your investment information. Get those year-end reports.
3. Self-employment income and expenses (please total the expenses by category types, as we charge bookkeeping fees if we need to do this), Business mileage totals or logs. If office in home, we need to know total electric, gas and insurance for year. Also, the square footage of office area and entire living area of house, as well as purchase price of house, major improvement costs, plus any repairs or maintenance for year on house.
4. Rental Income and expenses (total your receipts by types of expenses, mortgage interest, insurance, repairs, utilities, etc.).
5. Alimony paid or received during the year, including the name and social security number of recipient.
6. Purchase or sale of residential house, rental, investment or business property. Please bring the HUD closing statements.
7. Medical expenses (totals by type of expenses paid by you out of pocket: Doctors, Hospitals, Clinics, Eye care, Dental, Medical Insurance (not pretax), Mileages for medical care).
8. Property taxes paid. State tax withholdings we can obtain from your W-2's or estimated tax payments.
9. Charitable Donations, check donations and non-cash donations such as clothes to Goodwill, Salvation Army, etc. mileage for charitable purposes. You must have receipts for your records (cancelled checks, or donation letters). No undocumented donations are deductible.
10. Educational expenses for tuition and fees, student loan interest. Student loan interest is also deductible for pre college students.
11. Mortgage Interest (First, Second, Home Equity or Home Improvement Loan interest or points paid) or Investment Interest paid.
12. Work expenses (Union or Professional dues, required work supplies, work tools, and required use of vehicle calling on clients or for other duties of your job for the employer. Note you may give us mileage information totals such as the total business miles used, commuting miles used, and personal miles used, or you may give us your actual completed mileage log. Keep the log for at least 3 years. If claiming actual vehicle costs then we need the total spent on gas, repairs, maintenance, insurance, licenses, loan interest. We also need to know whether you are leasing or buying the vehicle and purchase date and price. We will still need mileage information. We also need to know if you received reimbursements from your employer and if it is included in your W-2.
13. Child care expenses paid to day care providers including the provider name, telephone number, address, and tax ID number.
14. Copy of your homeowner's declaration page for the year 2013 (not 2012, 2011, 2010 unless you did not claim the Louisiana citizens credit in those years, in which case you can go to our website and look under "files", "tax forms-LA" to get the forms to file for your credit).
15. **SOCIAL SECURITY CARD AND PICTURE ID OR DRIVER'S LICENSE, if new client.**
16. **DEPENDENT'S SOCIAL SECURITY CARD AND BIRTH CERTIFICATES, for any new dependents claimed.**
17. **Any other information in regards to income that you earned or expenses that you believe to be deductible.** Please ask us about it or show us the information during your tax appointment. It is better to ask now than to get a call from IRS in 1-2 years.

You must save all of your receipts, cancelled checks, credit card statements, and other proof of deductions you claim for a minimum of three years. Vehicle mileage logs should be completed during the year to prove the business mileage and usage of the vehicle for which vehicle expenses are claimed. Tax law permits reconstruction of your mileage log, but it is better to complete the log during the year.

Sincerely,

Larry R. Jaubert

Larry R. Jaubert, EA, MBA
Enrolled Agent