

The Rudolph Report

www.rudolphcpa.com Year-end 2013

To our clients:

What happened to normal Thanksgiving mashed potatoes? With an ambitious mother-in-law, stand-alone potatoes have become obsolete. Mashed potatoes now have to be blended with an additional ingredient such as chives, bacon (*no complaints*), cranberries, and now kidney beans. What's next, brussels sprouts? How about paper clips? I support the movement that leads us back to the original Pilgrims' intent of mashed potatoes: gravy consumption.

I hope your Thanksgiving was pleasant and that your tax liability is not going to unsettle your stomach. To help you manage your tax liability, all of us, including Wayne and Charlie, are once again looking forward to assisting you with your tax filing.

Before we file your taxes, I'd like to inform you of an occurring scam that has affected taxpayers in the Chicago area. Additionally, I will present some changes in the tax code that may affect you while providing you some tips for year end tax planning. I hope that you find the information in this newsletter mildly useful like a Cubs manager (*or a husband*). If you believe that you have a tax situation that requires some planning, then please contact our office. It's much easier to manage your taxes if you can anticipate them. Tax liabilities are like forest fires: after things get out of control, you can save your hide by abruptly fleeing the country.

Happy Festivus,

Chris Rudolph CPA

FRAUD AND THE IRS

Recently, we heard from a client who had received a call from an individual who presented himself as an IRS agent. This "agent" informed our client that significant money was owed from tax periods 2004-2006, and the IRS would be directing the local police to arrest and incarcerate the client that evening. The "agent" was hostile and used unsettling and threatening language. Fortunately, the client did not release any money nor any personal information. Instead, the client called our office, and we reached out to a local IRS investigative unit who responded to the incident. Please know that the IRS does not initiate contact with phone calls, and it never issues emails to taxpayers.

After speaking with the manger at the IRS criminal investigative unit, I learned that this type of fraud has been surfacing over the last 3-4 weeks in the Chicago area. Sometimes the caller simply contacts a random list of citizens. Other times, the caller obtains and manipulates information about the taxpayer's past liens which were filed by the IRS. This information gives some legitimacy to the call. If you receive a call or an email from a person who identifies himself as an IRS agent, please do not release any information. Instead, call our office so that we can connect you with an agent at the IRS immediately. The agents, whom we have worked with on various projects, are deeply committed to protecting taxpayers from fraud. Finally, please be assured that our firm is committed to protecting your private information.

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ADDENDUM TO THE LAST REPORT

Do you remember that the top tax rate increased to 39.6% from 35%? Well, here is a silver lining. As a result of the increase, Ed(no)win Jackson paid an additional \$74,750 to the IRS per win in 2013.

Also, there was an error (blamed on Starlin Castro) in the last newsletter. The annual gift tax exclusion for 2013 and 2014 is \$14,000 rather than \$13,000.

TAX PLANNING

Medical expenses, for those under age 65, must exceed 10% of income to be deductible in 2013. If you are 65 or married to someone at least age 65, then you may deduct your medical expenses if they exceed 7.5% of your income. See, it always pays to marry older.

Contributions to **health savings accounts** allow you to recognize a tax deduction if the contribution is made by the April 15th, 2014 deadline. Part of the contribution may be subject to a penalty and tax if you fail to remain HSA eligible. Withdrawals must be reported on your tax return but will not count against income if the funds are used for qualified medical expenditures.

A **0% capital gains tax rate** (generally) still applies to taxpayers whose ordinary income is taxed at below 25%. Rates are now 20% for those people in the highest tax bracket. If you are planning on recognizing significant capital gains by the end of the year, please call our office so that we can assist you in calculating the tax.

Tax free IRA distributions for charitable contributions are still available for 2013.

This technique benefits people who do not itemize or who are seeking to reduce the taxation of social security benefits.

2013 mileage rates are 56.5 cents per mile for business, 24 cents for medical, and 14 cents for charity. Travel to 1060 W. Addison does not qualify for a charitable deduction.

IRA contributions are \$5,500 this year for those under age 50 and an additional \$1,000 if you are over age 50 (those born before Beatlemania). You have until April 15th, 2014 to make your contribution. December 31st is a deadline for Roth IRA conversions, payroll deferral contributions, and eating leftover Christmas turkey.

A **simplified method for the home office deduction** is now allowable. A simplified description of the simplified method (simply stated) includes a \$5 per square foot deduction of the dedicated home office of up to 300 square feet. For a not-so-simple description, please check out this website:

<http://www.irs.gov/Businesses/Small-Businesses-%26-Self-Employed/Simplified-Option-for-Home-Office-Deduction>

YEAR END TAX TIPS

- Consider paying your 4th quarter state estimate in 2013 to receive a federal tax deduction (unless you are subject to alternative minimum tax).
- Track all of your receipts from holiday donations to charities.
- Pay outstanding tuition and medical bills by year end if those expenses are better utilized in this current year.