2013 Tax Season Tips and Reminders

By John Hsiao, CPA – Tax Manager

March 2013 **–** March Madness is not just about the NCAA basketball tournament or filling out your tournament bracket. It also means that the 2013 tax filing season is in full swing. The IRS has finally announced that it has now released and is accepting e-filing of all 2012 tax forms. As you gather your 2012 tax documents and related information for your tax preparer, here is a list of some commonly overlooked tax deductions and useful tax tips.

- **IRA contributions** – If you qualify, you can still contribute to your 2012 IRA account before April 15, 2013. The maximum amount of IRA contribution for 2012 is $5,000 for both you and your spouse (with an additional $1,000 catch-up contribution if you are age 50 or over). Remember, your non-working spouse can also contribute to an IRA account under the same rules. Deduction of your IRA contribution may be limited if you or your spouse participates in an employer-sponsored retirement plan.

- **Domestic production activities deduction (DPAD)** – If your business (self-employed, or through a partnership or S corporation) is in the field of construction, renovation, manufacturing of tangible personal property, raw materials, software development, production of films, video or sound recordings, farming, design of real property (such as architects or engineers), or certain other production related activities such as storage and handling within the United States, you may qualify for a special deduction of up to the lesser of 9% of your net business income or 9% of your 2012 adjusted gross income (AGI). However, your deduction cannot be more than 50% of the Form W-2 wages that you paid to your employees. If your business did not pay any Form W-2 wages, you cannot claim this deduction.

- **State and local general sales tax deduction –** If your sales taxes paid are higher than your state and local income taxes, you can elect to deduct the general sale taxes on your Schedule A Itemized Deductions. For this calculation, you may use either the actual amount of sales taxes that you paid on your purchases during 2012 or an estimated amount calculated using the IRS tables. Even if you are using the estimated sales tax amount based on the IRS tables, you can also include any sales taxes actually paid on specific major purchases: (1) a motor vehicle such as a car, motorcycle, motor home, recreational vehicle, SUV, truck, van, or off-road vehicle, (2) aircraft or boat, and (3) a home, or substantial home addition or major renovation.

- **Gambling winnings and losses –** Ordinarily, gross gambling winnings are reported as income on page one of your federal tax return, but your gambling losses are only allowed as itemized deductions back on Schedule A. Recent IRS guidance states that you may report **net** gambling winnings at the end of each day instead of separating gross winnings and losses for each separate event throughout the year. Depending on your gambling habits, this might significantly reduce the amount of taxable gambling income reported on your tax return. This may not impact your federal taxable income since you will likely be able to completely offset your net gambling winnings against your net gambling losses deducted on your Schedule A Itemized Deductions. However, reporting net winnings this way might significantly reduce your state taxes as most states do not allow itemized deductions, thereby eliminating the gambling loss deduction at the state level. It is important that you keep detailed records of your daily net gambling activity to support your claim on the tax returns.

- **Medical expenses for non-dependents –** You can deduct medical expenses that you pay for any person who you could have claimed as a dependent, except if that person received income of $3,800 or more, or filed a joint return with another person. For example, you provided more than half of your father's support during the year, but could not claim him as your dependent because he received $5,000 in 2012 pension income. You can still deduct any medical and dental expenses that you paid in 2012 for your father.

- **Medical expenses and other out-of-pocket costs –** You can deduct your travel costs incurred to receive medical care. If you had to drive your own car to take yourself or a dependent to the doctor or hospital for medical care, you can either deduct the actual cost of gas and oil, or you can claim 23 cents per mile, plus parking and tolls. If you travel to another city for medical care, your travel costs (airfare, train, bus, rental car, etc.) are also deductible.

- **Charitable donations –** In addition to charitable donations, you can also deduct any unreimbursed out-of-pocket expenses you paid to do volunteer work for qualified charitable organizations.

  - If you drove to and from or during the volunteer activity, you could deduct your actual cost of gas and oil, or 14 cents per charitable mile, plus parking and tolls.

  - Food and other items you purchased specifically to donate are considered as cash donations, deductible at the cost you paid.

  - Be sure to obtain a proper donation receipt or letter to substantiate your donation of $250 or more. It is also very important that the donation receipt or letter from the qualified charity includes a statement indicating that "no goods or services have been provided to you in exchange for your donation." The IRS has been disallowing charitable donation deductions by taxpayers who have a donation receipt, but are without this specific statement on it. You must obtain these donation receipts or letters by the time you file your return. For more information, **click here**.

- **Moving expenses** – Did you move in 2012 because of a new job? You can deduct reasonable expenses incurred for moving your household goods and personal effects, and travel costs for moving yourself and family from your old home to your new home. Reasonable expenses can include the cost of lodging (no meals) while traveling to your new home. You qualify for the moving expense deduction if your new job location is at least 50 miles farther from your old home than your old workplace was, and if you work full-time at your new workplace for at least 39 weeks during the 12 months right after you move.

- **Other miscellaneous deductions –** Don't forget these other miscellaneous deductions.

    - Unreimbursed employee expenses such as safety equipment, tools, uniforms, protective clothing, union and professional dues, and certain educational expenses, such as tuition for your MBA degree.

    - Casualty and theft losses of income-producing or personal property

    - Investment fees or trustee fees

    - Legal or accounting fees for tax planning

    - Safe deposit box rentals

United States tax law is very complicated, and there are often many different sets of rules that could come into play in a given situation. It is impossible to cover everything in an article, but Michael Silver & Company CPAs has a dedicated staff of tax experts who can help you with any questions you may have. Of course, we are also happy to help you fill out your NCAA tournament bracket (no guaranteed winners, though).

John has over eighteen years of experience in public accounting. He works closely with his clients on federal and state tax compliance, planning and projection issues, and retirement planning. He also provides business advice tailored to the specific needs of each client. John's industry and service expertise includes high net worth individuals, private wealth management offices, law firms, private investment partnerships, real estate, LLCs, and U.S. expatriates in foreign countries. John is also experienced in working and negotiating with the IRS and state revenue agencies on tax audits, tax compliance issues, and tax installment payments.