Newsletter – July 2012

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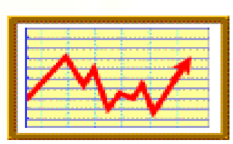
Sales Tax Holiday Weekend

The 2012 South Carolina tax-free weekend is August 3 -5. Items such as clothing, accessories, footwear, school supplies, computers and computer equipment are free from taxes; this includes the 6% sales tax and any local option taxes you may have. A complete list of items as well as questions and answers you may have can be found at http://www.sctax.org/Tax+Policy/Sales+Tax+Holiday+Information.htm. Copy and paste this link into your web browser.

Tax News

Expand your party guest list. Are you hosting a get-together and inviting only a few employees? Invite the entire workforce instead. *Reason:* You can write off 100% of your cost instead of the usual 50% limit for entertainment deductions.

SS wage base likely to increase



The 2013 SS wage base is projected to be $113,700, according to the trustees of the Social Security Trust Fund; in 2014, $117,900; in 2015, $123,000; and in 2016, $128, 400.

Create tax breaks: Buy parents' home, rent it back to them

Say your aging parents live in a home that has appreciated in value, but they are no longer reaping any of the homeownership tax breaks during their retirement years. Sound familiar?

Good news: With one stroke of the pen, both you and your parents can win: They would gain access to their home equity (without moving) and you would pick up some generous new tax deductions.

How? Buy your parents' house, and then rent it back to them—at the going rate.

Reasons for the sale/leaseback. Under the current homeownership setup, your combined family unit is overpaying the IRS.

Your parents' mortgage is either paid off or the payments represent mostly principal at this point. Even if they still take interest deductions, your parents' tax bracket might be low in retirement, so those deductions do not provide much tax savings. In fact, many retirees take the standard deduction rather than itemizing.

Here are two good reasons for your parents to opt into this plan:

1. It puts cash in their pockets without them having to refinance or dip into a home equity loan.
2. It allows them to put their money into safer investments than the real estate market.

Transferring the house. To avoid gift-tax complications, pay a fair price for the home. Support the buying price with a qualified and independent appraisal.

Then, both sides should enter into a lease at a fair rental value.

One benefit: Courts have said that landlords can reduce their fair-market rent by 20% when renting to relatives. That lower rent reflects the savings in maintenance and management costs. (*L.A. Bindseil*, TC Memo 1983-411)

But don't set the rent too low; the IRS might say the rental home is really for your personal use. In that case, your deductions might be limited to your mortgage interest and property tax, the same as if you owned a vacation home.

Taking deductions. Once you own your parents' house, you're entitled to reap the tax benefits of owning rental property.

That includes taking write-offs for operating expenses, such as utilities, maintenance, insurance, repairs and supplies.

You can also claim depreciation deductions for the home, but you can't depreciate the cost of the property apportioned to land.

So obtain an appraisal allocating the price paid between the depreciable structure and the non-depreciable land.

You can use these deductions to offset the rental income received from your parents. Any allowable tax loss will phase out for people with adjusted gross incomes between $100,000 and $150,000. You can take any suspended losses when you sell the house.

Bonus benefit: Once you own the house, you may be able to write off occasional travel expenses you incur when visiting the house (your rental investment).

Endgame: Eventually, your parents will not be able to live in the house. Then, you can sell it, rent it to another tenant, or move in. If you move in and make it your principal residence for at least two years, you can sell it and shelter another $250,000 or $500,000 worth of capital gains: a true tax bonanza!

Step forward to receive charitable deductions for good deeds

This tax break is available to regular volunteers and others who help out sporadically.

You can't deduct the cost of the time and effort you spend on behalf of charity. But that doesn't mean your good deeds will go for tax naught.

Strategy: Track your out-of-pocket costs. Even though you can't deduct the value of your endeavors, you can write off actual expenses associated with charitable activities.

Furthermore, you don't have to be a board member or one of the charity's biggest donators. This tax break is available to regular volunteers and others who help out sporadically.

What sort of expenses are we talking about? Here's a partial list.

- **Transportation:** If you use your car for charity, deduct the related costs attributable to gas and oil, repairs, insurance, etc. *Alternative:* You might opt for the flat-rate deduction of 14 cents per mile (plus related parking fees and tolls). Similarly, you can deduct plane, train or bus costs for traveling to charitable events.
- **Telephone charges:** You may deduct the full cost of long-distance telephone calls, faxes and cell phone charges made on behalf of a charity. If you install a landline in your home that you use solely for charitable purposes, the entire cost is deductible.
- **Home entertainment:** If you host a fundraiser or board meeting, you can deduct the entire cost of the catering expenses as a charitable deduction. *Note:* The 50% limit on entertainment and meal expenses doesn't apply here.
- **Fundraising dinners:** Normally, you can deduct the portion of the cost that exceeds the fair market value of a fundraising dinner. For example, let's say you and your spouse attend a dinner that costs $100 a head. If the meal is valued $35 a head, you can deduct $130 ($200 cost - $70 value). *Note:* For amounts exceeding $75, obtain written documentation from the charitable organization.
- **Uniforms:** A deduction is allowed for cost of uniforms used while performing charitable services as long as the clothing isn't suitable for everyday wear. *Classic example:* You can write off the cost of Boy Scout or Girl Scout uniforms.
- **Foreign exchange students:** If you host a foreign exchange student in your home, you can deduct up to $50 per month for each month the child attends high school. To qualify, the student must live in your home under a written agreement with a qualified charity. Also, the exchange student can't be a relative.
- **Charitable conventions:** You may be able to deduct the cost of attending a convention on behalf of a charity—such as meals and lodging—if you're an official delegate to the convention. But the convention must be the primary purpose of the trip. The deductible amount includes meals and lodging while you attend the convention. *Caveat:* The cost of any side trips to tourist attractions isn't deductible.
- ***Tip:*** Individually, these deductions may be small, but collectively they add up. Keep the records you'll need at tax return time.

Health Savings Accounts
IRS Announces 2013 Amounts

Like many other tax provisions, the health savings account (HSA) rules include amounts that are adjusted annually for inflation. However, the adjusted amounts for HSAs are announced earlier than others so that employers and health plans have enough time to incorporate the changes before the annual benefits enrollment season arrives in the fall.

The following table shows the new amounts that apply for 2013, along with their 2012 equivalents.

Health Savings Accounts Adjusted Items		
	2012	**2013**
Self-only coverage:		
Contribution limit	$3,100	$3,250
Plan minimum deductible	1,200	1,250
Plan out-of-pocket limit*	6,050	6,250
Family coverage:		
Contribution limit	$6,250	$6,450
Plan minimum deductible	2,400	2,500
Plan out-of-pocket limit*	12,100	12,500
Catch-up contribution—age 55 or older	$1,000	$1,000
*Deductibles, copayments and other amounts, but not premiums.		

DUE DATES

July

16th Payroll Tax Deposits
20th Sales/Hospitality Tax
31st Quarterly Reports
31st IFTA Reports

August

3rd – 5th Sales Tax Holiday Weekend
15th Payroll Tax Deposits
20th Sales/Hospitality Tax
31st Form 2290

September

17th Payroll Tax Deposits
17th Estimated Tax Payments
17th Corporate Returns on Extension
20th Sales/Hospitality Tax