

*John Murray CPA  
888 County Road D # 101  
New Brighton MN 55112  
651-631-1717*

## First Class

John Murray CPA

Tax Newsletter December 2013

### **THE NEW SAFE HARBOR METHOD- Home Office**

**IRS announced an optional safe-harbor method to calculate the amount of the deduction for expenses for home office or business use of a residence beginning with the current tax year, 2013.**

Individual taxpayers are now allowed to deduct \$5 per square foot for qualifying space. Calculating the percentage of water, sewer, insurance and rubbish and similar expenses is no longer necessary.

The allowable square footage is the portion of the house used in a qualified business use, but may not exceed 300 square feet. Therefore, the maximum a taxpayer can deduct annually under the safe harbor is \$1,500. The IRS may update the \$5 allowance from time to time, but it is not inflation adjusted.

Taxpayers who use the safe harbor cannot also deduct actual expenses related to qualified business use of the home (such as painting the office in the home) for that year; however, business expenses that are unrelated to the use of the home (such as advertising) can be deducted.

Taxpayers must continue to satisfy all the other requirements for a home office deduction, including the requirement that the space in the residence used as an office be used exclusively for that purpose and the limitation that an employee qualifies for the home office deduction only if the office is for the convenience of the taxpayer's employer.

**The cops arrested two young boys, one was drinking battery acid the other was eating fireworks. They charged one and let the other one off.**

### **Electronic filing It is a mess!!!**

In 2012 the IRS had a system that was working reasonably well, but they "improved it". There are now many more steps to submit a return electronically. If a return is not accepted and they send an electronic reject notice that is much more difficult to read than previously, they reference it not by name but by 20 digit number, so the numbers have to be matched up with the names. Determining whose return was rejected is a problem.

Reject notices are very cryptic, the IRS formerly gave a page on the tax return and the information block where the problem was, now they don't tell you that.

There is no online (or printed) manual explaining their messages. A "reject" could be anything meaning from a bad federal ID number on a payer, 1099 or W-2 to a bad VIN number on a donated car, or an extra space between two words in an address or a variety of other things, most of the problems fall into the category of formatting. The IRS requires the accountant (who is always wrong in their eyes) to submit the information in exactly the format they require. Even that wouldn't be so bad if they could tell you what they want.

Well, I'm sorry about the difficulties with the electronic filing. I appreciate everybody's patience of those who had a problem.

The IRS has promised a new system in the coming year that will fix the problems...I am holding my breath.

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[SEI Private Wealth Management](#), found that 82 percent of wealthy families believe that having more money means you have a greater obligation to be philanthropic.

### Reminder

The Minnesota attorney general's website has information on charities. I tells how much they spend fundraising vs program expense and other information. Before you donate to a charity you do not know well, no matter how sincere and worthy they make themselves out to be, it is wise to check them out.

### Make sure you file an extension

The IRS is getting a lot pickier on extensions. Particularly with partnerships, corporations, and S corporations. They have discovered that penalties are a new way to raise revenue. That always seems to be a popular issue at the IRS. The states too are getting into the act, they also like to extract penalties. The message here is pay attention to deadlines.

### Medical expenses

Generally unless you are 65 or older, the threshold for allowable medical expenses is 10% of adjusted gross income. Taxpayers or spouses who are 65 or older will continue to use the 7.5% threshold through 2016.

### Charitable deductions

Please note: No deduction is allowed for any charitable contribution of \$250 or more unless the taxpayer has a written acknowledgement indicating the amount and description of the property, the receipt must also say "no goods or services were provided." The IRS has consistently disallowed deductions that do not meet this standard. The Taxpayer always loses.

### Minnesota Gift tax

**Minnesota** has decided to come up with a very different system than the Federal. Generally for federal law you can either gift while living or leave after death a combined total of up to \$5.35 million. The overwhelming majority will never pay federal estate or gift taxes.

Minnesota allows an exemption of up to \$1M in gifts while alive and up to a \$1M estate after death. A gift while the donor is still alive does not reduce the \$1M estate tax exemption. For example with a \$2M estate the taxpayer gifts \$1M and then three years later dies leaving \$1M there is no tax. If the entire amount is left in the estate and no gift is made, then \$1M would be taxed.

Taxes on estates over \$1M are about \$38,000 on the first \$100,000, so yes if you cross the line of \$1M it can become a big deal.

Remember when counting your estate it normally includes the house, pension fund, IRA, 401K, lake cabin, personal property, jewelry, shares of stock, certificates, savings bonds, bank accounts, real estate, and possibly life insurance depending on who owns it. And everything else you own.

A word to the wise, people are worth a lot more than they thought they were when the government does the counting.

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**Little boys were bragging about their fathers, the one little guy whose dad was a preacher said: "my dad only works one hour a week, and it takes four men to haul in the money".**

## Merry Christmas And Happy New Year

*John Murray CPA*

651-631-1717

Email : [MurrayCPA@juno.com](mailto:MurrayCPA@juno.com)

Fax 651-636-5467