

First Class

John Murray CPA

Tax Newsletter June 2014

Great News – State Income tax can be eliminated

There are a couple of “small” hurdles you have to get past before you pay no state income tax. First you must be a resident of New Mexico for at least six months of the year and still a resident on Dec 31st. The second might be a little harder to get past. You must be at least 100 years old! Good luck on that one ...but it gives you something to shoot for.

DON'T GET SCAMMED

Applying for a federal identification number or a MN sales tax/ payroll tax identification number does not cost anything. There are various websites leading you into filing through them and charging a fee, but it is not necessary to pay any fees. The official websites are not that complicated and you can do it yourself.

Rich athletes?

78% of NFL athletes are either bankrupt or in severe financial distress (they can't pay their bills) two years after leaving the NFL and 60% of NBA players are broke five years after they retire.

Electronic filing

Generally speaking the tax season went a little smoother this year, except the IRS got a late start so much of January was blown away and then the legislature changed Minnesota's tax laws to conform with the federal (sort of) effective to the first of the year but they did not do it until late March.

Old accountants never die... they just go out of balance.

Sales tax craziness...Sales tax is a patchwork of rules and here are a few:

1. Candy bars containing flour are not taxable, while those that do not contain flour are taxable.
2. Fabric purchased to create a garment is not taxable. Fabric purchased to create anything else? Taxable. *“These are not my new drapes; this is my ball gown. Just ignore the curtain rod.”*
3. Men's belts fall into the category of “clothing” and as such are not taxable. Belt buckles sold separately, however, are considered “accessories” and are taxable.
4. If the locker at the bowling alley is permanently attached to the building, its use is not taxable. Not attached? Taxable.
5. Shutters purchased to attach to the sides of a window are not taxable. Conversely, blinds that attach to the top of a window are taxable.
6. Hiring a housekeeper to wash dishes, make beds, dust and pick up is not taxable. But hiring a housekeeper to clean floors and bathrooms is taxable.
7. Labor to repair computer equipment or reinstall software is not subject to sales tax. Labor to set up your computer and/or to install new software is taxable.
8. Snowplowing is not taxable, while landscaping and lawn mowing are taxable.
9. The purchase of a faux fur coat is not taxable. Purchasing a real fur coat, on the other hand, is taxable.
10. Workers in Minnesota won't pay sales tax when they attend a continuing professional education seminar or class in person. Learn the same

material online via a webcast or webinar? It's taxable.

Social Security

There is a formula for social security, and here is a rough guide on how early retirement is calculated: A retiree is Social security eligible at 62, and the benefit increases monthly up until age 70, after 70 there is no further increase in benefits if you do not take them. The breakeven age for taking early retirement is about age 82½.

For example if you retire at age 62 and draw \$1,000 per month you would collect \$246,000 by age 82½. If you retire at age 70 you would collect the same \$246,000 by age 82½ but in a higher monthly amount, that works out to about \$1,640 per month. If you live longer than 82½ you are ahead financially to defer benefits, because you continue to get the higher amount for as long as you live.

There are of course other factors involved in the social security decision than just financial. Your estimated social security benefits can be accessed online at www.ssa.gov.

Charity

There are many worthwhile charities out there doing great things. If you are solicited though it would be a good idea to check the MN attorney general's website to see how much the charity spends on overhead and fundraising vs. how much actually is used for their charitable purpose.

I was recently solicited by a disabled veterans "charity" that was actually headquartered out of a UPS store and spent 85% of revenue on fundraising. There are unscrupulous operators out there trying to bilk the unwary by using their sympathy for kids, veterans or someone else to get into someone's pocket. Be careful.

Mileage

Mileage rate for 2014 is 56 cents per mile.

IRA Rollovers

The tax court has recently ruled that a taxpayer is allowed only one rollover per year. This means that if you have multiple IRAs, and want to consolidate them

only one per year may be rolled over tax free. Previously it was thought each individual IRA could be rolled over once per year. The tax court has held that to be not true. If you have multiple IRAs and want to consolidate them before retirement, keep the rollover rule in mind.



Still smiling after a tough tax season

MN Estate Tax changed (again)

Minnesota's gift tax has been repealed. There is now only one state that has a gift tax. The estate tax has been changed to taxing estates over \$1.2 million in 2014. This will gradually increase to \$2M in 2018.

The legislature apparently was hearing that significant numbers of wealthy MN residents were moving to Florida and other no tax states. If you spend 183 days in Florida you are a resident. FL has no state income tax and no estate tax. Minnesota's estate tax gave wealthy individuals who winter in FL, an incentive to spend an extra month or so in that state. Repeal of the estate tax is intended to reverse the trend.

Ole and Lars were on their very first train ride, heading to Minneapolis. They had brought along bananas for lunch. Just as they began to peel them, the train entered a long, dark tunnel. "Have you eaten your banana yet?" Ole asked excitedly. "No," replied Lars. "Vell don't touch it den," Ole exclaimed. "I jyst took vun bite and vent blind!"

John Murray CPA

651-631-1717

Email : MurrayCPA@juno.com

Fax 651-636-5467