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## First Class

John Murray CPA

Tax Newsletter December 2014

### IRS Notices

The word to the wise: the IRS may lose their emails, but their computers do a very good job of matching 1099's to your tax return. Be very careful to include all your information. Failure to do so will result in a notice a couple years down the road asking for more tax to be paid....with interest.

### Wealth

Of the *Forbes* 400 from 1987, 327 people have dropped off the list. Of the remaining 73 people, those with the highest annual rates of return are generally self-made entrepreneurs and investors—not heirs—with an average annual real rate of return of 5.6 percent over the last 26 years.

Wealth today is largely generated by entrepreneurial skill, with the number of entrepreneurs on the *Forbes* 400 list rising from 40 percent in 1982 to 69 percent in 2011.

The role of inheritance has diminished over the last generation; the share of the *Forbes* 400 that grew up wealthy has fallen from 60 percent in 1982 to 32 percent today.

### Notary

*Just a reminder I am a notary, and I will notarize for free for clients. If you need a notary I am available.*

### Estate tax exemption for Minnesota:

(Slight correction on previous information.)

The exemption is:

2014 \$1.2M

2015 \$1.4M

2016 \$1.6M

2017 \$1.8M

2018 and beyond \$ 2M

The gift tax has been repealed however gifts made within 3 years of death are included in the estate.

### IRA Rollover clarification

The IRS has clarified the rules on rollovers, as long as the IRA account is rolled over trustee to trustee, an unlimited number of accounts can be rolled over in one year. However, if the taxpayer actually receives the funds, he is required to deposit them with another trustee within 60 days. Only one such rollover may be done per year. As a side note, **the 60 day rule on IRA rollovers is a “drop dead” rule**, no exceptions, no extra time, and no excuses for not meeting the deadline.

## **Bitcoin and other virtual currencies**

The IRS has decided that bitcoins and other virtual currencies will be treated as property, and that the rules of a sale will be applied. In other words, the cost basis of the bitcoin is subtracted from the fair market value of whatever is received and that will be the taxable gain or loss on the transaction.

## **Building repairs small taxpayers**

Regulations now provide for a safe harbor allowing qualifying small taxpayers to deduct amounts for improvements repairs and maintenance and similar activities.

The building can have a basis of no more than \$1 million, and the taxpayer is allowed a deduction not to exceed \$10,000 or 2% of the basis of the building.

This should be helpful for a lot of smaller buildings and eliminate arguments with the IRS over what's an improvement and what is considered a deductible repair.

## **Corporate Inversions**

"Corporate inversions" have been in the news lately. An inversion allows a US corporation to become a foreign corporation through a stock trade. The advantage for the corporation is it avoids US tax on some future earnings. The downside for stockholders is, the inversion is treated as a stock sale, even though stockholders receive no cash; only stock in the new corporation. If this is happening to you give me a call. It requires some tax planning.

## **Health insurance**

There is now a requirement to carry health insurance. The rules are very complicated. There will be a new question on the 2014 income tax forms asking if you have health insurance, and there are penalties if you do not.

## **"Private letter ruling"**

Taxpayers who have a complicated tax problems in an area of the tax law that is in doubt can get what is called a "Private Letter Ruling". The IRS will tell you if it will approve of what you want to do. They charge for this and the current cost is \$19K.

## **Tax season is just over the horizon.**

If there has been a large change in your income or a significant financial change in your situation we might want to look at your tax situation more closely, possibly changing estimates or taking other action that may be needed.



*Merry Christmas and Happy New Year*

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