Introduction-

HAPPY NEW YEAR! Yes we made it through another year and hope all enjoyed their holidays. During 2013 we experience a roller coaster of a year both at home in the US and abroad. In Boston, individuals launched an attack on runners and spectators during the Boston Marathon which is causing a chain reaction of heightened security at many public events. Overseas, we see a continued reduction in service members deployed overseas in Afghanistan with a potential for complete withdrawal by the end of this year. The US continues with its "Pivot to Asia" as part of their current policy. This is affecting both the economic and military sectors as we focus on the continued rise of the Chinese economy along with other nations in the region. For economic prosperity to flourish in the region, security is becoming a greater concern both on land and sea. The US economy is showing signs of a slow recovery with some areas showing greater promise. In spite of the slow recovery, the markets have rebounded strongly though out the year – though there were many ups and downs during the year. One of the biggest economic events was the roll out of the Affordable Care Act. The roll out at the federal level had many challenges to include a website that had significant impairments to include security risks. We were fortunate in NYS that the state had their own website which was not plagued by many of the same issues as the federal websites were. Enrollment to date is well short of the overall goals that were established to make the current rates viable. The launch of such a massive program was conducted during the first government shutdown (sequestration) which we are sure didn't help matters. Government spending is still at an all-time high with continued increasing deficits. Tax rates are increasing on the wealthy, but we expect in the near future there will either be significant spending reductions or additional increases in taxes or fees to support the government spending.

Office Procedures–

During the past year we have undergone changes here to make sure we can continue to serve you in a professional manner. Our systems undergone hardware and software upgrades to ensure the continued security of your information. We have added additional staff of Travis Rask, a recent graduate of Siena College and Cathryn Richard who recently relocated to the area. We said goodbye to Randy Boughton who recently took a job as a full-time auditor and Kalyn Fisher who left to lead a Human Resource department. Unfortunately, this year there will be a fee increase for many services we provide. We have tried to hold the costs down for many years and be sensitive to increases.

We will start personal tax appointments on February 3rd this year. The IRS systems will be ready to receive information starting January 31st. For personal returns – information needs to be dropped off by April 4th to ensure we have enough time to prepare the returns for the April 15th deadline.

Business return information should be dropped off as soon as it is ready to ensure we can get it processed in a timely manner.

We will begin 1099 processing immediately – please drop off by January 22nd to ensure we can comply with the deadlines for distribution.

Tax deductions or credits that will terminate after 2013- This is subject to the sunset provisions in law unless there is congressional action.

1. The teacher $250 deduction as an adjustment to income
2. Forgiveness of debt on home foreclosure or short sale gains
3. The transit benefit provided by the employer
4. Mortgage insurance deduction (PMI) no longer available
5. Direct charitable contribution from an IRA
6. Sales tax deduction

7. Electric vehicle credit
8. Energy efficient home improvement credit (storm windows, doors, insulation)

Health Insurance Credits-

Tax credit for small business employers who provide health insurance for their employees is no longer available after 2013 unless the insurance is purchased thru the Marketplace/Exchange (nystateofhealth.ny.gov). Likewise, for individuals to receive the health insurance tax credit, they must go thru the Exchange to be eligible. The tax credit can be used to offset the cost of health insurance and the adjustment either over or under will be reflected on the 2014 tax return.

Additional Medicare Tax (0.9%)-

For taxpayers earning more than $200,000 an additional social security tax .9% will be withheld by the employer. For married couples with more than $250,000 in earned income, the additional tax will have to be calculated and paid either thru estimated tax, increased withholding or with the tax return. Self-employed individuals cannot take the additional tax as a deduction.

New York State Unemployment Base is on the Rise-

The New York State wages subject to unemployment insurance currently at $8,500 will increase to $10,300 in 2014, $10,500 in 2015 and $200 to $300 in subsequent years thru 2026 reaching a base wage of $13,000.

3.8 % Tax on Investment Income-

There will be an additional 3.8% tax on investment income for taxpayers with income in excess of the $250,000 threshold. Should you be in this category of taxpayers, there are strategies that can be implemented to minimize the impact such as tax free bonds, deferring income, etc. Trust accounts will be subject to the additional tax on income in excess of $16,000 if not distributed. Call us to set up an appointment.

Financial planning- Define needs and wants.

Needs are the expenses that are required such as food, clothing, shelter and other necessities. Wants are life enhancements such as entertainment, membership, recreation, new cars, electronics, etc, and or discretionary items. Needs must be satisfied, wants can be achieved only when funds are available. The attached worksheet may help you to determine and separate needs and wants. We are available to develop a financial plan for you.

Need help calculating your Social Security Benefits?

We are now able to calculate and provide a chart to show when it is the most beneficial to start drawing social security. We will need the projected amounts which you can receive from social security, other retirement benefits as well as your date of birth.

Plan Now to Get Full Benefit of Saver's Credit-

Low- and moderate-income workers can take steps now to save for retirement and earn a special tax credit in 2013 and the years ahead. The saver's credit helps offset part of the first $2,000 workers voluntarily contribute to IRAs and to 401(k) plans and similar workplace retirement programs. Eligible workers still have time to make qualifying retirement contributions and get the saver's credit on their 2013 tax return. People have until April 15, 2014, to set up a new individual retirement arrangement or add money to an existing IRA for 2013. However, elective deferrals (contributions) must be made by the end of the year to a 401(k) plan or similar workplace program, such as a 403(b) plan for employees of public schools and certain tax-exempt organizations, a governmental 457 plan for state or local government employees, and the Thrift Savings Plan for federal employees. Employees who are unable to set aside money for this year may want to schedule their 2014 contributions soon so their employer can begin withholding them in January. More information about the credit is on IRS.gov.

2014 Pension Plan Limitations-

Cost‧of‧living adjustments for tax year 2014 will be affecting dollar limitations for pension plans and other retirement-related items. Some pension limitations such as those governing 401(k) plans and IRAs will remain unchanged because the increase in the Consumer Price Index did not meet the statutory thresholds for their adjustment. However, other pension plan limitations will increase for 2014.

- The elective deferral (contribution) limit for employees who participate in 401(k), 403(b), most 457 plans, and the federal government's Thrift Savings Plan remains unchanged at $17,500.
- The catch-up contribution limit for employees aged 50 and over who participate in 401(k), 403(b), most 457 plans, and the federal government's Thrift Savings Plan remains unchanged at $5,500.
- The limit on annual contributions to an Individual Retirement Arrangement (IRA) remains unchanged at $5,500. The additional catch-up contribution limit for individuals aged 50 and over is not subject to an annual cost-of-living adjustment and remains $1,000.
- The deduction for taxpayers making contributions to a traditional IRA is phased out for singles and heads of household who are covered by a workplace retirement plan and have modified adjusted gross incomes (AGI) between $60,000 and $70,000, up from $59,000 and $69,000 in 2013. For married couples filing jointly, in which the spouse who makes the IRA contribution is covered by a workplace retirement plan, the income phase-out range is $96,000 to $116,000, up from $95,000 to $115,000. For an IRA contributor who is not covered by a workplace retirement plan and is married to someone who is covered, the deduction is phased out if the couple's income is between $181,000 and $191,000, up from $178,000 and $188,000. For a married individual filing a separate return who is covered by a workplace retirement plan, the phase-out range is not subject to an annual cost-of-living adjustment and remains $0 to $10,000.
- The AGI phase-out range for taxpayers making contributions to a Roth IRA is $181,000 to $191,000 for married couples filing jointly, up from $178,000 to $188,000 in 2013. For singles and heads of household, the income phase-out range is $114,000 to $129,000, up from $112,000 to $127,000. For a married individual filing a separate return, the phase-out range is not subject to an annual cost-of-living adjustment and remains $0 to $10,000.
- The AGI limit for the saver's credit (also known as the retirement savings contribution credit) for low- and moderate-income workers is $60,000 for married couples filing jointly, up from $59,000 in 2013; $45,000 for heads of household, up from $44,250; and $30,000 for married individuals filing separately and for singles, up from $29,500.

Defense of Marriage Act-

The Supreme Court ruling will now impact the federal filings of same sex couples. For tax years 2013 and forward, individuals of the same sex will be considered lawfully married under the Internal Revenue Code as long as they were married in a state that authorizes same-sex marriages even if they do not reside in the state. This does not apply to domestic partnerships, civil unions or other relationships not defined as marriage in the state law. This may have tremendous impact on both employee benefits and retirements.

Rates Change-

Beginning on Jan. 1, 2014, the standard mileage rates have decrease by ½ a cent and will be:

- 56 cents per mile for business miles driven
- 23.5 cents per mile driven for medical or moving purposes
- 14 cents per mile driven in service of charitable organizations

Starting this year when we file we reinstate the top tax rate of 39.6% and have to calculate potential reduction in standard/itemized deductions and exemption amounts based on adjusted gross income.

SEC 179 business expense deductions are reduced to $25,000 in 2014.

Medical expenses are only deductible to the amount they exceed 10% (up from 7.5%) for anyone under the age of 65.