

Tax Changes Affecting Individuals & Households

In our previous newsletter we shared with you some tax changes related to health care reform. In this issue, we are going to address some tax changes that affect individuals and households.

- 1) A major mortgage related tax break is gone. In 2013, homeowners paying for private mortgage insurance (PMI) who chose to itemize their deductions could write off the cost of PMI premiums plus related interest and taxes. That isn't possible now.
- 2) No more above-the-line tuition & fees deduction. For 2013, an eligible taxpayer could take an above-the-line deduction for qualified educational expenses paid during the tax year. That deduction ranged from \$2,000-\$4,000. The opportunity is gone in 2014, though the American Opportunity Credit and the Lifetime Learning Credit remain.
- 3) No more educator expenses deduction. Last year, educators employed by eligible primary or secondary institutions could take an above-the-line tax deduction of up to \$250 for unreimbursed expenses for school and classroom-related supplies. In 2014, it is no longer around.
- 4) Two major energy-efficient home improvement credits are gone. In 2013, taxpayers who made certain energy-saving improvements to their residences could claim a tax credit of as much as \$500 to offset the cost of the upgrades. Contractors could also claim a credit for building energy-efficient homes for their clients (up to \$2,000 per home). Neither perk is around for 2014.
- 5) The standard deduction is slightly greater. The amounts for 2014 are as follows: Single filers, married filing separately = \$6,200 (up \$100 from 2013); Head of household = \$9,100 (up \$150 from 2013); and Married filing jointly/qualifying survivor = \$12,400 (up \$200 from 2013).
- 6) The personal exemption rises by \$50. In 2013, it was \$3,900 and in 2014 it is \$3,950.
- 7) Retirement earnings test amounts for Social Security have risen. If you receive Social Security benefits and you will be younger than full retirement age at the end of 2014, \$1 of your benefits will be withheld for every \$2 that you earn above \$15,480 (a \$360 increase from 2013). If you receive Social Security benefits and reach full retirement age during 2014, \$1 of your benefits will be withheld for every \$3 that you earn above \$41,400 – but that restriction applies only to earnings in the months prior to attaining full retirement age. (The applicable 2014 limit was \$40,080.) There is no limit on earnings starting the month an individual attains full retirement age.



So, you might be asking, what hasn't changed? Traditional/Roth IRA contribution limits; 401(k), 403(b), TSP contribution limits; SIMPLE plan contribution limits; Flexible Spending Account (FSA) contribution limit; "Kiddie" tax standard deduction; "Kiddie" tax threshold; child tax credit eligibility threshold; American Opportunity Tax Credit; Lifetime Learning Credit; and student loan interest deduction, to name a few.

If you have any questions or concerns regarding these alterations to the federal tax code, please contact our office.

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Possible FUTA Tax Increase

The FUTA (Federal Unemployment Tax Act) tax is normally 0.6% of wages paid up to a limit of \$7,000 per employee (\$42 per employee). However, employers in as many as 13 states, including Missouri, may have to pay more in FUTA tax for 2014, which is payable in January 2015.



For example, for profit employers pay a FUTA tax rate of 6.0%, which includes a "credit" of 5.4% for payment of state unemployment taxes, making the effective FUTA tax rate 0.6%. When the state's unemployment funds are depleted, due to a large number of people receiving unemployment benefits, the states begin to use funds from a federal unemployment insurance account as a type of loan. After two years, if these loans are not paid back, part of the 5.4% "credit" is reduced, causing the effective FUTA tax rate to increase.

During this "credit reduction" period, the FUTA tax is typically increased by approximately \$21 per employee. These additional amounts won't become due until January of the following year when employers file their annual FUTA, 940 forms. We could see these increases annually until the federal loans are paid back in full.

Will Your Social Security Be Taxed?

Will some of your Social Security income be taxable this year? That depends on your "combined income," which Social Security calculates using this formula:

Adjusted gross income + tax-exempt interest + 50% of Social Security benefits = combined income

If your combined income is between the following amounts, you may have to pay federal income tax on up to 50% of your benefits:

Single filers \$25,000-34,000 Joint filers \$32,000-44,000

If it exceeds the following amounts, you may have to pay federal income tax on up to 85% of your benefits:

Single filers \$34,000 Joint filers \$44,000

Marrieds who file separately will "probably" have their Social Security benefits taxed, according to the program's website.

When your annual income exceeds \$85,000 you also become subject to higher Medicare premiums.

Essential Estate Planning Documents

Having the proper estate planning documents can help protect you, your family, and your assets. We have put together a list of some essential estate planning documents that you should consider discussing with an estate planning attorney.

Power of Attorney

A power of attorney document appoints someone (or more than one person) that you trust to handle your financial affairs. You can have an immediate power of attorney that allows your appointee to act on your behalf immediately or you can have a springing power of attorney that only goes into effect when you are incapacitated. Having this document is very important in order to avoid having the courts appoint a conservator.

Advanced Health Care Directive

This document specifically addresses your healthcare preferences should you be unable to communicate them yourself. It informs your family, doctors, and hospitals on the types of care, treatments, and tests you would or would not wish to have. It allows you the power to appoint someone (or more than one person) to make health care decisions on your behalf.

Guardianship for Minor Children

If you have minor children you should have a guardianship document or provision in your will. A guardian is someone who is legally responsible for a child in lieu of parents. Guardians are appointed for children when the parents are deceased or if they are unable to care for them. If you should die and failed to designate a guardian, the courts will decide who takes care of your minor children.

A Will

This document is used by many people to transfer their assets upon their death. Most wills are inexpensive to prepare, but usually result in probate which can be a time-consuming and expensive process. Consider a pour-over will that leaves everything to a living trust.

A Living Trust

A living trust is the preferred method of transferring assets upon death for most people. Assets transferred via a trust are more confidential, less costly, result in faster distribution, and are less likely to be contested than with a will that is probated. There can also be some estate tax benefits. However, creating a trust is usually more expensive than a will. Once you have a trust in place you can fund the trust by transferring real estate, bank accounts, investment accounts and other personal property to the trust.



It's a good idea to consult with an attorney about the proper estate planning documents that meet your specific needs.

How Can LTC Insurance Help Protect Your Assets?

How will you pay for long term care (LTC)? The sad fact is that most people don't know the answer to that question. But a solution is available. Many baby boomers are opting to make long term care coverage an important part of their retirement strategies. The reasons to get an LTC policy after age 50 are very compelling.

The cost of assisted living or nursing home care alone could motivate you to pay for an LTC policy. Genworth Financial conducts a respected annual Cost of Care Survey to gauge the price of long term care in the U.S. The 2014 report found that:

*In 2014, the median annual cost of a private room in a nursing home is \$87,600 or \$240 per day – up 4.35% from last year. The median annual cost of a semi-private room is \$212 a day, which calculates out to \$77,380; that is 2.62% greater than what Genworth estimated last year.

*A private one-bedroom unit in an assisted living facility has a median cost of \$3,500 a month, which for the record is 1.45% higher than in the 2013 survey.

*The median hourly payment to a non-Medicare certified, state-licensed home health aide is \$20 in 2014, up 1.59% from 2013.

Can you imagine spending an extra \$40-90K out of your retirement savings in a year? What if you had to do it for more than one year? The Department of Health & Human Services estimates that if you are 65 today, you have about a 70% chance of needing some form of LTC during the balance of your life. About 20% of those who will require it will need LTC for at least five years. Today, the average woman in need of LTC needs it for 3.7 years while the average man needs it for 2.2 years.

Why procrastinate? The earlier you opt for LTC coverage, the cheaper the premiums. This is why many people purchase it before they retire. Those in poor health or over the age of 80 are frequently ineligible for coverage.

Employer Provided Health Insurance Reporting Requirements

There are some new reporting requirements under the Affordable Care Act Provision that take effect in the next couple of years that you should be aware of. These are requirements for all employers, regardless of the number of employees.

- You must withhold and report an additional 0.9% on employee wages or compensation that exceeds \$200,000.
- Effective for calendar year 2015, you will be required to report the value of the health insurance coverage you provided to each employee on his or her form W-2. Reporting for the 2014 year is optional.
- Also effective for the 2015 year, if you provide self-insured health coverage to your employees, you must file an annual return reporting certain information for each employee you cover. This is also optional for 2014.

What does it pay for?

Some people think LTC coverage only pays for nursing home care. It can actually pay for a variety of nursing, social, and rehabilitative services at home and away from home, for people with a chronic illness or disability. For example, it can fund home health care, care in a group living facility and adult daycare.



Choosing a DBA. That stands for Daily Benefit Amount - the maximum amount that your LTC plan will pay per day for care in a nursing home facility. You can choose a Daily Benefit Amount when you pay for your LTC coverage, and you can also choose the length of time that you may receive the full DBA on a daily basis. Some of these plans offer you "inflation protection" at enrollment, so your pool of money can grow.

The Medicare misconception. Too many people think Medicare will pick up the cost of long term care. Medicare is not long term care insurance. Medicare will only pay for the first 100 days of nursing home care, and only if 1) you are getting skilled care and 2) you go into the nursing home right after a hospital stay of at least 3 days. Medicare also covers limited home visits for skilled care, and some hospice services for the terminally ill. That's all.

Now, *Medicaid* might help you pay for nursing home and assisting living care, but it is basically aid for the destitute. Some nursing homes and assisted living facilities don't accept it, and for Medicaid to pay for LTC in the first place, the care has to be proven to be "medically necessary" for the patient. Do you really want to wait until you are just about broke to try and find a way to fund long term care? Of course not. LTC insurance provides a way to do it.

Contact us to discuss some of the LTC choices you can explore – while many Americans have life, health and disability insurance, that's not the same thing as long term care coverage.



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