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CLIENT UPDATE 1st QUARTER 2015

"Wealth consists not in having great possessions, but in having few wants." Epictetus

News To Note

Some Retirement & Health Savings Account (HSA) plan limits have been increased for tax year 2015 & for some, you may have until April 15, 2015 to make your maximum contribution for tax year 2014. Please contact us or your tax advisor for more detailed information.

When you reach age 70½, you may have to begin taking **Required Minimum Distributions (RMD)** from your IRA(s) &/or qualified retirement plan account(s) each year. For more information please request a copy of our **FREE BROCHURE**, *"70½!? What's the big deal?"*

Employers don't forget to comply with all of your **Annual Requirements.** If you offer any employee benefits, then there is most likely at least one that will apply. This includes, but is not limited to, Group Health & Retirement plans. Please contact us if you have any questions.

The Mandate requiring most individuals to have qualified health plan coverage or pay a penalty became effective January 1, 2014 and increases each year. **The 2015 Individual Health Plan Open Enrollment ends 2/15/2015 (for a 3/1/2015 effective date).** Once the open enrollment ends, you will need proof of a qualifying event (ie involuntary loss of other qualifying coverage) or have to wait until the next open enrollment period (2016) in order to purchase individual health plan coverage. Please contact us for more detailed information on the mandate, individual health plan options, and government subsidies.

Affordable Care Act's Tax Effects Now Loom for Filers

If you decided not have health insurance in 2014, consider this: Unless you can prove you had a valid excuse, you will be liable for a penalty during this tax season — and the time to start making your case is now. That's not all. People who bought subsidized insurance through one of the marketplaces may have new tax forms to complete, while paying the penalty itself may demand some serious number crunching.

According to a recent article in The New York Times, the Internal Revenue Service is gearing up to answer questions, but it warns that only half of the callers may get through — and those who succeed may have to wait a half hour or more. "There are quite a number of moving parts that taxpayers have not had to deal with," said Kristin Esposito, technical tax manager for the American Institute of Certified Public Accountants.

The Obama administration's Affordable Care Act — including its penalty provision — is in effect for the first time and will be reconciled through a person's tax return. For most taxpayers, this will simply mean checking a box on a tax return indicating they had insurance for the full year. But millions of others will have to grapple with new tax forms and calculations that may generate unexpected results. For instance, most of the 6.7 million people who bought insurance through the exchanges received subsidies, which reduced their monthly premiums. But those subsidies were based on previous years' income — so people whose incomes have changed will inevitably have to pay some of that money back, while others may receive fatter refunds.

Paying the penalty may also deliver some surprises. People who were uninsured for more than three consecutive months may owe something. And since the penalty will double for 2015, now is the time to determine how much that might cost, before it is too late to buy a health policy (note – the 2015 individual open enrollment period ends 2/15/2015 for a 3/1/2015 effective date).

“This is a learning experience for everyone involved,” said Roberton Williams, a senior fellow at the Tax Policy Center, a joint venture of the Urban Institute and the Brookings Institution. “When you combine that with all of the problems with the exchanges, there will be a lot of confusion and people will be sorting it out. I am sure the IRS will be inundated with calls.” But be prepared to hit redial. John Koskinen, the Internal Revenue Service commissioner, admitted in a recent speech that because of budget constraints, the agency may be equipped to answer just over half of the phone calls it receives. Many will get a “courtesy disconnect.”

The tax filing season will also serve as yet another big test for the federal government, since it will require several government entities — the state and federal marketplaces and the IRS among them — to share data and send out new tax forms with accurate information in a timely manner. Here are some of the biggest ways the new law may affect taxpayers:

EXEMPTIONS

Consumer advocates said they were concerned that some taxpayers might not realize that they needed to apply for certain exemptions, and, in some cases, substantiate their circumstances. (An estimated 23 million people will qualify for an exemption in 2016, while many others will be granted a pass because of a hardship, according to a federal analysis.) Some exemptions must be applied for through the exchanges, while others can be claimed only on income tax returns and some can be granted through either channel. (The IRS and healthcare.gov have lists of where to apply for each). For instance, people who cannot find affordable coverage — costing 8% of household income or less — must claim that exemption on their tax returns. But the most time consuming exemptions require mailing a signed paper application to the exchanges: These are processed manually, which can take a couple of weeks. Those exemptions include several hardships, such as foreclosure, the death of a family member, unpaid medical bills and eviction, as well as religious reasons for not using insurance. “Do it now because it’s a cumbersome process,” advised Mark Steber, chief tax officer at Jackson Hewitt Tax Service. Once an exemption is approved (and if it’s not, the applicant can appeal), a taxpayer is sent an “exemption certificate number,” which should be entered on the tax return. “We know in some cases those certificates have not come back yet,” said Cheryl Fish-Parcham, private insurance program director at Families USA, a consumer advocacy group. TurboTax, the tax preparation software brand, has a free exemption check tool that can determine if taxpayers qualify and help them apply.

PENALTIES

Uninsured people who cannot qualify for an exemption will be required to pay a penalty, also known as the individual shared responsibility payment. Even people who went without insurance for more than three months may have to pay something. The penalties will rise sharply over the next couple of years, so taxpayers contemplating paying the penalty instead of buying insurance for the coming year should run those calculations soon: The 2015 open enrollment on the health care exchanges ends on 2/15/2015. For the 2014 tax year, individuals pay whichever is more: $95 or 1% of the portion of their modified adjusted gross income that exceeds the federal income tax filing threshold: $10,150, for example, for those with single filing status. But payments are calculated on a monthly basis for each household member. Those figures are about to double. A family of four earning $100,000 who skipped coverage in the last year would owe just shy of $800 in 2014, but it would need to pay nearly $1,650 in 2015, according to the Tax Policy Center’s calculator, which can determine how much a taxpayer might pay. There is some question about how aggressive the IRS will be in collecting the penalty in its first year. But in 2016, an estimated four million people will pay penalties, according to a federal analysis. The agency will not be permitted to resort to its usual collection tactics, such as using levies — like wage garnishment — or liens. It cannot criminally prosecute those who do not comply, either. But the IRS can deduct the penalty from any refund due. And if a taxpayer isn’t owed a refund — and fails to pay the penalty — the amount will accrue interest and roll over into the following tax years. The IRS could continue to deduct the growing amount from any refunds due for 10 years, which is how long the agency is allowed to collect payments.

“Defeat is not the worst of failures. Not to have tried is the true failure.” George Edward Woodberry

RECONCILING

People who bought subsidized insurance on the exchanges received what is actually an advance on a tax credit. Since the amount of help taxpayers received was based on 2012 income, it will need to be reconciled against what they actually earned in 2014 — particularly if they earned more or less and did not update their income data on the exchange. Some people will be surprised that they must pay some of that money back, or at least have it deducted from what they would have received in a refund. Conversely, people who earned less money in 2014 — and who received subsidies that were too small — may receive money back. Changes in life circumstances — a divorce, marriage, a new child — can also affect those numbers. “This is the part that can be very complex,” said Kathy Pickering, executive director of the Tax Institute at H&R Block. “People think of the tax credit as a discount on their premium. But realizing it can be something you repay a portion of is going to be a surprise.” Taxpayers may be comforted that there are caps on the amount that must be paid back, though a family of four with a household income exceeding $94,200 would have to pay back the full amount if it received too much in premium subsidies. But some taxpayers who are on the edge of losing premium subsidies may be able to reduce their incomes enough to qualify for the credits. For instance, people can contribute to a retirement account — like a 401(k), 403(b) or traditional IRA (note – you have until 4/15/2015 to reduce your 2014 taxable income by making a traditional IRA contribution), tax experts said. “This is the perfect time to look at their income,” Ms. Pickering added, “because they still have time to make a change.”

Now is the time to take action. Don't delay. Contact us for your annual review, RIGHT NOW, while this is fresh on your mind. We'll take care of the rest!

Quiz Question

(True/False, Answer On Last Page)

Everyone legally residing in the USA was required to be covered by a qualified health plan effective 1/1/2014, or pay a penalty.

Planning Tip

A TIAA-CREF survey on retirement savings shows one third of people nearing retirement wish they had invested more aggressively during their lifetime. Being too conservative in their investments was one of the top regrets for people age 55 to 64 who were in an employer-sponsored retirement plan, according to TIAA-CREF's Ready to Retire survey.

52% of those nearing retirement wish they had started saving sooner, and 47% wish they had saved more of their paycheck, the survey says. The survey included 1,000 participants, 140 of whom were age 55 to 64.
68% of those approaching retirement say they are unprepared for their future. “This research reinforces that preparing for retirement shouldn’t become a sprint to the finish, but rather a long-distance pursuit that requires careful planning throughout an adult’s life,” says Teresa Hassara, executive vice president of TIAA-CREF's Institutional Business.

According to the survey, financial challenges make up three of the top four concerns for individuals close to retirement. Many worry about not having enough money to cover their monthly expenses (45%), while others are anxious about how health-care costs (35%) or inflation (32%) could deplete their retirement savings, TIAA-CREF says. To supplement their savings in retirement, 42% of the near retirees say they plan on working part time, 39% say they will spend more conservatively, and 23% say they will move to less expensive homes, the survey says.

Free Information

Please contact us for **FREE** information on subjects such as; Health Care Reforms, Financial Management, Insurance & Investment Price Comparisons, Financial Inventories, Living Wills & Health Care Surrogate Designations, Estate Planning, and many more.

The need for long-term care is one of the biggest financial threats you could potentially face in life and the time to prepare is now. Request a copy of *"A 3-Step Guide to Smarter Long-Term Care Planning"*. This free guide provides information and tips regarding long-term care planning and insurance protection, including understanding risks, avoiding mistakes, and reducing costs.

Do you know your Individual Retirement Account (IRA) options? Request a copy of our **FREE REPORT**, *"Know Your IRA Options".*

If you're like most people, you may feel **your money should be working harder to help you meet your financial goals**. Over the years, mutual funds have proven to be a successful way to help investors plan for a comfortable retirement, save for children's college education, lighten tax burdens & increase monthly income. For answers to a lot of the questions that you may have about mutual funds, request a copy of our **FREE REPORT** "*Understanding Mutual Funds The Whole Story Made Simple*".

Would you like to reduce your taxes, build vital retirement savings, or provide an attractive benefit to recruit, reward, and retain valuable employees? "***Retirement Solutions For Your Business***" is our **FREE**, easy to understand brochure that compares various retirement plan options available to businesses and self-employed individuals.

If something happened to you today, would your family know where to begin looking for important information? Call us for a **FREE** copy of our "***Financial Inventory Review Sheet***". It lists names, locations, phone numbers, account number, etc. of important documents.

If you would like to order any of our **FREE INFORMATION**, or would like some of your friends, coworkers, relatives, business acquaintances, etc. to receive a **FREE SUBSCRIPTION** to this newsletter, please fill out the info on the reply card, and we'll add them to the mailing list. We'll also send them a note with their first issue telling them that you had suggested they receive the newsletter, and to contact us if they would like to stop at any time. If you enjoy this newsletter, why not share it for free with people you know, with no hassle for you!

Quiz Answer

(Call Us For A More Complete Answer)

False. There are several exceptions to the penalty, but for some you may be required to apply for an exemption certificate number.

This information is solely advisory, and should not be substituted for professional advice. Any and all decisions and actions must be done through the advice and counsel of a qualified professional. We cannot be held responsible for actions you may take without proper financial, legal, or tax advice!

For questions or a free report, please contact us or return the enclosed card!

Providing Service, Knowledge & Solutions Since 1990

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