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MARCH 2015

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Dear Reader,

Take some time to read our March Newsletter packed with lots of info on wills, estate plans and taxes.

- Wills &Estate Plans
- Mileage Rates
- Tax Tip
- Tax Cuts

Bill Sipes, CPA/ABV/PFS/BVAL/CS

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Q&A

Subject: Wills and Estate Plans

Robert Caldwell, who has owned and operated the well known Caldwell & Bryant CPA firm in Jackson for more than 20 years, specializes in Estates and Trusts. This month he answers questions we often hear from our clients. We hope his answers will enlighten you and also spur you into thinking about estate planning for yourself and your family. It's never too early to plan for your future.

Q. My mother recently passed away and did not have a will. My brother has power of attorney. Can he use that power of attorney to change accounts at the bank, distribute assets and settle the estate?

A. The authority under a power of attorney ends when the principal (the one who signed or granted the POA) dies. Your brother would no longer have authority to do any acts under the power of attorney.

Q. What do you do when someone dies without a will?

A. The laws of descent and distribution of your state control who gets the decedent's property. However, please note that property that is subject to beneficiary designations (life insurance, IRAs, retirement plans, annuities, etc.) and certain types of ownership will pass to the designated beneficiary or joint owner. In such cases where a person passes away without a will, it is prudent to consult an attorney.

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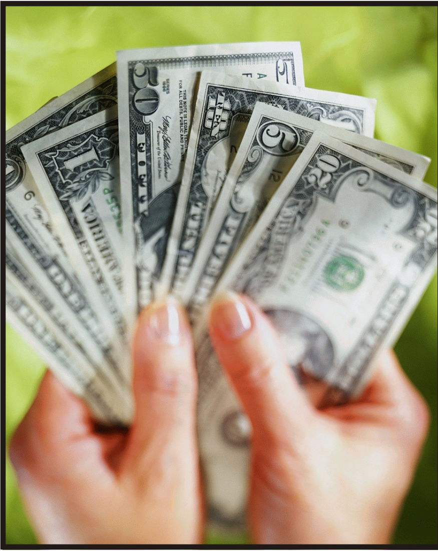

Q. My mother died without a will. My brother took a lot of the assets. Are there any remedies to make him give me my share?

A. In such a case, it would be both necessary and advisable to consult an attorney to help you pursue your legal rights. State law directs how property passes when there is no will.

Q. My mother died without a will and my sister held her power of attorney. My sister's name was on her bank account so she could write her checks. The account had a very large balance. My sister took the balance of the account at death as her own. The remainder of the estate was split right down the middle. Do I have recourse to get my half of the money my sister took?

A. You have asked a good question, and one that has several implications. It is essential that you obtain legal counsel at once to help you preserve legal rights that you may have under your state laws of descent and distribution. Those laws address the issues that arise when a person dies without a will. Your attorney will look into matters such as these: (1) Did your late mother add your sister to the bank account, or did your sister add herself with power of attorney? (2) If your mother added your sister, was her intent to create a joint account, or was your sister added merely as an accommodation party so that she could write checks? (3) What authority did your sister have under the power of attorney (POA)? For example did the POA grant your sister the authority to make gifts to herself? (4) What fiduciary duties did your sister have to your mother, to her estate and to you? As you can see, this is a very complex issue and one for which you need experienced legal counsel.

Q. Why do I need an estate plan? The federal estate tax exemption is now $5.43 million and the Tennessee Inheritance Tax goes away after 2015. My estate won't owe any tax!

A. Strictly speaking, YOU don't need an estate plan when you die. You will be dead and you will no longer need anything. However, your beneficiaries certainly need for you to have an estate plan. An estate plan is much, much more than avoiding inheritance and estate taxes. Estate planning is about providing for your loved ones and protecting them from predators and creditors. It is about providing for them financially and about preventing inheritance conflicts. Your thoughtful estate planning can help provide a comfortable secure future for your loved ones. Your lack of it can possibly lead to want, chaos and misery.

2015 IRS Mileage Rates Announced

On December 10, 2014, the IRS announced the standard mileage rates for 2015. Taxpayers can use the optional standard mileage rates to calculate the deductible costs of operating an automobile for business, charitable, medical or moving purposes.

Beginning on January 1, 2015 the standard mileage rates are:

- For business use of an automobile, the rate increases to 57.5 cents per mile, up from 56 cents in 2014.
- For medical or moving expenses, it is 23 cents per mile, down half a cent from 2014.
- For services to charitable organizations, the rate stays the same at 14 cents per mile.

Remember, a taxpayer may not use the business standard mileage rate for a vehicle after using any depreciation method under the Modified Accelerated Cost Recovery System (MACRS) or after claiming a Section 179 deduction for that vehicle. In addition, the business standard mileage rate cannot be used for more than four vehicles used simultaneously.

Instead of using the standard mileage rates, taxpayers may deduct the actual costs of using their vehicle.

Regardless of which method is used, taxpayers must always substantiate and document actual expenses and mileage if they plan to utilize this deduction.

Please let us know if you have any questions.

Tax Tip: IRS Requires Accurate Records for Deductions

Are you looking for ways to lower your tax bill? Itemizing your deductions can potentially reduce what you owe. Common deductions include medical expenses, charitable donations or un-reimbursed job-related expenses. If you decide to claim deductions, it's very important that you keep accurate records and receipts to meet IRS requirements.

What Are Accurate Records?

According to IRS Publication 463, any evidence you use to support a deduction must be "documentary" and "adequate", meaning it must be written and show the date, place, amount and nature of the expense. Examples of the types of documentary evidence you can use to support your deduction include mileage logs, itemized credit card receipts, bank statements, taxi and toll receipts, receipts for gifts, and receipts from gas stations, hotels and restaurants. NOTE: Credit card statements without itemized, supporting receipts are NOT adequate.

If you're self-employed, keep the receipts for any business-related expense you incur, no matter how small. If you plan to claim the home office deduction, you'll also need to keep detailed records regarding your home, including any costs you pay for property tax, rent, mortgages, utilities and repairs. You should also maintain detailed records if you're paying out-of-pocket costs for your health insurance or other medical expenses.

Additional Guidelines:

As a general rule, the IRS advises taxpayers to maintain records for at least three years following their tax filing. If you file early, the three-year limitations period begins on the annual filing deadline. Even if you don't plan on itemizing, it's still a good idea to keep a paper trail so you can compare your deductions before you file.

Taxes & Your 401k (or IRA)

Tax Surprises for Retirees

The tax-man keeps working even after you stop. Be prepared.

By Sandra Block, January 15, 2015, Kiplinger.com

You've saved for years so you can enjoy a comfortable retirement. Now prepare to give some of that money back to Uncle Sam. Taxes could take a big bite out of your savings, leaving you with less money for living expenses. Here's a look at how some common sources of retirement income are taxed.

Withdrawals from traditional IRAs and 401(k) plans are taxed as ordinary income, which means at your top tax bracket. Withdrawals of earnings from your Roth IRA, on the other hand, are tax-free as long as the Roth has been open for at least five years and you're 59 1/2 or older. You can withdraw contributions to your Roth IRA tax-free at any time, since you made the original contributions with after-tax money.

When it comes to your taxable accounts, the tax hit will depend on the types of investments you own and how long you've owned them. Interest on savings accounts and CDs is taxed as ordinary income. If you're in the 10% or 15% tax bracket, you'll pay 0% on capital gains from the sale of stocks, mutual funds and other investments you've owned for more than a year. Most others pay 15% on long-term capital gains. Will you receive a private or government pension when you retire? That's a nice benefit, but it's also taxable, usually at your ordinary income rate. Some retirees are surprised to discover that a portion of their Social Security benefits may also be taxable. Depending on your other sources of income, up to 85% of your benefits could be taxed.

Finally, don't ignore the impact of state and local taxes on your retirement income. Moving across state lines—or across the country—could have a big impact on your tax bill. Seven states have no income tax, but that doesn't always mean that moving to one of them will save you money. Some states with no income taxes make up the difference with high property or sales taxes. And many states that impose income taxes offer generous tax breaks for retirees that could wipe out your tax bill.

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The Capital Loss Carryover Can Cut Your Taxes

By Selena Maranjian | fool.com | January 21, 2015 |

In the investing world, you hear about capital gains a lot more than you hear about capital losses. People prefer to talk about their investing successes rather than their blunders, and the fact that capital gains are taxed also makes them a subject of interest. However, even the best investors experience capital losses now and then.

Fortunately, although capital losses lower our portfolio returns, they can also lower our *taxes* by offsetting gains and income. And thanks to the capital loss carryover, they can be applied to gains and income in future tax years.

First, let's quickly review what a capital loss is. A capital loss happens when you sell a capital asset (such as a stock, a bond, or real estate) for less than the price you bought it for. The selling part is important. If you own a stock that has lost 80% of its value, you're definitely looking at a sizable loss, but until you actually sell the stock, it's just a "paper" loss -- not a realized one. Meanwhile, if you sell a capital asset for a profit, you have a capital gain.

Long-term capital gains -- i.e., capital gains on assets that were held for longer than a year -- are taxed at rates ranging from 0% to 20%, but most of us (those in the 25%-35% income tax brackets) will pay a 15% tax on our long-term capital gains. Short-term capital gains -- i.e., gains realized on assets that were held for a year or less -- get taxed at ordinary income tax rates.

Offsetting gains and carrying losses forward

One handy use of capital losses is to offset gains. You first have to offset any long-term capital gains with long-term capital losses and any short-term capital gains with short-term capital losses. If your losses for one type exceed the gains for that type, they can then be applied to the other type.

It's also possible that your losses exceed all your gains. If so, you can then use up to $3,000 of those losses to reduce your taxable income (or $1,500 each for couples who are married and filing separately).

If you *still* have losses after all that, you get to take advantage of the capital loss carryover, which allows you to carry forward any remaining losses and apply them in subsequent years.

Be strategic

Knowing about capital loss carry-overs can help you think strategically about taxes -- something you should more than once a year during tax season. As you rack up capital gains, think about whether you want to offset any of them with losses. This can help you recognize money-losing stocks that you may not want to own any longer, making them perfect tax-loss harvesting candidates.

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