DRAFT FORM 1040 REFLECTS NEW HEALTH COVERAGE RULES AND OTHER CHANGES

The IRS has released, on its website, a number of draft tax forms and instructions for the 2014 tax year, including Form 1040 and its related schedules. They reflect key health coverage changes which first went into effect in 2014, including the premium assistance credit and the penalty for failing to have coverage, and other changes.

This Hot Topic, which appears in two parts, highlights key changes made on the 2014 return. The first portion examines the draft Form 1040 itself. The balance will cover related draft forms and schedules.

▪ FORM 1040

• NEW FORM - PREMIUM TAX CREDIT

Form 1095-A. If the taxpayer, his spouse or a dependent are enrolled in health insurance through the Health Insurance Marketplace, he should have received Form(s) 1095-A. If the taxpayer receives Form(s) 1095-A for 2014, he should save it as it will help him figure his premium tax credit. If he did not receive a Form 1095-A, he should contact the Marketplace.

• NEW FILING REQUIREMENT - ADVANCE PREMIUM CREDIT

Advance payments of the premium tax credit. Advance payments of the premium tax credit may have been made to the health insurer to help pay for the insurance coverage of taxpayer, his spouse, or his dependent. If advance payments of the premium tax credit were made, the taxpayer must file a 2014 tax return and Form 8962.

• RESERVED LINES - EXPIRED TAX BENEFITS

Certain tax benefits, including the deduction for educator expenses (line 23) and the tuition and fees deduction (line 34), have expired. IRS shows those lines as "Reserved" in case Congress extends them for 2014. In addition, the health coverage tax credit has expired. That is why line 71, box c, is shown as "Reserved."

• GROSS INCOME

Adoption exclusion. For 2014, the maximum exclusion for employer-provided adoption assistance is $12,190 per eligible child.

Exclusion for Medicaid waiver payments. An individual care provider who received certain payments under a Medicaid waiver program for caring for someone who lives in the taxpayer's home with him may be able to exclude the payments from income.

- **ADJUSTED GROSS INCOME**

  - **Line 26. Moving expenses.** The 2014 standard mileage rate for moving expenses is 23.5¢ per mile.

  - **Line 32. IRA deduction.** In general, an individual who isn't an active participant in certain employer-sponsored retirement plans, and whose spouse isn't an active participant, may make an annual deductible cash contribution to an IRA up to the lesser of: (1) a statutory dollar limit, or (2) 100% of the compensation that's includible in his gross income for that year. For 2014, the statutory dollar limit is $5,500, plus an additional $1,000 for those age 50 or older. If the individual (or his spouse) is an active plan participant, the deduction phases out over a specified dollar range of modified AGI (MAGI). For 2014, a taxpayer may be able to take an IRA deduction if he was covered by a retirement plan and his 2014 MAGI is less than $70,000 ($116,000 if married filing jointly or qualifying widow(er)). If the taxpayer's spouse was covered by a retirement plan, but the taxpayer was not, he may be able to take an IRA deduction if his 2014 MAGI is less than $191,000.

- **TAX AND CREDITS**

  - **Line 40. Itemized deductions or standard deduction.** For 2014, the standard deduction is $6,200 for single filers and for married persons filing separately, $12,400 for joint filers and qualifying widow(er)s and $9,100 for heads of household.

  - **Line 42. Exemptions.** The amount for each exemption for 2014 is $3,950. Exemptions are reduced for taxpayers with adjusted gross incomes in excess of the "applicable amount" ($305,050 for joint filers or a surviving spouse, $279,650 for a head of household, $254,200 for a single individual who isn't a surviving spouse and $152,525 for marrieds filing separately) may be reduced.

  - **Line 45. Alternative minimum tax.** Under the Internal Revenue Code (Code), the AMT exemption amount for 2014 is $51,800 ($82,100 if married filing jointly or a qualifying widow(er); $41,050 if married filing separately).

    The IRS has added a worksheet to the instructions for line 45. A taxpayer who is not sure whether he needs to complete Form 6251, Alternative Minimum Tax - Individuals, can use this worksheet to see whether he should complete it.

  - **Line 46. Excess advance premium tax credit repayment.** The premium tax credit helps pay premiums for health insurance purchased from the Health Insurance Marketplace. If advance payments for this credit were made for the taxpayer, his spouse or his dependent, the taxpayer must complete Form 8962. If the advance premium credits were more than the taxpayer can claim, the taxpayer must enter the amount, if any, from Form 8962, line 29.

- **Line 54. Other credits.** For 2014, the maximum adoption credit is $13,190 per eligible child for both non-special needs adoptions and special needs adoptions.

OTHER TAXES

- **Line 57. Self-employment tax.** The maximum amount of self-employment income subject to FICA tax is $117,000; there is no ceiling on the Medicare wage base.

  An individual may use the farm optional method only if (a) his gross farm income was not more than $7,200 or (b) his net farm profits were less than $5,198. Using this method, farm self-employment earnings equals the smaller of (1) two-thirds of gross farm income, or (2) $4,800.

  An individual may use the nonfarm optional method only if (a) his net nonfarm profits were less than $5,198 and also less than 72.189% of his gross nonfarm income and (b) he had net earnings from self-employment of at least $400 in 2 of the prior 3 years. Individuals may compute their self-employment earnings as the smaller of two-thirds of gross nonfarm income or $4,800.

  A self-employed individual with both farm and nonfarm income is allowed to use both optional computation methods if the farm income qualifies for the farm optional method and the nonfarm income qualifies for the nonfarm optional method. If both optional methods are used to compute net earnings from self-employment, the maximum combined total net earnings from self-employment for any tax year can't be more than $4,800.

- **Line 61. Health care: individual responsibility.** A taxpayer must either:

  (1) Indicate on line 61 he, his spouse (if filing jointly) and his dependents had health care coverage throughout 2014;

  (2) Claim an exemption from the health care coverage requirement for some or all of 2014 and attach Form 8965; or

  (3) Make a shared responsibility payment if, for any month in 2014, he, his spouse (if filing jointly) or his dependents did not have coverage and do not qualify for a coverage exemption.

- **Line 62. Additional Medicare tax.** IRS has issued final regulations on the additional 0.9% Medicare tax on employee compensation and self-employment income above a threshold amount received in tax years beginning after December 31, 2012. For most individuals, many provisions of the regulations effectively first apply on January 1, 2014 (the technical effective date is geared to calendar quarters beginning after November 29, 2013 or certain actions taken on or after that date).
- **Line 62. 3.8% surtax on unearned income.** The IRS issued final and

proposed regulations on the new 3.8% surtax on net investment income (NII) that first went into effect in 2013. The surtax is 3.8% of the lesser of: (1) NII, or (2) the excess of MAGI over an unindexed threshold amount ($250,000 for joint filers or surviving spouses, $125,000 for a married individual filing a separate return, and $200,000 in any other case). The voluminous final regulations clarify many aspects of this new tax and are generally effective for tax years beginning after 2013. They explain, among other items, how NII is calculated, the individuals subject to or excepted from the tax, and the deductions taken into account in figuring the tax. The proposed regulations (upon which taxpayers may rely) provide guidance on the computation of NII with respect to a number of specialized provisions and situations including various payments to partners and former partners.

- **PAYMENTS**

  - ♦ **Line 66. Earned income credit (EIC).** The maximum credit is higher, and the AGI-based phaseout figures are revised.

  - ♦ **Line 68. American Opportunity Credit from Form 8863, line 8.** Choosing to include otherwise tax-free scholarships or fellowships (e.g., Pell grants) in the taxpayer's income can increase an education credit and lower the total tax or increase the taxpayer's refund.

  - ♦ **Line 69. Net premium tax credit.** A taxpayer may be eligible to claim the premium tax credit if he, his spouse or a dependent enrolled in health insurance through the Health Insurance Marketplace.

  - ♦ **Line 71. Excess social security and RRTA tax withheld.** Maximum Social Security (OASDI) tax for 2014 is $7,254 (computed on the first $117,000 of wages) for purposes of credit for excess tax withheld.

■ **SCHEDULE A, ITEMIZED DEDUCTIONS**

- **Expired tax benefits.** The deductions for state and local general sales tax in lieu of local income taxes, mortgage insurance premiums have expired, but either or both of them may be retroactively revived.

- **Line 1. Medical and dental expenses.** The 2014 standard mileage rate for medically-related use of an auto is 23.5¢ per mile.

- **Line 21. Unreimbursed employee expenses.** The 2014 standard mileage rate for business travel is 56¢ per mile.

- **Line 29. Limit on itemized deductions.** Itemized deductions for taxpayers with adjusted gross incomes in excess of the "applicable amount" ($305,050 for joint filers or a surviving spouse, $279,650 for a head of household, $254,200 for a single individual who isn't a surviving spouse, and $152,525 for marrieds filing separately) may be reduced.

■ SCHEDULE B, INTEREST AND ORDINARY DIVIDENDS

- **Line 1. Interest.** Accrued interest on Series EE U.S. savings bonds issued in '84 is taxable.

- **Line 3. Excludable interest on Series EE or Series I U.S. savings bonds.** The exclusion for education related savings bond interest phases out at higher income levels. For 2014, the phaseout begins at modified AGI above $76,000 ($113,950 on a joint return).

■ SCHEDULE C, PROFIT OR LOSS FROM BUSINESS

- **Part II. Expenses. Line 9. Car and truck expenses.** The 2014 standard mileage rate for business travel is 56¢ per mile.

- **Part II. Expenses. Line 13.** Depreciation and section 179 expense. See comments for Form 4562 below.

■ FORM 4562, DEPRECIATION AND AMORTIZATION

- **Part I. Election to expense certain tangible property under Sec. 179.** For tax years beginning in 2014, the maximum section 179 expense deduction is $25,000. This limit is reduced by the amount by which the cost of section 179 property placed in service during the tax year exceeds $200,000.

  Observation: In 2013, the maximum amount which could be expensed was $500,000, with a $2 million investment ceiling. Although these higher limits have been routinely extended in recent years, no such action has been taken for the 2014 tax year despite the provision generally enjoying broad bipartisan support. Thus, the above limits will be in effect unless Congress chooses to retroactively change them.

- **Part V. Listed property.** First-year luxury auto limits for vehicles first placed in service in 2014 are $3,160 for autos and $3,460 for light trucks or vans.

■ SCHEDULE D, CAPITAL GAINS AND LOSSES

- **Form 1099-B.** Form 1099-B has been redesigned so the information is reported in boxes which are numbered to match the corresponding line and column on Form 8949. (Form 8949 is used to report the sale or exchange of a capital asset not reported on another form or schedule. Among other items, Schedule D is used to figure the overall gain or loss from transactions reported on Form 8949.) A new box has also been added at the top of Form 1099-B to tell the taxpayer which box to check when completing Form 8949. These changes are designed to make it easier to complete Form 8949.

■ SCHEDULE E, SUPPLEMENTAL INCOME AND LOSS

- **Standard mileage rate.** The 2014 standard mileage rate for miles driven in connection with the taxpayer's rental activities is 56¢ per mile.

- **SCHEDULE F, PROFIT OR LOSS FROM FARMING**

  - **Part II. Farm Expenses - Cash and Accrual Method. Line 10. Car and truck expenses.** The 2014 standard mileage rate for business travel is 56¢ per mile.