Taxes and Disability Issues: An Overview

Do you live with a disability, or care for someone who does? If so, you may have disability-specific tax questions about income, deductions, and credits.

Here's an overview.

- **Income.** In general, all income is taxable on your federal tax return, unless specifically excluded. For instance, income you earn for services is typically taxable, even if you are disabled. Part of your social security disability benefits may also be taxable, depending on your total income (including tax-exempt interest). However, supplemental security income is not taxable.

  Other nontaxable disability payments include VA benefits, workers' compensation when work-related and received under a workers' compensation act, and wage-loss benefits from no-fault car insurance policies.

- **Deductions and credits.** You already know you can deduct medical expenses related to your disability, subject to the 10%-of-adjusted-gross-income limitation (7.5% for those 65 or older).

  But what about impairment-related work expenses? These are out-of-pocket costs you incur so you can work, such as attendant care, and you claim them as an employee business deduction. This is an itemized deduction, not subject to the 2% of adjusted gross income limit. When you're self-employed, impairment-related work expenses are deductible on your Schedule C, "Profit or Loss From Business."

  If you work and must pay for disabled spouse or dependent care, you may qualify for a federal income tax credit of up to 35% of your expenses.

  Depending on your disability and income, other exclusions and tax benefits may be available. Call if you would like more information.

Ask the Right Questions Before You Start a Business

There are several questions you must answer before you even consider starting a new business. Unfortunately, some would-be-entrepreneurs spend more time planning their summer vacation than they do the start of a new business. Most of these businesses will fall into the three out of five start-ups that fail in the first five years. The statistics vary from industry to industry, but about 30% of new business start-ups close down in the first year of operation. Another 30% will fail in the four years that follow.

How can you increase the chances of a business's survival? Here are a series of questions you should answer before launching a new business. Nothing can guarantee a new business will be a success, but being well armed with the right information can certainly help.

- The first question to be answered in your written business plan is what products and/or services you intend to provide. Are these products currently being offered in your local market? What is the price being charged for competing products? How do you propose to capture enough of the local market to make a profit?

- Who is your ideal customer, and what media will you use to promote your product or service? Do you have an adequate population of potential customers to provide the sales you need to make a profit?

- What will make your business stand out? What is unique about your product or service? Will you compete on price, location, product variety, or customer service?

- What size building do you need, and how many employees will it take to serve customers properly?

- How much money will it take to open the doors, and how much is needed for operating capital until you turn a profit? Is it likely that you will make a profit in the first year or two? Be sure to prepare conservative cash flow projections for the first five years showing your best estimates of sales and projected expenses.

- What is the source of funds from day one until you turn a profit? How much will you invest and how much is needed from outside sources such as banks or private investors?

- What legal entity will you use: a corporation, sole proprietorship, LLC, etc.? What government forms and licenses need to be filed? Do you have adequate insurance of the right type?

Every business person can benefit from the services of at least four other business advisors. You should engage the services of an accountant, an attorney, a banker, and an insurance agent before you launch the business. These advisors work with a variety of businesses and business solutions every day and can help improve your chances of succeeding in your new venture. It is imperative that you involve them early in the planning process.

Scams Target Seniors

Seniors are a favorite target of scam artists. According to one survey, seniors over the age of 60 have lost nearly $3 billion a year to financial fraud. Here are a few of the tactics used to bilk seniors of their money.

- ***Advanced fee to claim winnings.*** The target victim is told he's won something and just needs to send money to cover fees, insurance, or whatever to claim the prize.
- ***Computer virus scam.*** The caller tells the senior that a virus has been detected on his/her computer. The victim is told to log into a website that lets the crook control the computer so the virus can be eliminated. But what happens is that the person's personal information is stolen.

- ***Grandparent scam.*** The caller claims to be a grandchild in a crisis situation. The imposter grandchild asks for money to be wired, pleading not to involve the parents.
- ***Medical scam.*** The caller claims to be running a special on some medical equipment and needs a deposit and your Medicare/Medicaid information to let you take advantage of the sale.

As people become familiar with each new scam, the con artists find yet another way to cheat people. The FBI gives this advice to avoid becoming a victim of a fraud: Be skeptical of offers that sound good but probably aren't, don't respond to e-mails from people or companies you don't know, and never, never give out any personal numbers or other information.

How to Use a 529 College Savings Plan

Long ago when your child was in grade school you planned for the future. You created a 529 College Savings Plan and now your son or daughter is preparing to leave home for their first semester. It is time to use the plan. What expenses can the account be used for? What happens if your child is not interesting in attending university? How to make withdrawals to avoid a 10% penalty tax.

The qualified distributions allowed under the 529 plan are for tuition, required fees, supplies, and room & board. Taking a deeper look into what is considered a valid expense and some points to determine how you may want to utilize the funds in your plan.

> **TUITION AND CLASS FEES** are generally allowed for universities, trade schools, and vocational programs. This can be verified by calling 1-800-433-3243 to verify that the institution is eligible for federal financial aid as a qualifier. A distribution is also allowed for a full time student receiving scholarships. The amount of scholarship can be drawn penalty free in addition to the remaining tuition and fees.
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> A portion of 529 earnings from 529 investments can be considered taxable based on educational tax credits, grants, and provided assistance. This taxable amount will be included in the account owner's income but have no additional penalty attached.
>
> **BOOKS, SUPPLIES AND EQUIPMENT** are eligible if they are required for enrollment. For an easier time in record keeping, it is wise to purchase required items separate from college clothing or optional supplies. With a lot of colleges are moving toward electronic books and course load, a computer is starting to become a required piece of equipment.
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> **ROOM AND BOARD** costs are qualified if they are the amount the school includes in its "cost of attendance" figures for federal financial aid purposes.
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>> If the student is living in campus-owned dormitories, the amount you can include is the amount the school charges for its room and board.

If your student is living off campus, ask the financial aid department for the room and board allowance for students or living elsewhere off campus. Unless the parents are reporting rental income from the student, the withdrawal for living with parents is not possible.

WHAT HAPPENS TO MY 529 PLAN IF THE ACCOUNT BENEFICIARY DOES NOT ATTEND COLLEGE?

There are a few options if plans change, the beneficiary does not attend college or extra money is left after graduation. The limited options for non-educational withdrawals are waiting for future education costs, a rollover to another beneficiary, and non-qualified withdrawals.

If **waiting** is the best option, the funds will continue to grow tax-deferred. The beneficiary who chose not to go to college might change his or her mind and decide to enroll or additional funds may be used later towards a graduate program. Continue to monitor the plan's performance and expenses to determine your course of action. There are options to change a poorly performing plan.

Another strategy is to **change beneficiaries**. The transfer can be tax free if the beneficiary is related to you in the same generation as the beneficiary, such as transferring between siblings. You can also transfer the account beneficiary to the next generation, such as grandchildren.

The last option is to have the account owner **withdraw** the leftover funds. This will allow immediate access to the account balance but will pay a 10% penalty tax on top of being included in your taxable income. The penalty tax is based on the dollar amount withdrawn, compared to just the gain being taxable under qualified distributions.

Please contact our office, at 513-868-8600 for additional information about your unique situation. It is easier to handle a tax issue before it happens.

Portal News & Tips

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Here at Stephenson and Warner we take great care with your sensitive information. We have been using "The Portal", our secure file sharing system, to share documents with you for years. We remain committed to keeping your personal and company information private and safe and choose not to email a copy of your tax return to you or a third party. Now that tax season has passed the portal remains up and ready to receive your information or gain access to electronic copies of your returns.

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Common Questions:

- ✓ **How can I avoid late fees on an invoice? Can I pay an invoice online?**
  - Pay your invoice within the first 30 days and there is not a late fee charged.
  - Yes, you can pay your invoice online! We have a secure credit card processing center available to you at all times.
    - Located in the top right hand corner of our webpage there is a green "Make Payment" button. Fill in the fields with your information and click "Continue and Pay". Follow the prompted information and finish by clicking "Submit". If you have questions please give us a call.

- ✓ **How do I reset my password?**
  - There is a button marked "forgot password". Click on the link and you will be emailed a set of instructions on how to reset your password.
  - Still having trouble? Give us a call and we can reset the password for you.

We use real problems and questions that come to us each month.
Do you have additional questions?
Email me at: thughett@stephensonwarnercpas.com.
We might even use them in our "Portal News & Tips" edition next month!