

Table of Contents

| | |
|--|----------|
| Tax Update | 1 |
| Exemptions..... | 1 |
| Regular Tax | 1 |
| Alternative Minimum Tax | 2 |
| Standard Deduction..... | 4 |
| Itemized Deductions..... | 4 |
| Tax Brackets | 5 |
| Capital Gain Rates | 5 |
| Foreign Earned Income..... | 6 |
| Standard Mileage Rates..... | 6 |
| Charitable, Medical, and Moving Rates..... | 7 |
| Business Expenses | 7 |
| Business Rate | 8 |
| Travel Allowances | 9 |
| Day Care — Per Diem for Meals | 14 |
| Section 179..... | 15 |
| Luxury Automobile Depreciation Limits | 20 |
| Qualified Transportation Fringe Benefits | 24 |
| Domestic Production Activities Deduction | 24 |
| Medical Benefits | 25 |
| Health Flexible Spending Arrangement..... | 25 |
| Long-term Care Benefits | 26 |
| Long-term Care Premiums | 26 |
| Health Savings Accounts..... | 27 |
| Archer Medical Savings Accounts | 29 |
| Education Tax Benefits | 30 |
| Education Credits | 30 |
| Coverdell Education Savings Accounts | 32 |
| Qualified Tuition Plans..... | 34 |
| U. S. Savings Bond Interest Exclusion | 35 |
| Scholarships and Grants | 35 |
| Unreimbursed Business Expense | 36 |
| Student Loan Interest Deduction | 36 |
| Student Loan Cancellations and Repayment Assistance..... | 37 |
| Credits | 37 |
| Earned Income Credit..... | 37 |
| Child Tax Credit..... | 39 |
| Adoption Credit..... | 40 |
| Retirement Savings Contributions Credit | 40 |
| Residential Energy Efficient Property Credit | 41 |

| | |
|---|-----------|
| Alternative Motor Vehicle Credit..... | 43 |
| General Business Credit..... | 45 |
| Other Taxes..... | 46 |
| Kiddie Tax..... | 46 |
| Household Employment Taxes..... | 47 |
| Self-employment Tax..... | 48 |
| Unreported Tip Income..... | 49 |
| Uncollected FICA Taxes on Wages..... | 49 |
| Repayment of First-time Homebuyer Credit | 49 |
| Estimated Taxes..... | 51 |
| Gift and Estate Taxes..... | 51 |
| Annual Gift Exclusion | 51 |
| Unified Provisions..... | 52 |
| Retirement Plans..... | 55 |
| Individual Retirement Account..... | 55 |
| Qualified Plans | 56 |
| Exceptions to the 10% Penalty..... | 57 |
| Waiver of 60-Day Rollover Requirement..... | 58 |
| Social Security..... | 60 |
| Senior Citizen's Freedom to Work..... | 61 |
| Expiring Provisions..... | 62 |
| 2013..... | 62 |
| 2014..... | 63 |
| Tax Update Review Questions..... | 65 |
| Tax Update Review Answers | 69 |
| New Developments | 75 |
| National Mortgage Settlement Payment..... | 75 |
| Independent Foreclosure Review..... | 77 |
| Medicaid Waiver Payments..... | 79 |
| IRA Rollover Limit..... | 81 |
| Defense of Marriage Act..... | 83 |
| States that Recognize Same-sex Marriages | 83 |
| Tax Effects..... | 84 |
| Health Coverage for Same-Sex Spouse | 85 |
| Severance Pay Subject to FICA..... | 86 |
| Real Estate Professional | 87 |
| Suspended Passive Losses | 89 |
| Fully Taxable Transaction | 89 |
| Nontaxable Transaction..... | 90 |
| Qualified Real Property Business Indebtedness | 92 |
| Home Affordable Modification Program (HAMP)..... | 93 |
| Inherited IRAs and Bankruptcy Estate | 94 |
| Real Property Tax | 95 |
| Need Not be Ad Valorem Tax..... | 95 |

| | |
|---|------------|
| Cannot be CA Fire Prevention Fee | 95 |
| Simplified Home Office Deduction..... | 96 |
| Amount of Deduction..... | 96 |
| Depreciation | 97 |
| Election..... | 98 |
| Repayments of Illegally Obtained Funds..... | 99 |
| Direct Deposit Limits | 100 |
| IRS Direct Pay..... | 100 |
| Husband's MFJ Return Denied | 102 |
| IRS Voluntary Annual Filing Season Program | 103 |
| Report of Foreign Bank and Financial Accounts (FBAR)..... | 105 |
| Filing Requirement | 105 |
| On-Line Gambling | 106 |
| Form 1023-EZ | 107 |
| Retroactively Reinstating Tax-Exempt Status | 109 |
| Streamlined Retroactive Reinstatement..... | 110 |
| Retroactive Reinstatement Within 15 Months | 111 |
| Retroactive Reinstatement More Than 15 Months after Revocation..... | 111 |
| Reasonable Cause Statement Contents | 112 |
| Unused ITINs Will Expire | 112 |
| New Developments Review Questions | 115 |
| New Developments Review Answers..... | 117 |
| New Tax Law..... | 119 |
| Draft 2014 Form 1040 | 119 |
| Net Investment Income Tax | 122 |
| Net Investment Income..... | 123 |
| Computing the Tax | 127 |
| Reporting the Tax | 128 |
| Additional Medicare Tax..... | 128 |
| Payments Subject to Additional Medicare Tax..... | 130 |
| Employer's Withholding Requirements..... | 130 |
| Individual's Reporting Requirements..... | 133 |
| Repair Regulations..... | 133 |
| Materials and Supplies | 134 |
| Capital Expenditures | 137 |
| Cost to Acquire/Produce Property | 141 |
| Improvements..... | 143 |
| Accounting Method Change | 159 |
| Affordable Care Act | 160 |
| Individuals..... | 160 |
| Businesses | 183 |
| 2015 Provisions | 201 |
| New Tax Law Review Questions..... | 211 |
| New Tax Law Review Answers | 215 |

| | |
|---|------------|
| Ethics and Circular 230..... | 219 |
| Ethics..... | 219 |
| IRS Return Preparer Initiatives..... | 220 |
| Letter 4810 | 221 |
| Letter 5105 | 221 |
| Letter 5271 | 223 |
| Letter 5272 | 224 |
| Letter 5292 | 226 |
| Letter 4911 - Preparer Compliance | 226 |
| Frequently Asked Questions | 227 |
| Abusive Return Preparer..... | 231 |
| Circular 230 | 232 |
| Circular 230 Updates..... | 232 |
| Establishment of Offices §10.1..... | 233 |
| Individuals Who May Practice §10.3 | 235 |
| Renewal Status §10.6 | 238 |
| Return Preparation §10.8 | 240 |
| Information to be Furnished §10.20..... | 240 |
| Client Omission §10.21 | 242 |
| Diligence as to Accuracy §10.22 | 243 |
| Restriction on Assistance §10.24 | 244 |
| Notaries §10.26 | 244 |
| Fees §10.27..... | 244 |
| Return of Client's Records §10.28..... | 245 |
| Conflicting Interests §10.29..... | 246 |
| Solicitation §10.30 | 247 |
| Negotiation of Taxpayer Checks §10.31 | 247 |
| Best Practices for Tax Advisors §10.33..... | 248 |
| Standards §10.34 | 249 |
| Sanctions for Violations §10.50 | 251 |
| Definition of Tax Return Preparer..... | 254 |
| Exceptions | 255 |
| Return or Claim for Refund..... | 255 |
| Substantial Portion of Return..... | 256 |
| Not Substantial — De Minimis Rule | 257 |
| Rules That Apply to All Preparers | 257 |
| Signature of Preparer | 258 |
| Taxpayer Copy | 259 |
| Preparer Copy | 259 |
| Furnish Identifying Number | 260 |
| Record of Preparers | 261 |
| Tax Return Preparer Penalties..... | 262 |
| Preparer's Understatement of Taxpayer's Liability..... | 262 |
| Negotiate or Endorse a Taxpayer's Check from the IRS..... | 272 |

| | |
|--|------------|
| Additional Preparer Penalties | 272 |
| Refund of Preparer Penalties | 273 |
| EIC Due Diligence Requirements..... | 274 |
| Knowledge..... | 275 |
| EIC Due Diligence Compliance | 277 |
| Safeguarding Taxpayer Information | 279 |
| Wrongful Disclosure or Use..... | 280 |
| Knowing or Reckless Disclosure or Use..... | 280 |
| Ethics and Circular 230 Review Questions | 289 |
| Ethics and Circular 230 Review Answers..... | 293 |
| Appendix | 297 |
| Index..... | 325 |