Online Advisor - August 2013

Major Tax Deadlines
For August 2013

Businesses are required to make federal tax deposits on dates determined by various factors that differ from business to business.

Payroll tax deposits: Employers generally must deposit Form 941 payroll taxes (income tax withheld from employees' pay and both the employer's and employees' share of social security taxes) on either a monthly or semiweekly deposit schedule. There are exceptions if you owe $100,000 or more on any day during a deposit period, if you owe $2,500 or less for the calendar quarter, or if your estimated annual liability is $1,000 or less.

* Monthly depositors are required to deposit payroll taxes accumulated within a calendar month by the fifteenth of the following month.

* Semiweekly depositors generally must deposit payroll taxes on Wednesdays or Fridays, depending on when wages are paid.

For more information on tax deadlines that apply to you or your business, contact our office.

What's New in Taxes

Look into energy credits

The IRS reminds taxpayers that certain energy credits are still available. If you haven't already taken advantage of them, this may be the year to make energy-efficient improvements to your home.

You may be entitled to a credit of 10% of the cost of certain energy-saving improvements such as insulation, windows, doors, skylights, and roofs. The credit has a maximum lifetime limit of $500; the credit for windows is limited to $200.

Not all energy improvements qualify, the IRS cautions taxpayers, so be sure you have the manufacturer's credit certification statement (usually available with the product's packaging or on the manufacturer's website).

CIRIMELLI, PYLE & ASSOCIATES LLP
CERTIFIED PUBLIC ACCOUNTANTS

Manage your MAGI to preserve tax breaks

How close to the edge are you when it comes to tax phase-outs? As you begin your fall tax planning, consider the effects of these benefit-limiting provisions, many of which are based on modified adjusted gross income, or MAGI. Knowing how close you are to the "edge" can help you preserve tax breaks for 2013.

A caution: Since the definition of MAGI as applicable to individual phase-outs varies, you might have to choose between conflicting opportunities. For instance, if you have a child in college this semester, the American Opportunity Credit and the Lifetime Learning Credit may be on your mind. Both benefits are education-related, yet the qualifying requirements differ - including the MAGI threshold.

* Education benefits. The American Opportunity Credit is a partially refundable, dollar-for-dollar reduction of your tax bill, with a maximum of $2,500 per student. This year the credit starts to shrink when your MAGI reaches $160,000 and you're married filing jointly ($80,000 when you're single). It disappears completely when your MAGI is greater than $180,000 for joint returns, and $90,000 when your filing status is single.

For 2013, the Lifetime Learning Credit begins to phase out at $107,000 when you're married filing a joint return and $53,000 when you're single. Once your MAGI reaches $127,000 (married) or $63,000 (single), the credit is no longer available.

Other education benefits, such as the above-the-line tuition and fees deduction, also have MAGI limitations. If you qualify, you can claim the maximum annual limit of $4,000 when you're married filing jointly and your MAGI does not exceed $130,000 ($65,000 if you're single). The deduction phases out completely when your income reaches $160,000 ($80,000 for singles).

* Retirement plans. Phase-outs affect retirement planning, too. The deduction for contributions to your traditional IRA is limited when you are eligible to participate in your employer's plan and your MAGI exceeds $95,000 ($59,000 when you're single).

And while Roth IRA contributions are not tax-deductible, the amount you can contribute for 2013 begins to phase out when your MAGI reaches $178,000 ($112,000 if you file single).

In addition, the federal "saver's" credit for making contributions to retirement plans phases out when your 2013 modified adjusted gross income is more than $59,000 and your filing status is married filing jointly ($29,500 for singles).

* Other phase-outs. Finally, the exclusion of social security benefits from taxable income also has a phase-out calculated on the amount of your MAGI over the base amount of $32,000 when you're married and $25,000 when you're single.

Other phase-outs affecting your 2013 federal tax return reduce personal exemptions, itemized deductions, and the alternative minimum tax exclusion.

Contact our office for guidance in managing income for maximum tax breaks.

New Business

Midyear tax planning should be a business priority

It's midyear 2013 - time to take a serious look at your business tax planning. Here are some places to start.

* Review your equipment needs. You can expense $500,000 worth of new or used equipment purchased for your business this year, and you can take 50% bonus depreciation on new equipment purchases.

You can use both breaks this year, and the two benefits can even be combined on the same purchase. For example, you can use the expensing option on a piece of equipment and apply bonus depreciation to the remaining cost if the property qualifies. Be aware that the expensing benefit phases out once your total equipment purchases for 2013 reach $2 million.

* Put your children to work. When you're self-employed, wages paid for work done by your under-age-18 child are not subject to social security and Medicare tax. But if your business is a corporation, you'll have to withhold these payroll taxes on your child's wages just like any other employee.

Either way, you can claim your child as a dependent on your personal return, assuming you meet other rules. In addition, the first $6,100 of wages can be free of federal income tax to your child. Consider using the wages (or other money you contribute) to establish an IRA for your child. The maximum contribution for 2013 is $5,500 or 100% of your child's earned income, whichever is less.

* Take travel tax savings. Travel by plane, train, bus, or car to a convention, conference, or seminar for a valid business purpose, and your expenses can be fully deductible. Take along your family and add personal vacation days to your trip, and some of your costs may be nondeductible. Before you finalize your itinerary, get details on the rules and recordkeeping requirements so you can claim the maximum tax advantage from your summer travels.

Embezzlement: You need to know how it works and how to prevent it

It has been said that if fraud were a country, it would be the fifth most productive country in the world.

Whether this is true or not, fraud is responsible for crippling many businesses.

Embezzlement is a huge part of the fraud industry. Because the crime is being committed by a trusted employee, it often goes undetected for long periods of time, if ever.

What are some of the most common forms of embezzlement, and how does the business owner protect his company against such thievery? Here are a few common methods of embezzling.

* Cash. In businesses such as bars and restaurants, an employee can simply fail to ring up a sale and pocket the cash. Using receipts that are sequentially numbered can put a road block in the embezzler's way.

* Kiting. Check kiting takes advantage of the "float time" between when a company check is written and when it clears the bank account. The embezzler writes a check to himself and deposits it in his account. He can then write a check against his new balance back to the employer's account. The size of the back and forth checks can continue to increase in size. Improved banking technology has reduced float time, making kiting less attractive for an embezzler.

* Lapping. A payment received from customer A is deposited in the embezzler's account. When customer B makes a payment, the thief records it as a payment by customer A. Likewise, when customer C pays, his payment is credited to customer B. Unchecked, lapping can escalate into huge amounts of money. This scheme requires that the employee take little or no time off. He can't afford to have someone else handling his paperwork.

* Fake refunds. Fake refunds can take different forms. A refund is issued to a customer but the funds go directly to the employee in charge of issuing refunds (often the only office employee). Or the employee overpays an invoice or the payroll tax deposits and pockets the refunds when received.

The smaller your company, the more vulnerable you are to fraud. The reason is the lack of separation of duties. If one employee is responsible for enough different money handling functions, the company is ripe for the picking.

So, what does a business owner do? Separate some of the duties. The owner may need to step into a couple of the cash-handling functions or outsource certain duties. For example, the owner should always open and review the bank statements. On a random schedule, the owner should review a few customer transactions from billing to collection to the deposit into the bank.

Having your accountant do an "internal control" review is another good idea. That will include a look at who does what on a daily basis and which duties need to be assigned to different employees to help prevent employee theft.

What's New in Finances

Debt problems still plague workers

A recent survey by the Employee Benefit Research Institute (EBRI) indicated that 55% of workers have debt problems and aren't able to set aside much for retirement. Piling up debt on credit cards is often the pathway to major financial problems. To stay out of credit card debt that you can't manage, follow these six rules:

1. Pay the entire balance due each month.

2. If a balance remains unpaid at month's end, do not use the card again.

3. Do not use more than one credit card.

4. Do not accept credit cards from specific retail stores.

5. Do not pay off one credit card with another.

6. Do not use your credit card to purchase gifts for people. Give them a nice card or letter instead. It is too easy to let your generosity exceed your ability to pay.

To monitor your spending habits, try this exercise. Take your credit card charges and your cancelled checks for the past year and do the following: Sort the slips into two piles. One pile is for the "must" payments such as utilities, taxes, medication, rent, mortgage payment, etc. The other pile is for the optional spending, such as meals at restaurants, gifts for people, recreational events or equipment, etc.

This review of how you spend your money may give you some guidance on how to spend more wisely, and it may even help you create a surplus of cash to invest for your retirement.

Cirimelli, Pyle & Associates LLP
Certified Public Accountants

Index funds could be the right investment choice for you

Like the weather, the stock market is always changing and hard to predict. Nobody gets it right all the time.

That's one reason why index funds are popular. They mitigate some of the risk that you'll get drenched when the market turns bad. An index fund buys shares in companies comprising a particular benchmark known as an index.

The S&P 500 index, for example, is a group of 500 stocks, weighted toward larger U.S. companies, that strives to mimic that benchmark's performance. If the S&P 500 gains 8% in a particular year, you would expect an S&P 500 index fund to provide a simi-lar return. Such funds are considered to be "passively managed" because, generally speaking, the fund manager doesn't actively pick stocks based on market conditions and research.

For the average investor, index funds often make sense. By allowing you to diversify holdings, they mitigate risk. Say you have $25,000 to invest. To spread that investment over several companies and sectors of the economy, you would have to buy at least 15 to 20 stocks in small amounts. Moving money from one stock to another, you'd pay a commission, which would reduce your investment return. Investing the same amount of money in a passively managed index fund would allow you to spread your investment over many more companies at a lower cost. Even if several companies in the index failed, you wouldn't lose your entire investment.

In general, investing in index funds requires less time, skill, and knowledge than investing in individual stocks. Some people love to research companies and spend their free time tracking the market. Because they're willing to accept more risk, they may gain greater returns than index fund investors. Many folks, however, just want someone to invest their money for the long term and have little interest in the day-to-day vagaries of the market. That's why many employers offer index funds as a core investment option in their 401(k) plans.

Ultimately, investing is a matter of individual preference. It depends on your tolerance for risk, time horizon (how long until you need the cash), skill, and knowledge.