



## Online Advisor - December 2013

### Major Tax Deadlines For December 2013

- \* December 16 - Due date for calendar-year corporations to pay the last installment of 2013 estimated income tax.
- \* December 31 - Last day to set up a Keogh retirement plan for 2013. Deductible contributions for 2013 can be made any time up to the filing deadline for your 2013 return.
- \* December 31 - Deadline to complete 2013 tax-free gifts of up to \$14,000 per recipient.
- \* December 31 - Deadline for paying expenses you want to be able to deduct on your 2013 income tax return.

**Note:** 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

### Busy IRS delays 2014 tax filing season

The 16-day government shut-down in October created sizable work backlogs at the IRS. The IRS reports that it received 400,000 pieces of correspondence during the closure, and that was in addition to the one million items already being processed prior to the shut-down.

The heavy demand on its services has resulted in the IRS deciding to delay the start of the 2014 filing season. Originally, the start date had been set for January 21, 2014. With the one- to two-week delay just announced by the IRS, the earliest the IRS will accept and process 2013 individual tax returns is January 28, 2014 (or possibly February 4, 2014).

The delay was made necessary, according to the IRS, to allow time to program, test, and validate IRS systems for the 2014 filing season, a job that normally is done during the fall of each year.

There is no delay in the filing deadline for 2013 individual tax returns, however. That deadline is set by law and remains April 15, 2014.

### Year-End Tax Moves

There's not much time left for you to make beneficial tax moves for 2013. Consider these possibilities.

\* Maximize retirement plan contributions. For 2013, you can put \$17,500 in a 401(k) plan, \$12,000 in a SIMPLE, or \$5,500 in an IRA. If you're 50 or older, you can set aside even more as "catch-up" contributions.

\* Decide whether to sell investments to offset gains or losses already taken this year. You can deduct \$3,000 of net losses against ordinary income.

\* Estimate your tax liability for 2013, taking the new Medicare tax increases for higher-income taxpayers into account. If you'll be underpaid, adjust your final quarterly tax payment or your December withholding.

\* December 31 is the deadline for taking a 2013 required minimum distribution from your traditional IRA if you're 70½ or older. Miss this requirement and a 50% penalty could apply.



\* Purchase needed business equipment to use the first-year \$500,000 expensing option for new and used equipment and 50% bonus depreciation for new equipment.

\* Make energy-saving home improvements that could qualify for a lifetime tax credit of up to \$500.

\* Finalize annual gifts to use the 2013 exclusion from gift tax on gifts of up to \$14,000 per recipient.

Contact our office for details on these and other year-end tax moves.

## **New Business**

### **IRS sends notices under Form 1099-K matching program**

Form 1099-K is a new information return sent to businesses by "payment settlement entities" reporting the amount of credit card and other electronic receipts that were processed for the business.

The IRS also receives a copy of Form 1099-K and cross checks the reported amounts with the business's total income reported on its tax return. Where the numbers don't seem to make sense, the IRS sends notices to businesses telling them they "may have underreported gross receipts." Notices go on to say "This is based on your tax return and Form(s) 1099-K, Payment/Merchant Cards and Third Party Network Transactions that show an unusually high portion of receipts from card payments."

The IRS has sent thousands of letters labeled "Notification of Possible Income Underreporting" to small business owners. The notification project is ongoing as part of the IRS's campaign to deal with the "tax gap," the difference between taxes owed and taxes actually collected.

If you receive a notice, contact us immediately so that we can determine what response is required.

## **Business or hobby? Nine factors help the IRS decide**

The dividing line between a business and a hobby may be thin, but it can look like a canyon when you are on one side and your tax deductions are on the other. The gap is a function of differing treatment of expenses.



For example, when you incur ordinary and necessary expenses in the operation of your business, those costs reduce the taxable income of the business. In addition, business losses can generally be used to offset income from other sources, such as wages.

When your activity is considered a hobby, expenses can only be claimed to the extent of income from the activity, and are generally deductible as a miscellaneous itemized deduction on your personal return.

Here are nine ways to help convince the IRS that you have a business rather than a hobby.

1. Act like a business. Keep accurate books, adopt new techniques and adjust your operating methods to improve profitability. Other good moves: advertising, purchasing insurance, and maintaining a bank account used only for the activity.
2. Expand your expertise. The key here is to increase your knowledge of the economic aspects of your business. Seek relevant advice from experts on an ongoing basis.
3. Expend time and effort. Focus your energy on the business to show profit intention. Hiring competent managers also indicates your intention to operate as a business.
4. Invest in appreciating assets. A reasonable expectation that property you purchase will increase in value and help create an overall gain can show profit motive.
5. Create a record of success. Have you run other businesses successfully, whether or not related to the present activity?
6. Establish a history of income. No need to be nervous if your startup loses money the first year or two, or if losses in later years are the result of events that are out of your control, such as natural disasters. The general rule for proving your intention to operate a business is to make a profit in three of the last five years.
7. Show a profit. No set amount of profit establishes business intent. Instead, compare the profit you have the opportunity to earn to the losses you may incur and the amount of your investment.
8. Check financing. How are you financing the business? Do you have substantial income from other sources? Does the activity generate losses that provide tax benefits you might not otherwise enjoy?
9. Limit the fun factor. Liking what you do does not necessarily turn a business into a hobby. However, substantial "recreational" aspects can lend weight to classification of your activity as a hobby.



Remember, no one factor is controlling. Instead, you need a pattern that establishes your intention to make a profit.

## **What's New in Finances**

### FSA rule has been modified

Flexible spending accounts (FSAs) allow taxpayers to set aside pre-tax dollars to pay for out-of-pocket medical expenses.

The drawback has been the fact that unused amounts each year are forfeited. Plans could provide a 2½ month grace period to use up unspent set-asides.

Now a change announced by the IRS adds more flexibility to these accounts. Plans can be modified by employers to allow up to \$500 of unused amounts to be carried over into the following year. Health FSAs cannot have both the old 2½ month grace period and the \$500 carryover; they can have one or the other (or neither).

### Financial tips for the 20-something generation

The earlier you start, the easier it will be to get ahead financially. Here are some recommendations for those in their early twenties.

\* Pay yourself first. Every time you get paid, put something aside in a savings or investment account. As a general rule, save 10% of your income. Even smaller amounts add up over time.

\* Watch your plastic. Credit cards are an expensive form of debt, and it's easy to lose control of them. Try to pay your entire credit balance every month, even if it's a stretch. If you've been carrying a balance, buy nothing more on credit until the balance is zero.

\* Keep a clean credit record. If you plan to own a home, buy a car, or start a business, you're going to need squeaky-clean credit. Keep all of your financial obligations current, and never make a financial commitment that you can't keep. If you fall behind on any obligation, talk to the creditor immediately to make alternative arrangements.



\* Make sure you have adequate medical coverage. You may not see a doctor even once this year. But if you do need medical care, it could be for something serious and expensive. Anything less than a good major medical policy could ruin you financially.

\* Watch your expenses. At this point in your career, you may not receive large or frequent pay raises, but you can achieve the same effect by cutting expenses. Shop before you buy. Very similar - and sometimes identical products - are sold at widely varying prices. Wise shopping can be the equivalent of having a good-paying second job.

For assistance with financial strategies suitable for your particular age and situation, give us a call.

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