



## Online Advisor - July 2013

### Major Tax Deadlines For July 2013

\* **July 31** - Due date for filing retirement or employee benefit plan returns (5500 series) for plans on a calendar year.

**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

#### IRS closes due to budget issues

The IRS will close all of its operations on July 5, July 22, and August 30, 2013. The current budget situation, including the sequester, has made these closures necessary. IRS employees will be furloughed without pay on these days.

Taxpayers should continue to file returns and pay any taxes due as usual, though on these days the IRS will not answer toll-free hotlines or accept or acknowledge receipt of electronically filed returns. Electronic deposits of employment and excise taxes must be made as usual.



Additional furlough days may be announced later.

### **Estimated Taxes: Do you need to pay them?**

If the bulk of your taxable income is from wages, your tax liability is probably being covered by withholding from your paychecks. However, if you have income that is not subject to withholding, you may need to pay quarterly tax estimates.

Many taxpayers who switch from being an employee to being self-employed find out about the quarterly estimate requirements after it is too late. Along with income tax, self-employed individuals must include FICA taxes in their tax estimates.

If you have acquired income-producing property, you may have a tax increase that is large enough to require quarterly estimates. Quarterly payments may be necessary even though taxes are being withheld from your wages or retirement income.

If you fail to pay required income tax estimates on time, the result may well be a penalty plus interest. Here are the rules.

\* **General rule.** The general rule is that at least 90% of your income tax must be prepaid either by withholdings or by estimated tax payments. If you fall short of that, you may be able to avoid penalties if you meet the "safe harbor" rules.

\* **Safe harbor rules.** Taxpayers with adjusted gross income (AGI) of \$150,000 or less can avoid underpayment penalties by prepaying an amount equal to 100% of last year's tax liability. Those with AGI of over \$150,000 must prepay 110% of their prior-year tax liability.

There's no penalty if your underpayment is less than \$1,000. Special rules apply to farmers and fishermen.

\* **Due dates.** The first quarterly payment for 2013 was due on April 15. The second payment due date was June 17, and the third is September 16. The final 2013 payment is due on January 15, 2014.

If you have a significant change in your income from last year, you may want to review your estimated payments. If the new Medicare surtaxes will hit you, your estimated taxes may also be affected. We will gladly assist you in determining your prepayment requirements.



## New Business

### Taxes and your new summer business

The extra cash a summer sideline business produces will no doubt come in handy, but it could affect your tax return.

Here's what you need to know about reporting requirements for common sources of secondary income.

\* **One-time sales.** Generally speaking, all income is taxable. For instance, say you're an amateur horologist and you sell your personal collection of vintage pocket timepieces. The difference between what you paid for the watches and the sales price is a capital gain.

What about that single mid-summer house-cleaning garage sale? When you sell stuff you used personally for less than you paid for it, the sales need not be reported because the loss is not deductible.

\* **Sometimes sales.** Depending on the items sold, you may have capital gains or ordinary income.

Periodic sales that generate income can also raise the question of whether you're operating a business or engaging in a hobby. The difference? If you're in business, you can generally deduct all your business expenses and even incur a loss. Hobby rules limit your deductions.

\* **Recurring sales.** Will you be buying goods in bulk to re-sell for a profit? Do you intend to continually replenish your stock with thrift store or garage sale items?

Regular sales activity may mean you've started a business and have ordinary income. That's true even if you sell via on-line auction and never receive an informational statement reporting the sales.

Contact us before you establish any new venture. We'll be happy to answer your questions about the tax issues.



## Obsolete inventory can be costly

Walk through most commercial warehouses and you'll find products that have been collecting dust for months, even years. Tires that no one wants to buy, raw materials that are no longer used, tubes of caulking that are good for nothing but the dumpster, textbooks that college professors revised two years ago - all may be considered obsolete inventory.

### What makes inventory obsolete?

For one thing, alternative products may arrive in the marketplace at lower costs to the consumer. You might sell refrigerators that, several years ago, were a great value because they offered a "frost-free" feature. Now, however, your competitors (even your own stores in other locations) may begin selling similar models with digital enhancements - at the same or lower prices. This change in product features will often adversely affect the value of your existing inventory.

Many firms have learned that technological advances are a double-edged sword. (Ask any computer retailer.) Perhaps your company makes custom-designed widgets. If demand for such products dries up, you may need to retool and modify your existing product line. Your need for certain expensive raw materials - stuff that's sitting on your warehouse shelves - may dwindle.

Carrying obsolete products in your warehouse or retail store tends to increase operating costs without generating profit. Besides the cost of storing and insuring such items, you may be forced to incur labor expenses to move the products to new locations and account for them. In addition, your financial reports may overstate business assets, especially if inventory is a major item on your balance sheet. Even your tax bill may be affected. Failing to recognize the expense of obsolete inventory may overstate net income.

### How can you reduce the cost of excess inventory?

\* **Define "obsolescence" for your major product lines; then be proactive.** For example, if an item hasn't sold in a certain number of months or is being phased out by suppliers, start moving that item by offering sales discounts.

\* **Be willing to write off products or raw materials that are unlikely to generate profit.** Don't wait until escalating storage costs or an auditor's findings shine a spotlight on obsolete inventory.

\* **Establish a regular schedule for reviewing inventory.** Many firms count their goods at the end of the year. That's great. But knowing where you stand with inventory should be a year-round process.

For help with this or other business problems, give us a call.



## What's New in Finances

### 2014 HSA contribution limits released

The IRS recently announced the inflation-adjusted contribution limits for health savings accounts (HSAs) for 2014. HSAs allow taxpayers with high-deductible health insurance plans to set aside pretax dollars that can be withdrawn tax-free to pay unreimbursed medical expenses.

The 2014 contribution limit for individuals is \$3,300; the limit for family coverage is \$6,550. A catch-up contribution of an additional \$1,000 is permitted for individuals who are 55 or older.

### Consider money-saving options for family vacations and entertainment

Is a tight budget cutting into the finances available for family trips and entertainment? We all need time to recharge, to have fun, to enjoy our families and friends apart from the daily grind. Fortunately, you can enter the work-free zone of vacations and fun and still stay within a reasonable budget. Here are some ideas.

#### Vacations

- \* **Travel off-season.** You'll probably find the Caribbean or other warm locations more humid in the summer months, but cheaper rates can keep your vacation budget from overheating.
- \* **Don't park at the airport.** That's what friends are for, right? If you know folks who live close to the airport, ask to park your car at their home during your vacation. As an alternative, check out "park and fly" packages at nearby hotels.
- \* **Take the airport less-traveled.** Speaking of alternatives, you can often find cheaper rates by flying into an airport that's not as busy. Research fares to find which airport is cheaper for your vacation. Just make sure the distances to your hotel don't offset cost savings on air travel.
- \* **Eat for less.** Many hotels provide free breakfast, saving you the cost of at least one restaurant meal per day. Buy groceries and eat in your room once in a while. When you dine out, look for smaller neighborhood markets and eateries away from the high-priced tourist areas. They're often more affordable (and may be more authentic).



## Entertainment

- \* **Be patient and save.** Instead of standing in line to view that must-see blockbuster, wait a few weeks and watch it at the discount movie theater. Or wait a little longer and rent it on DVD.
- \* **Buy a family pass.** If your home is near a zoo, aquarium, or museum, purchase a season pass for the family. You'll recover the cost in just a few visits and won't feel the pressure to see it all in one trip.
- \* **Watch the amateurs.** Enjoy high school or community college sports once in a while. High-priced professionals are, well, high-priced. Minor league games can also provide great family-friendly entertainment without breaking the budget.

With a little creativity, you can still enjoy delightful outings - even when money is tight.

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