Online Advisor - February 2013

Major Tax Deadlines
For March 2013

* March 1 - Farmers and fishermen who did not make 2012 estimated tax payments would normally be required to file 2012 tax returns and pay taxes in full. However, the IRS had to delay the start of this year's tax filing season until it completed programming changes made necessary by the late passage of the "American Taxpayer Relief Act of 2012" (signed into law on January 2, 2013). As a result, the IRS extended the March 1 filing deadline for farmers and fishermen to April 15.

* March 10 - Daylight Saving Time begins.

* March 15 - 2012 calendar-year corporation income tax returns are due.

* March 15 - Deadline for calendar-year corporations to elect S corporation status for 2013.

For April 2013

* April 1 - Deadline for payers who file electronically to file 2012 information returns (such as 1099s) with the IRS.

* April 1 - Deadline for employers who file electronically to send copies of 2012 W-2s to the Social Security Administration.

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

Extended tax breaks could cut your taxes in 2012 and 2013

The new tax law signed in January extended a number of tax breaks that could lower your tax bill in 2012 and 2013. So check out the list below to see if any apply to you or your business.

Extended for individuals:

* The optional deduction for state and local sales taxes in lieu of deducting state and local income taxes.

* The above-the-line deduction for up to $4,000 for qualified tuition and related expenses.

* The above-the-line deduction for up to $250 for classroom supplies purchased by teachers.

* The deduction for mortgage insurance premiums.

* Allowing taxpayers 70½ or older to make tax-free contributions of up to $100,000 from an IRA to a charity.

* The exclusion from income for cancellation of mortgage debt of up to $2 million on a principal residence.

Extended for businesses:

* An increase to $500,000 in the Section 179 first-year expensing option for the purchase of new or used business equipment, with an investment limit of $2,000,000.

* 50% bonus depreciation on purchases of new business equipment.

* The research tax credit and the work opportunity tax credit.

* 15-year depreciation for leasehold improvements, restaurant property, and retail space improvements.

For assistance in identifying and applying all the deductions and credits that lower your taxes -both for 2012 and 2013 - please contact our office.

Do you owe self-employment tax?

If you earned more than $400 during 2012 from work as a sole proprietor or independent contractor, you may owe self-employment tax. That's true no matter what your age - even if you're receiving social security benefits.

The tax is assessed on your earnings from self-employment, which can include income from qualified joint ventures and partnerships, as well as fees you earn working as a director for a corporation. In this context, "earnings" generally means your income after deducting expenses incurred while operating your business. If you have multiple businesses, you combine the net income and losses.

For your 2012 return, the self-employment tax rate is 13.3% on the first $110,100 that you earned. For 2013, the taxable base rises to $113,700, and the tax rate increases to 15.3%. Income above the base amounts is still subject to Medicare tax at a 2.9% rate.

What happens when you earn social security wages or tips from an employer and also have a side business? Your wages count toward the taxable base. Depending on how much you earn as an employee, your self-employment income may be subject to part or all of the tax.

You can pay self-employment tax on a quarterly basis as part of your estimated tax payments. One half of the total self-employment tax that you pay during the year is deductible on your income tax return, and you don't have to itemize to claim the deduction.

Are you new to self-employment? Give us a call. We're happy to offer guidance and help you make smart tax decisions.

New Business

New home-office deduction option simplifies recordkeeping

The IRS is reducing the recordkeeping required for the home-office deduction, effective for 2013. Taxpayers who qualify may use a new optional deduction calculated at $5 a square foot for up to 300 square feet of an area in a home that is used regularly and exclusively for business. The deduction is capped at $1,500 a year.

Taxpayers opting for the simplified deduction cannot depreciate a portion of the home as they can under the other method. However, business expenses not related to the home, such as advertising, supplies, and employee wages are still fully deductible.

This simplified option is available starting with the 2013 tax return which will be filed in 2014.

Manage your business with a few key numbers

Regardless of the type of business you're running - whether it's selling electronics, making furniture, or servicing automobiles - monitoring a few key financial indicators is often all that's needed to keep your company growing and prosperous. On the other hand, neglecting a firm's vital signs can lead to management by crisis and corrective action that's too little, too late.

A prudent business owner won't wait until the end of the year (or even the end of the quarter) to learn that revenues are declining, inventories are shrinking, or payroll expenses are spiraling out of control. Although annual financial statements provide historical perspective and a wealth of data for long-term planning, correcting current problems is a matter of timely insight and informed analysis. You want to know whether your business is losing money or growing - now, not later.

A company's key financial indicators often fall into one or more of the following categories:

* Orders and returns. Are you selling more units over time? To find out, look at your sales figures by units. Tracking revenues alone may present a false picture. After all, revenues may be growing because prices have increased. If unit sales are declining, you might be losing market share. Are customers returning more and more of your products? Are complaints increasing? If so, it may be time to examine your quality control process or return policy.

* Breakeven point. If you need $100,000 this month to cover fixed and variable costs, are you selling enough products or providing enough services to break even? If you're dipping into reserves to cover revenue shortfalls, adjustments may be required. Expenses may need to be slashed, a new advertising campaign launched, or a new and cheaper supplier procured.

* Liquidity. Knowing the availability of cash is vital to every business. That's why reconciling the firm's bank statements shouldn't be an afterthought. Every month your accountant or bookkeeper should ensure that your general ledger agrees with the bank's records of deposits and withdrawals. If a company is "bleeding cash," the bank statements should tell the story.

* Inventory. Controlling the stuff that's weighing down your retail shelves or accumulating in your warehouse is often a key to profitability. Buying too many items may lead to excessive storage costs; buying too little may lead to burgeoning backorders and lost sales.

* Payroll. Staff size should be commensurate with revenues. Medium-sized firms, especially, can find that labor expenses grow too rapidly. A decline in orders may signal a need to reduce payroll costs.

By carefully analyzing your firm's operations, you'll be able to identify the indicators that provide the clearest view of your company's ongoing profitability.

Over time your business's key numbers may change. You need to know your business industry, identify changing conditions, and adapt. A brief but timely report that presents the numbers that really matter will help to keep your firm on the right track.

What's New in Finances

Review your estate plan under the new rules

There has been a lot of uncertainty about the tax rules - what has changed for 2013 and what has remained the same. This uncertainty includes the rules covering estate and gift taxes.

The estate tax exemption was scheduled to drop in 2013 to $1,000,000, with a top tax rate of 55%. However, the *American Taxpayer Relief Act of 2012* signed in January kept that change from happening and instead brought some certainty to the estate and gift tax rules for some years going forward.

The new law permanently sets the estate and gift tax exemption at $5,000,000 and sets the top tax rate at 40%. The exemption amount is adjusted annually for inflation. That inflation adjustment puts the 2012 exemption at $5,120,000 and the 2013 exemption at $5,250,000. The annual gift tax exclusion for 2013 is $14,000 per recipient.

Now that the rules have been made "permanent," you would be wise to review your estate plan to be sure the plan will still accomplish your wishes. Contact us and your attorney for any assistance you need.

You can't change your mind after you convert

Under the new tax law, it is now easier to convert your employer-sponsored retirement plan such as a 401(k), 403(b), or 457 into a Roth IRA account. This is similar to converting your traditional IRA into a Roth IRA, but with one very significant difference.

When you convert a traditional IRA into a Roth IRA, you can change your mind and undo this conversion (also known as a recharacterization) by October 15 of the following year. This may make sense when the value of the account has dropped since you did the conversion, because you do not want to pay tax on a higher value than the account currently has.

When you convert an employer-sponsored retirement plan, you do not have the option of undoing the conversion by October 15. Once you convert your employer-sponsored retirement plan into a Roth IRA, it cannot be undone.

If you decide to convert your entire 401(k) into a Roth IRA, the entire balance will be taxable in the year of the conversion.

If you want to take advantage of this new provision, please contact our office first because there are some very important tax planning consequences to consider. If done without proper tax counsel, you may be paying more taxes than you should. In light of the new tax law, there are now more variables that need to be considered in your tax planning.