Online Advisor - May 2013

Major Tax Deadlines
For May 2013

* May 15 - Deadline for calendar-year exempt organizations to file 2012 information returns.

* May 31 - Deadline for IRA, SEP, SIMPLE, Roth IRA, MSA, and education savings account trustees to file annual statements (Form 5498) with the IRS, with copies to participants.

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

Foreign asset reporting: You may need to file two forms

Do you know where your money is? If some of it is offshore, you might have tax reporting responsibilities - and those responsibilities generally go further than checking the familiar box on the Schedule B you submit with your federal income tax return. Here are two.

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1. FBAR. Foreign bank account reporting has been required since 1970, so you may be familiar with "Form TD F 90-22.1," commonly known as "FBAR." Unless you qualify for an exception, that's the form you fill out when you control assets in a foreign financial account and the total value of your account exceeds $10,000 at any time during the calendar year.

The FBAR is an annual information form, filed separately from your federal income tax return. You may need to file it even if you receive no taxable income from your foreign account.

The due date for the FBAR differs from Form 1040 as well. Your 2012 FBAR must be received by the Treasury Department no later than June 30, 2013. No extension is available. "Received by" means you'll need to mail the FBAR before June 30. Since June 30 is a Sunday this year, your return must reach its destination by Friday, June 28.

You can also file electronically.

2. Form 8938. The requirement to file "Form 8938 — Statement of Specified Foreign Financial Assets" began in 2011. Whether you have to complete Form 8938 depends on your federal income tax filing status, and if you're living in the U.S. or abroad.

For example, say you're married filing a joint return, and live in the U.S. You may be required to file Form 8938 if the total value of your reportable foreign assets is more than $100,000 on December 31, or more than $150,000 at any time during the year.

Reportable foreign assets include accounts at foreign banks and financial institutions, as well as certain stocks, bonds, and foreign investments. When determining if you meet the threshold for filing, consider the entire value of accounts you own jointly with someone other than your spouse, as well as assets owned by your dependent children.

File Form 8938 with your federal income tax return. Depending on the amount and type of your foreign accounts and other assets, you might need to file both the FBAR and Form 8938.

Please call if you need details or assistance with these filing responsibilities.

Some tax benefits have a past and a future

Like a page from a science fiction novel, your tax return can reach into the past and future. How? Through the use of tax carryforwards and carrybacks. Here is what you should know about these time-traveling tax perks.

Some tax deductions have a maximum amount that you can use in any one year. In these situations, the rules generally allow you to apply the unused tax deduction to a past or future tax return. One of the most popular examples of this is the "net operating loss" or NOL. Business owners whose qualified expenses exceed their income are allowed to apply the NOL to taxable income earned in the second prior year, and if there is still loss available, to apply it to last year's income. Any further unapplied NOL can be used to offset future taxable income.

But there are a few twists to the NOL rules. If your NOL is the result of a theft or disaster, you can carry it back three years. An NOL from farming can be carried back five years. And you may opt to apply all your NOL to future years only, which might not be a bad strategy if you expect to be taxed at higher rates in future years.

Net capital losses, such as from the sale of stocks, can be carried forward (but not back) to offset future capital gains and up to $3,000 of ordinary income. You can also carry forward charitable contributions that exceed 50% of taxable income for up to five years.

It's important to save all records related to carryback and carryforward deductions for at least three years after the year they are applied. If you have any questions about your potential for tax carryback and carryforward deductions, contact our office. We'll help you keep an eye on your tax situation, past, present, and future.

New Business

Accountable plans are a win-win business idea

Are you looking for a way to give your employees a tax-free benefit that is also tax-deductible for your business? Why not consider an accountable plan?

An accountable plan is an arrangement that lets you reimburse your employees for expenses incurred on behalf of your company, such as driving to the post office or supply store. With a properly administered plan, you can deduct the reimbursements on your business tax return, yet the payments are not considered income to your employees.

How can you make sure your plan qualifies?

* **First,** the reimbursements must be for allowable business expenses. For instance, you can repay employees for hotel and other travel expenses when traveling to a trade convention.

* **Second,** your employees need to keep records of the expenses, and provide those records to you.

* **Third,** if you pay or advance your employees more than the amounts spent on business items, the extra must be returned, generally within 120 days. Amounts not returned to you are income to your employee, and are subject to payroll taxes.

The requirements are applied to each employee, and you can have more than one plan.

Contact us to discuss your policies for repaying employees' business expenses. We'll help you make your plan accountable.

Can happy employees equal healthy profits?

It is said that living by the Golden Rule - treating others as you would like to be treated - pays dividends. Can this be true in a small business work environment, too? Business owners are increasingly finding that treating employees well can boost profits.

Creating a contented workforce is simply a matter of maintaining your most precious business asset. This can benefit your company in three ways. First, it lowers employee turnover, which in turn lowers new-hire training expenses and flattens learning curves. Second, a well-treated employee is often a harder working employee, one who is more apt to put in the additional hours when needed. This extra effort can also help cement relationships with your customers as they discover that your employees will do whatever it takes to get the job done. And finally, gaining a reputation as a good place to work will naturally draw higher-quality job prospects.

So how can a small business with limited resources become an attractive place to work? The first step might be to just show employees you care. Offer your workers as many tax-favored benefits as is feasible. The rules keep changing, so you will need to stay current on the latest employment perks. Our office can help you with that.

Also, monitor company morale and routinely ask for employee feedback. When good ideas come from your rank and file, give them the proper credit. And as you become aware of special situations affecting the personal lives of your employees, consider helping them beyond what is required.

Another method for retaining good employees is regular investment in training. A solid core of well-trained employees not only maximizes company effectiveness and profitability, it sends an unmistakable message that your employees have a future with your company.

Fundamental to a contented workplace is a set of fair and consistent employment policies. Establish an employee handbook of rules to work by, and apply those rules to everyone in a consistent manner. Create written job descriptions and strive to communicate expectations clearly. And when your company is headed for big changes, keep everyone as informed as possible. An old business axiom, "never create more change than you can communicate" still holds true today.

Becoming a great place to work is not just the domain of Wall Street companies. Small businesses can also create favorable work environments. It just takes a little application of the Golden Rule.

What's New in Finances

Teach your children five financial lessons

It's important to impart life's lessons to your children. Prime example: Will your children be able to handle their finances when they became adults? Don't assume they will.

"Financial illiteracy" appears to be rampant in the younger generation. The same kid who is adept at using a smart phone or iPad may have trouble with basic math skills, balancing a checkbook or managing money. And, if your youngster can't control financial impulses now, it could be a harbinger of crushing debt in the future. Consider these five tips.

1. Curtail spending. Rein in children inclined to indulge in spending sprees. Take the "weekly allowance" to the next level by helping a child develop a monthly budget. Review the results with your child to reinforce good habits.

2. Emphasize savings. Part of the budgeting process is setting aside money. It's important for your children to learn, at an early age, about the power of compounded interest. Use online calculators to demonstrate the true value.

3. Dip into investments. Introduce your child to investment basics by having him or her acquire shares of one or more stocks or mutual funds. Your child can learn a lot by charting the investment's progress on a regular basis.

4. Take out a loan. Even if you act as the lender, your child can learn valuable lessons by borrowing a small amount of money. Again, an online calculator will indicate how compounded interest piles up. Your child may be encouraged to avoid debt.

5. Factor in taxes. Finally, it's not what you earn, but what you keep, that matters. Show how taxes can erode earnings and why they must be factored into financial decisions.

These five steps can benefit your children in the future. Start them on the right path.

Gifting appreciated stock has varying tax consequences

Here are a few things to consider when making gifts of appreciated stock.

If you are gifting to a qualified charity, you get a deduction for the fair market value of the stock even though your basis (cost) is less than the current value. When the charity sells the stock, there are no taxes due since qualified charities pay no taxes on contributions they receive. This is a win-win for both parties since the donor also pays no taxes on the appreciated value of the stock.

If you are making a gift to an individual, the rules are different. The person who receives your gift also takes your basis (cost) and holding period as his own. When he sells the stock, he will report the gain on his income tax return. If the recipient is in a low enough tax bracket, there may be no tax on the gain.

Take this example. Let's assume you purchased $2,000 worth of XYZ stock four years ago, and the stock is now worth $10,000. If you gift that stock to a qualified charity, you will get a deduction for $10,000, completely avoiding tax on the $8,000 of built-in profit. If you gift the stock to someone who sells it, that individual will report a gain of $8,000 on his or her income tax return. The tax, if any, is determined by the recipient's income tax bracket.

Which stocks you give away, which stocks you sell, and those which you hold for another time should be determined by your long-range financial plans. Contact us for assistance in determining the best tax advantage of selling or gifting stocks.

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