CIRIMELLI, PYLE & ASSOCIATES LLP
CERTIFIED PUBLIC ACCOUNTANTS

# Online Advisor - September 2013

## Major Tax Deadlines
## For September 2013

* September 16 - Due date for individuals to pay third quarter installment of 2013 estimated tax.

* September 16 - Due date for filing 2012 tax returns for calendar-year corporations that had an extension of the March 15 filing deadline.

* September 16 - Due date for filing 2012 partnership tax returns that had an extension of the April 15 filing deadline.

* October 1 - Deadline for businesses to adopt a SIMPLE retirement plan for 2013.

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.

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# What's New in Taxes

## IRS publishes ten facts on amending a tax return

If you discover an error or omission on a tax return you've already filed, you can fix the mistake by filing an amended tax return. The IRS recently issued ten facts taxpayers should know about amending a return. Here's a quick summary.

1. Use Form 1040X (Amended U.S. Individual Income Tax Return). Amended returns cannot be e-filed; you must file on paper.

2. Consider filing an amended return if your filing status, income, deductions, or credits must be changed.

3. Generally, no amended return is needed to correct math errors; the IRS will automatically make these changes for you.

4. You have three years from the original filing to amend a return.

5. When amending more than one return, mail each in a separate envelope.

6. Attach necessary schedules to Form 1040X.

7. Amended returns take up to 12 weeks to process.

8. If you owe additional taxes with Form 1040X, pay as soon as possible to minimize interest and penalties.

9. You can track the status of your amended return three weeks after filing, using the "Where's My Amended Return?" under TOOLS on www.irs.gov.

10. In tracking your amended return, you'll be asked to provide your social security or other ID number, date of birth, and zip code.

## Dependents can be a complicated tax issue

Most taxpayers believe that a "dependent" is a minor child that lives with them. While that is essentially correct, dependents can include children and parents, other relatives and nonrelatives, and even children who don't live with you. There is really much more to the dependent deduction than you might at first imagine.

* Exemptions and your taxable income. For 2013, each dependent deduction is worth $3,900, reducing your taxable income by this amount, though the deduction is phased out for high income taxpayers.

* Dependents defined. It's impossible to present all of the rules relative to dependents here, since they are so complicated. Generally speaking, if somebody lives with you and you provide more than half of that individual's support for the entire year, there is a good chance that person is a dependent. There are many exceptions. For example, parents don't have to live with you if they otherwise qualify, but some other relatives do. A child of divorced parents doesn't necessarily have to live with the noncustodial spouse for the dependent deduction to apply.

* People who can't be claimed. Generally, you may not claim a married person as a dependent if that person files a joint return with a spouse. Also, a dependent must be a U.S. citizen, resident alien, national, or a resident of Canada or Mexico for part of the year.

* One dependent deduction per individual. If you claim yourself as your own dependent, anybody else who can truly meet the tests and claim you as a dependent will lose out. This is common for college students who file their own tax returns for their part-time jobs, while mom and dad really meet all of the qualifications to claim the dependent exemption.

While the dependent deduction might seem relatively minor, it can lead to other deductions on the tax return. In order to claim the child tax credit, the education credits, the dependent care credit, for example, you must claim the dependent deduction for the child that qualifies for the deduction or credit.

Finally, dependent deductions can be negotiated, which is especially important for divorced taxpayers. In the past, the IRS would accept the language of the divorce decree to allow the noncustodial parent the dependent deduction. However, under the current rules, the IRS will no longer accept a divorce decree in lieu of IRS Form 8332 (Release of Exemption).

## New Business

### Crowdfunding: A new source of business financing

If you are trying to finance a new business venture, you might want to check into an online option known as "crowdfunding." In simplest terms, crowdfunding means many people give you money to fund your project in exchange for a reward such as a free copy of your product or a small stake in your new business.

As you explore the idea of crowdfunding, you may wonder about the tax treatment of the money you receive. Is it an investment in your business? A gift? Taxable income?

Here's a broad overview.

* Investment. In general, under U.S. law, when you offer many "investors" stock or other equity in your business, you're selling securities, and you have to comply with federal and state securities regulations. While the 2012 JOBS Act created a crowdfunding exemption to these regulations, the Securities and Exchange Commission has not yet finalized the rules. At present, calling the money you receive from crowdfunding an "investment" is not an option.

* Gift. Broadly defined, gifts are cash or other consideration you receive from someone who provides the gift freely, with no expectation of getting something from you in return. When you provide crowdfunders with a reward or other perk in exchange for financial support, the transaction typically will not meet the tax law definition of a gift.

* Income. Money you receive for your work - from whatever source - is income, and usually includable on your federal income tax return. Related expenses can be deductible.

## Plan for the growth of your business

Most businesses view growth as a sign of success. Yet uncontrolled expansion could jeopardize your company's future. Consider these key points as you map out a plan for growth.

* Keep more of what you make. A thorough business and tax review may reveal tax-cutting opportunities and other steps you can take to operate your business more profitably.

* Review insurance needs. Keep your insurance agent apprised of what you are doing in your business. Changes in your business equipment, the amount of inventory, the number of employees, and your real estate holdings are all causes for a review of your insurance.

* Manage your cash wisely. Lack of liquidity is a key factor in most business failures. Some effective cash management techniques include reducing receivables, speeding collections with early payment discounts, making payment on bills no sooner than the due date, lowering excess inventory, and investing excess cash.

* Learn the rules for employees. Hiring your first employee is usually a learning experience. Unfortunately, the rules and paperwork don't get any easier as your business grows. In fact, different rules silently kick in as your employee head count reaches certain thresholds. Before you hire an employee, make sure you understand the total cost and obligation you are undertaking.

* Outshine the competition. Business competition gets more intense every year. One way to stay competitive is to limit your product or service line and become more of a specialist. Stick to what you do best. This will give your customers the confidence that you can fill their needs more readily than another company.
For assistance with the challenges of growing your business, contact our office. We're here to help you succeed.

## What's New in Finances

### After you move: A financial checklist

Many people move during the summer months when children are out of school. If you have recently moved, take the following steps to bring your financial situation up to date:

* Notify all current year employers for all members of the family so that W-2 statements and other forms arrive on time at your new location.

* Review your insurance policies to make sure you still have the coverage you need. Your premiums may change on some insurance due to your new location. Find out when various policies expire so that you can get insurance in your new location without a lapse of coverage.

* Check on pension benefits at both your old job and your new one. If you are entitled to money from your old company's pension plan, get advice on the tax consequences of the various options relating to the funds.

* Make an appointment for a tax planning session in your new location. You may be required to file tax returns in more than one state, and state tax laws vary. Schedule this session early to give yourself ample time to do tax planning.

* Review your investment portfolio. Moving may require some adjustments. For example, if you own municipal bonds issued by your old state of residence, earnings on them will probably be taxable in your new state.

* If you've moved to a new state, find out the laws governing property rights. Some states are community property states and, in general, consider husbands and wives to be joint owners of property acquired during their marriage. Other states are common law states and property ownership depends on title and the source of acquisition funds. Get the facts so you can arrange your affairs accordingly.

* Have your will reviewed to see if changes are necessary. State laws vary; be sure your will still does what you want it to do. Contact your attorney for assistance.

If you'd like more information or assistance with financial matters related to making a move, contact our office. We're here to help.

## Should you transfer your 401(k) to an IRA when you retire?

If you're approaching retirement, you may be wondering where to park the money that's sitting in your employer's 401(k) plan. Should you transfer the balance to an Individual Retirement Account (IRA) as soon as you retire? Should you take a lump-sum payment and reinvest the money elsewhere? Should you leave the entire balance in your employer's plan? As with most financial decisions, this one is not one-size-fits-all. Before taking action, it's wise to take a close look at your particular needs and circumstances, as well as the advantages and disadvantages of each investment option. Consider the following:

* Investment options in a 401(k) plan may be limited. Cafeteria-style 401(k) plans generally offer fewer investment options than IRAs and this, in turn, may impact long-term planning. For example, an IRA may provide the option of purchasing individual bonds instead of bond funds. With an individual bond, you may be able to get a fixed interest rate for more predictable income. On the other hand, if you don't have the time or inclination to research investment options, you may want to leave your nest egg in a solid 401(k) plan. Employers often reduce the number of mutual funds in a 401(k) plan to a few high-quality, well-managed funds with low fees. In addition, limited funds mean less recordkeeping. For some folks, that's a real advantage.

* Some investment options may not be available in an IRA. In general, IRAs provide more investment alternatives than company retirement plans. But some options - stock ownership plans, for example - may not be available outside your employer's plan.

* IRA fees may be higher. Large companies are often able to negotiate discounted fees for their 401(k) participants. Leaving your money in an employer's plan may cut down on investment costs and put more of your money to work.

* Consider your retirement age. With an IRA, you'll incur a 10% penalty if you make withdrawals before turning age 59½. Qualified retirees can begin taking penalty-free withdrawals from a 401(k) plan at age 55. So if you're planning to retire between those ages, you might want to leave your money in the employer plan.

* Beware the transfer. If you decide to move your money to an IRA, it's generally best to have the money transferred directly to a new tax-deferred account. Unless the funds are quickly reinvested in a qualified retirement account, you could face significant tax consequences.

For guidance in making your retirement financial decisions, give us a call.