Cirimelli, Pyle & Associates LLP
CERTIFIED PUBLIC ACCOUNTANTS

Online Advisor - April 2014

Major Tax Deadlines For April 2014

* April 15 - Individual income tax returns for 2013 are due.

* April 15 - 2013 calendar-year partnership returns are due.

* April 15 - 2013 annual gift tax returns are due.

* April 15 - 2013 income tax returns for calendar-year trusts and estates are due.

* April 15 - Deadline for making 2013 IRA contributions.

* April 15 - Deadline for employers to make contributions to certain retirement plans.

* April 15 - First installment of 2014 individual estimated tax is due.

* April 15 - Deadline for amending 2010 individual tax returns (unless the 2010 return had a filing extension).

* April 15 - Deadline for original filing of 2010 individual income tax return to claim a refund of taxes. Each year some taxpayers have tax refunds due them for prior years, and unless a return is filed to claim the refund by the three-year statute of limitations, the refund is lost forever.

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

What if you can't file your 2013 tax return by April 15?

April 15 will be here before you know it. If you won't be able to complete your income tax return by then, don't forget to file a Form 4868 with the IRS to give yourself up to six additional months to get it done.

Be aware, however, that an extension to file does not extend your time to pay. The IRS will still assess interest on any unpaid tax balance. In addition, unless you pay at least 90% of your estimated tax liability by April 15, you may be hit with a late-payment penalty.

In certain circumstances, even if you have no problem submitting your tax returns by the April 15 deadline, getting an extension might still be a good idea.

If you aren't able to pay all of the taxes that you owe by April 15, an extension will allow you to defer paying some of your taxes until October 15. As long as you have paid 90% of your total tax liability by April 15, you should not be subject to IRS penalties on the balance due. And even though you will owe interest on the shortfall, the rate of interest charged by the IRS may be less than the cost of borrowing elsewhere.

If you are self-employed, and you need a few extra months to gather the money necessary to pay your income taxes and to fully fund your retirement plan, you might also benefit by filing for an extension. To deduct contributions made to a retirement plan, the contributions must be made prior to the due date of the tax return, including extensions. By filing a Form 4868 with the IRS, you have up to six additional months to fund your retirement plan. One strategy commonly employed by self-employed individuals is to pay the full amount of taxes due with the extension, and then to fund their retirement plans six months later.

If you would like to discuss whether you can benefit from an extension of time to file your taxes, please contact our office.

IRS Audits: What you should know

There's nothing good about being selected for an IRS audit. At best it's a time consuming nuisance, and at worst you'll be poorer in the end. But you can reduce your likelihood of being audited, or if you are selected, of being billed.

There are three types of IRS audits. The simplest and most common is a correspondence audit, where the IRS mails you a request for further information about one or more items on your return. In most cases the issues can be resolved by responding with the appropriate documentation.

If you're selected for an office audit, the IRS will schedule an appointment for you to meet with an auditor at their local facility. They'll tell you in advance which specific areas of your return(s) will be addressed and what types of documentation you should bring in.

A field audit is more comprehensive. An IRS agent will travel to your home, business, or representative's office, review the returns at issue, request documentation for questioned items, and ultimately issue a report either recommending a tax change or accepting the returns as filed.

The selection process

Correspondence audits are often triggered by information matching. The IRS receives W-2s, 1099s, and similar reports from businesses and financial institutions and matches the numbers to the tax returns filed by the individuals involved. If the returns don't agree with reported figures, the individual will be asked for an explanation and/or simply mailed a bill.

The IRS also uses a computer scoring system to select audits. Based on past experience, the system assigns a score to each tax return indicating the likelihood that the tax was understated or certain income was not reported. Common red flags include the following:

* Disproportionately high charitable deductions in relation to income.

* Large deductions for travel, entertainment, and business meals.

* Unusually high ratios of business use claimed for automobiles.

* Unusually high home office deductions.

* Excessive and/or repeated business losses.

* Unreported foreign bank accounts.

* Frequent large cash purchases or deposits (reported by outside parties).
It's advisable to be conservative on your tax returns with respect to these "red flag" areas, although you needn't forgo claiming legitimate deductions. Be prepared to support your position by keeping meticulous records and retaining every relevant document.

2014 audit activity

In 2014, above-average audit activity may be expected for upper income individuals, sole business proprietors, partnerships, and S corporations. Cash-intensive enterprises (bars, restaurants, taxis, hair salons, etc.) are particularly apt to receive a higher rate of scrutiny, as are industry categories that tend to have high rates of deductions not independently reported to the IRS (such as construction and real estate rental businesses).

If you happen to be selected for an audit, call us. We're prepared to assist you with whatever is needed.

New Business

IRS announces 2014 deduction limits for business vehicles

The IRS has published depreciation limits for business vehicles first placed in service this year. The limits for passenger autos remain the same as the 2013 limits, but most limits for light trucks and vans are $100 higher.

50% bonus depreciation is no longer allowed for business equipment purchases, including vehicles. Here's a quick review of the adjustments for 2014.

For business cars first placed in service this year, the first-year depreciation limit is $3,160. After year one, the limits are $5,100 in year two, $3,050 in year three, and $1,875 in all following years.

The 2014 first-year depreciation limit for light trucks and vans is $3,460. Limits for year two are $5,500, in year three $3,350, and in each succeeding year $1,975.

For details relating to your 2014 business vehicle purchases, contact our office.

What can you deduct when customers don't pay?

If you're in business long enough, you'll run into a customer who doesn't pay his bill. And despite your best efforts, you come to the conclusion that it will never be paid. You then wonder if you can deduct this "bad debt" on your tax return. As with many tax issues, the answer is complicated.

Most individuals and their associated business and rental properties are "cash basis" taxpayers. That means that you report taxable income when you receive it and report deductible expenses when they are actually paid. That makes things quite simple from an accounting/tax standpoint. So is there a bad debt deduction? Essentially, there is no direct deduction for a cash basis taxpayer. Since the income was never received, it was never reported or taxed. However, you will still be able to indirectly deduct the labor, merchandise, and overhead used to provide the goods or services that were delivered but went unpaid.

On the other hand, some businesses use the "accrual method" of accounting and reporting taxes. That means that you report income when it is billed out (when the invoice is sent to the customer), and expenses are deducted when they are incurred, regardless of when they are paid. This method is much more complicated from an accounting/tax standpoint, since the business must deal with issues such as accounts receivable and accounts payable. However, in this case, you reported taxable income when you sent the customer the invoice. If it goes unpaid, you do have a bad debt deduction that you can claim as an operating expense on your books. And if you're required to pay sales tax on the invoice, don't forget to adjust your subsequent sales tax report to reduce your total sales taxes by the amount of the unpaid sales tax.

Bad debt deductions can get tricky. Make sure to contact us if you need help with this issue.

What's New in Finances

Recent study reveals attitudes about retirement

A recent study conducted by Harris Interactive of 1,000 middle class individuals aged 25 to 75 revealed some interesting statistics about retirement attitudes.

Among the survey's findings:

* 37% of respondents say they don't expect to retire; instead they expect to work until they are too sick or die.

* 59% said retirement is not their top priority; their priority is paying day-to-day bills.

* 34% felt they would have to continue working until age 80 or beyond because they won't have saved enough to retire.

* 31% in the 40 to 59 age category say they have a retirement plan; 69% say they have no plan.

* Those who say they have a written plan say they have saved a median of $63,000 for retirement, which represents 32% of their retirement savings goal of $200,000.Those without a written plan say they have saved $20,000 or 10% of their goal.

* A third of those surveyed said that social security would be their primary source of income in retirement.
* 40% said a large unexpected health care expense was their greatest retirement fear; 37% said lower or no social security benefits was their biggest fear.

On budgets and diets

Budgets, like diets, for most of us are short lived. You do a proper job of planning by looking over the past and determining where you need to make changes to meet your goals. And you live by your plan for a few days, maybe even a few weeks. But then all the detail of keeping track of what comes and goes gets to be more than you are willing to put up with.

If you can plan a budget and live with it, more power to you. This should put you with the 5% of people who can retire without financial assistance from family or the government.

For those of us who can't live with the detail of tracking budget numbers, here is a simple way to make sure you don't retire totally broke. Take a fixed percentage of every dollar that comes into the household and set it aside for retirement investing. Say, for example, that you decide to save 10% of your $100,000 income. Here are some rough numbers for those aged 35 who would like to retire in 30 years. $10,000 invested each year will accumulate to $697,000 in 30 years at a 5% annual return. The earlier you start, the greater the retirement benefits. If the above person started at age 25, the accumulated value at age 65 would be $1,268,000.

You may think it is impossible to save 10% of your current income. Let's assume that you lost your current job and that the next job you find pays 10% less than your current job. The chances are that you will figure out where to cut your spending to make it work. So why not discipline yourself and your family to make your current income provide both a current living and an investment in your retirement.

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