Online Advisor – August 2014

Major Tax Deadlines
For August 2014

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

AMT affects millions of taxpayers

In a recent income statistics bulletin, the IRS reported that the alternative minimum tax (AMT) affected a record 4.25 million tax returns and collected $30.48 billion in taxes during tax year 2011.

The AMT was created years ago to ensure that high-income taxpayers could not escape all taxes through the use of deductions and credits.

The recent report indicated that more than half of the $30 billion of AMT collected in 2011 was from individuals earning between $200,000 and $500,000. The number of taxpayers hit by the AMT has more than tripled since 2001.

Taxes and disability issues: An overview

Do you live with a disability, or care for someone who does? If so, you may have disability-specific tax questions about income, deductions, and credits.

Here's an overview.

* **Income.** In general, all income is taxable on your federal tax return, unless specifically excluded. For instance, income you earn for services is typically taxable, even if you are disabled. Part of your social security disability benefits may also be taxable, depending on your total income (including tax-exempt interest). However, supplemental security income is not taxable.

Other nontaxable disability payments include VA benefits, workers' compensation when work-related and received under a workers' compensation act, and wage-loss benefits from no-fault car insurance policies.

* **Deductions and credits.** You already know you can deduct medical expenses related to your disability, subject to the 10%-of-adjusted-gross-income limitation (7.5% for those 65 or older).

But what about impairment-related work expenses? These are out-of-pocket costs you incur so you can work, such as attendant care, and you claim them as an employee business deduction. This is an itemized deduction, not subject to the 2% of adjusted gross income limit. When you're self-employed, impairment-related work expenses are deductible on your "Schedule C, Profit or Loss From Business."

If you work and must pay for disabled spouse or dependent care, you may qualify for a federal income tax credit of up to 35% of your expenses.

Depending on your disability and income, other exclusions and tax benefits may be available. Call if you would like more information.

New Business

SIMPLE deadline approaching

An important tax deadline is approaching for business owners. If you're self-employed or own a small business and don't currently have a retirement plan in place, consider setting up a SIMPLE plan (Savings Incentive Match Plan for Employees). These plans are limited to employers with 100 or fewer employees. A SIMPLE may be structured either as an IRA or 401(k) plan. An important advantage to the SIMPLE-IRA plan is that setup and administration costs are minimal.

* **Don't miss the deadline.** To establish a SIMPLE for 2014, you'll have to act soon. You have until October 1 to establish a plan for 2014.

* **Cut your taxes.** The company's contributions are tax-deductible. You have the option of contributing either 2% of the wages of every eligible employee or making matching contributions of up to 3% of the wages of those employees who choose to participate in the plan.

* **Encourage your employees to participate.** Eligible employees can elect to have a portion of their earnings withheld each pay period, limited to a total of $12,000 for 2014. Those aged 50 or older may contribute an additional $2,500. Amounts withheld for the SIMPLE plan reduce the employee's taxable income and grow tax-deferred.

These plans offer a way to cut your taxes, attract and retain good employees, and help your employees build a fund for retirement. To find out more about SIMPLEs and other retirement plan options, please give us a call.

C or S Corporation: Review the option with tax changes in mind

Changes to the federal income tax code can prompt you to review the legal structure of your business. Last year's increase in the top tax rate for individuals is one such change, since corporate rates remain the same. At the most basic level, businesses are taxed as either stand-alone or pass-through entities, and a significant difference between corporate and individual tax rates is reason for a new assessment.

If you're debating between operating as a C corporation or an S corporation, here are three tax aspects to consider.

* **Income taxes.** A difference you're probably aware of between the two types of corporations is the way earnings are taxed. C corporations are stand-alone entities and pay federal income tax at the corporate level, based on business earnings. If the corporation has a loss, the loss offsets business income in past or future years.

S corporation earnings and losses are passed through to you, as a shareholder. Earnings are taxed on your individual income tax return at your personal tax rate. This is true even if you receive no cash from the business. Losses can offset other income, assuming you participate in corporate business on a regular and substantial basis.

* **Ownership.** Tax rules limit the number and type of shareholders who can own an interest in your S corporation. For example, an S corporation can have no more than 100 shareholders, and they must all be U.S. citizens or residents. In addition, your S corporation can issue only one class of stock, meaning all shareholders have the same liquidation and distribution rights. When you form a C corporation, foreign owners can hold stock in your business. You can also issue stock with different ownership privileges, such as preferred stock, which grants priority in receiving corporate dividends.

* **Dividends and distributions.** In general, when corporate income is distributed to you as a shareholder, the distribution is a dividend. Whether your corporation is formed as a C corporation or an S corporation, the business gets no deduction.

However, as a C corporation shareholder, you're required to include income distributions on your personal tax return. In effect, distributions are taxed twice, once on the corporate return and once on your return.

When you own stock in an S corporation, distributions can be considered a return of the money you invested in the business. The distinction means you may not owe income tax, assuming you have basis in the corporation.

Many tax and nontax reasons will affect your choice of the best type of structure for your business. Please call our office for a complete evaluation.

What's New in Finances

Time is running out to reverse a 2013 Roth conversion

You can reverse a 2013 Roth conversion if you act by October 15, 2014.

If you converted a regular IRA to a Roth IRA in 2013 and now want to switch back to a regular IRA, you have until October 15, 2014, to do so without penalty. The IRS calls reversing the transaction a "recharacterization." A recharacterized conversion is treated as though it had not occurred. If done properly, there will be no tax due on the Roth rollover.

If you already filed your 2013 tax return and paid tax on the original conversion, you can still reverse the 2013 Roth conversion. After you reverse the Roth rollover, you must file an amended return to eliminate the tax bill on the conversion and receive a tax refund.

The IRA rules are very complex. If you would like more information about reversing your Roth conversion, please call us.

Are your mutual funds as diversified as you think?

Even if you aren't an investment expert, you probably know that one of the main benefits of owning a mutual fund is "diversification." And like many financial terms, there's more to "diversification" than first meets the eye.

For example, many mutual fund investors believe that they are well-diversified, even though they aren't. Consider Pat, who owns a U.S. large-cap value fund, a technology fund, and a worldwide fund. At first glance, these appear to be three distinct funds in three unrelated categories. Yet underneath the surface, there could be some big surprises. Many "worldwide" funds are heavily invested in U.S. stocks, while technology funds can have significant foreign holdings.

To further complicate matters, the definition of a "value" fund has recently become quite fuzzy, and it wouldn't be surprising to find several high-flying technology stocks in Pat's large-cap value fund. In other words, it's possible that all three funds own many of the same stocks or similar stocks in the same industries. What looks like a diversified portfolio could actually suffer from a serious case of fund "overlap."

What is the best protection against fund overlap? Whether you are thinking about buying a fund for the first time or you already own several of them, it pays to do a little digging. All mutual funds are required to publish a list of their complete holdings at least twice a year. Get the most recent portfolio list for each fund that you're interested in, and compare them for overlap. Although published information can sometimes be several months old, it's still the best way to determine just how much diversification your fund portfolio really has.

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