Online Advisor – December 2014

Major Tax Deadlines
For December 2014

* December 15 - Due date for calendar-year corporations to pay the last installment of 2014 estimated income tax.

* December 31 - Last day to set up a Keogh retirement plan for 2014. Deductible contributions for 2014 can be made any time up to the filing deadline for your 2014 return.

* December 31 - Deadline to complete 2014 tax-free gifts of up to $14,000 per recipient.

* December 31 - Deadline for paying expenses you want to be able to deduct on your 2014 income tax return.

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

Take advantage of the 2014 gift tax rules

Are you ready for the gift-giving season? It may already have arrived, at least from a tax perspective. Between now and December 31, you can take advantage of this year's gift tax rules as part of your year-end planning.

Here are two ways to transfer assets.

* The annual exclusion. You can give up to $14,000 to anyone, gift-tax-free, this year. You and your spouse can combine your individual annual exclusions and make gifts of up to $28,000 to a single recipient.

Some gifts have special rules. For instance, education and medical expenses that you pay directly to the respective providers do not reduce your annual exclusion.

* The lifetime exclusion. Through December 31, you can make lifetime gifts of up to $5,340,000 without paying gift tax. The reason: This is the basic lifetime estate and gift tax exclusion, (which will change beginning next year due to an annual inflation adjustment).

Under current law, the basic exclusion is the sum of gifts you make during your lifetime and the assets you leave to your heirs at your death. In 2014, that amount can be as high as $5,340,000 before estate or gift tax applies. When you're married, you can double the exclusion, to a maximum of $10,680,000.

Gift-giving is a valuable estate planning tool. Please call to schedule an appointment for discussing these or other types of giving, including charitable gifts and gifts made in trust.

Know which dependents will cut your tax bill

For any number of reasons, you could find yourself opening your home to relatives in need. In some cases, the guests could become fairly permanent occupants.

Who can be claimed as a dependent at tax filing time? Suppose that your nephew and his six-year old daughter lived with you for nine months during the current year. Can you claim them as dependents?

There are five basic tests that have to be met to claim someone as a dependent:

1. Generally, the dependent must have earned less than $3,950 in 2014.

2. You must have provided over one-half the dependent's support for the year.

3. The dependent must not file a joint return with a spouse, except to claim a refund.

4. A number of specified relatives can be claimed as dependents (but the children of your sibling's children are not on that list). If the individual is not among the specified relatives, he or she must have lived in your home as a member of the household for the entire year.

5. Certain U.S. citizenship and/or residency tests must be met by the dependent.

If all five tests are met, you can claim your nephew as a dependent. However, your nephew's daughter can't be claimed since she misses the relationship test and did not live with you for the entire year.

If you have questions about dependents and your particular situation, please contact us.

New Business

December tax moves to consider for your business

2014 is winding down, but you still have time to wrap up business tax strategies before December 31. Here are five to put on your list.

* Make capital contributions if necessary. When you have losses in your Subchapter S corporation, the amount you can deduct on your personal tax return may be restricted. That's because losses are limited to your basis. Injecting capital or making a direct loan to your business before year-end can help increase your basis.

* Review inventory. Remove obsolete, unsalable, or damaged items to reduce your year-end inventory balance. Donating inventory to qualified charities may result in an enhanced deduction.

* Establish a retirement plan. December 31 is the last day to set up certain retirement plans in order to take a deduction on your 2014 return.

What if you like the idea but will be a little short of cash this month? In some cases, you can wait until the due date of your tax return, including extensions, to make the actual contribution — and still claim a deduction in the current year.

* Pay health insurance premiums. When you own more than 2% of your S corporation, premiums you pay personally for your health and long-term care insurance must be reimbursed to you in order to get the most benefit. When accounted for properly, premiums are included on your Form W-2 as wages, and are deductible on your individual income tax return whether you itemize or not.

* Update corporate minutes. Document the reasons for business decisions, such as why you chose a salary level, or your approval of an expense reimbursement plan.

Get ready for 2014 Form 1099 filing

While you're wrapping up 2014, give yourself the gift of reduced stress in the new year by getting a head start on January's information reporting responsibilities. Here are some preliminary steps to take.

* Review your general ledger. Even if you've already identified "1099 vendors" in your payables system, review current-year expenses to make sure no new or infrequent payments have been overlooked. For example, it's easy to forget that fees totaling $600 or more paid to your attorney during the year must be reported on Form 1099-MISC, even if the attorney's practice operates as a corporation.

* Verify vendor information. Check your files for up-to-date Forms W-9, the form you use to request a vendor's federal taxpayer identification number (TIN). In general, you should have Form W-9 on file for each vendor who provides services, even if the transaction is a one-time event.

Why? Filing "mismatched" Forms 1099 — where the combination of name and TIN do not match IRS records — will result in a notice and possibly penalties. To avoid problems, consider signing up for the TIN Matching Program, an online service run by the IRS, so you can verify identification numbers prior to filing 1099s.

You obviously won't know the dollar amount to report on the 1099s until after year-end. But you can start to assemble the list of recipients, verify whether they're a corporation, and obtain their taxpayer ID information. Ideally you would have a process to collect this information when a new contract is signed. But if not, December is a perfect time to do the ground work. Then you might have one less crash project at the end of January. Contact our office if you need more information on your 1099 reporting requirements.

What's New in Finances

Don't donate to phony charities

This is the season to feel benevolent. About $335 billion (that is billion with a "b") was given to charities in 2013. The IRS has over 600,000 registered charities, with thousands of new ones added to its list every year.

How do you give without giving to some organization which is not deserving? Here are a few tips to help reduce giving to the scam artists.

* Call the organization's local office to see if they are doing a fund drive.

* Don't be fooled by names which sound like established charities but really aren't.

* Don't give to telephone solicitors unless you know for sure to whom you are giving.

* Don't give to an organization simply because they can provide an IRS tax number.

* Ask the caller to provide you with printed information about the organization: address, telephone number, etc.

* Make donations by check and spell out the full name of the payee; do not use just initials.

Phony charity operators are often rather intimidating, if not downright rude. Don't be heckled into donating. If you would like assistance with your donations, please give us a call. We are here to help.

Questions to ask before you invest in a stock

Studies have reported that the average investor spends more time planning a vacation than investigating the stock that he is about to purchase. While that might sound foolish, it's more fun to page through a brochure for beachfront hotels in Aruba than to study an annual report. But not all of the research has to take considerable time or effort. In fact, many of the questions that you should ask are relatively simple. Here are just a few.

* What does the company do, and how does it make money? If you don't know what the company does, you begin at a distinct disadvantage. If you're familiar with the company and how it actually generates income, you'll have a better understanding of potential risks.

* Is the company growing? The stock you select will have a better chance of increasing in value if the company is expanding. Look for some indication that company profits are on the rise.

* How will this investment make you money? It isn't solely a function of stock price. The company may also pay dividends that will give you an immediate return on your investment should the stock price lag and will provide for an even greater return should the stock price rise.

* How is the company doing relative to its competition? Compare the revenues and expenses of your company with others in the industry in order to benchmark performance.

* Is cash flowing in or out of the company? The company might be playing fast and loose with its earnings, but it's more difficult to finagle bank balances. Some companies that post positive earnings are actually losing money when you count the cash.

* Is the company mired in debt? When interest rates increase, higher debt costs will cut into future earnings. Too much debt is risky and greatly decreases the company's margin for error.

If you take the time to answer these important questions before buying, your investment decisions will be more firmly grounded.