Online Advisor - January 2014

Major Tax Deadlines
For January 2014

* January 15 – Final 2013 individual estimated tax payment is due, unless 2013 tax return is filed and taxes are paid in full by January 31, 2014.

* January 31 – Employers must provide 2013 W-2 statements to employees.

* January 31 – Payers must provide 2013 Form 1099s to payees. (Brokers have until February 18 to provide Form 1099-B and consolidated statements to customers.)

* January 31 – Employers must generally file Form 941 for the fourth quarter of 2013 and pay any tax due.

* January 31 – Employers must generally file 2013 federal unemployment tax returns and pay any tax due.

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

Who has to file a 2013 income tax return?

Check the requirements for filing 2013 income tax returns. You might discover that this year you don't have to file at all. The IRS doesn't want people to file income tax returns that aren't necessary. The reason is simple: Processing tax returns takes time and money. The IRS doesn't want to use its resources handling returns that weren't required in the first place. The rules for filing 2013 tax returns are straightforward for most people. Here's a quick summary.

* Single taxpayers (including those who are divorced or legally separated): If you're under 65 and had gross income of at least $10,000 in 2013, you must file. If you're 65 or older, the cutoff is $11,500.

* "Head of household" taxpayers (generally, unmarried people who provide a home to a child or other dependent): If you're under 65 and had income of at least $12,850, you'll need to file. If you're 65 or older, the cutoff is $14,350.

* Married taxpayers filing jointly: Filing is required if both spouses are under 65 and income is at least $20,000. If one spouse is 65 or older, the cutoff is $21,200. If both spouses are 65 or older, gross income must be at least $22,400 to require filing. If you were married but not living with your spouse at the end of 2013, filing is required if you have income of $3,900 or more, regardless of your age.

* Married taxpayers filing separately: If you made at least $3,900, you must file, regardless of your age.

Different IRS rules govern filing for certain widows and widowers, dependents, those who owe special taxes (e.g., self-employment tax), children under age 19, and noncitizens. If you have a refund coming, you will want to file regardless of your income level.

If you need more information or assistance with tax filing, please call our office.

Update yourself about estate and gift taxes

Income tax, payroll tax, capital gains tax – frequent tax legislation changes the rules in many areas of the Internal Revenue Code, including one you might not have focused on lately: estate and gift taxes. Here's what you need to know.

What's the current federal estate and gift tax exclusion? The exclusion is the amount you can transfer during your lifetime and via your will before estate or gift tax is due. It consists of two items. The basic

exclusion is $5 million, and is adjusted for inflation annually. For 2014, the basic exclusion after inflation adjustments is $5,340,000.

The second part of the applicable exclusion benefits married couples. When you're married, your total exclusion can also include the unused portion of your deceased spouse's basic exclusion. Executors make this "portability" election by filing an estate tax return, even if an estate is not taxable and might not otherwise need to file.

Your personal basic exclusion plus the power to take advantage of portability means you and your spouse can transfer up to $10,680,000 to your heirs, free of federal estate and gift tax.

Can you still make tax-free annual gifts? Yes. During 2014, you can give to as many people as you choose up to $14,000, gift-tax free. If you're married, you and your spouse can combine your individual $14,000 annual exclusions and give up to $28,000 gift-tax free this year. As long as your gifts remain under the annual exclusion amount, they have no impact on your $5,340,000 exclusion.

You can also make unlimited payments for unreimbursed medical expenses and tuition, gift-tax-free, when you pay the fees directly to the medical care provider or qualified school. These payments are not considered gifts and do not reduce your applicable exclusion, even if the people who benefit are unrelated to you.

Gifts between spouses are also excluded from gift tax, though an annual limit applies when your spouse is not a U.S. citizen.

If your total assets are less than $5,340,000, do you still need an estate plan? Yes, and here's why: Your estate plan encompasses your will, beneficiary designations, asset titling, trusts, life insurance, powers of attorney, guardianship issues, and end-of-life health care directives. These documents and decisions affect the settlement of your estate as well as the financial interests of your heirs and should be reviewed with your attorney and accountant.

In addition, state tax law can vary from federal rules. An estate plan helps ensure that your family receives the maximum benefit from available credits, deductions, exemptions, and exclusions. Take time to review your plan under the current rules. Contact us for any assistance you need.

New Business

IRS lowers business mileage rate for 2014

The IRS recently announced that the mileage rate for business driving in 2014 will be 56¢ a mile, a slight decrease from the 2013 rate of 56.5¢ per mile. The rate can be used for cars, vans, pickups, and panel trucks.

Companies that don't want to keep track of the actual costs of using a vehicle for business purposes may use this standard mileage rate instead. An annual study of the fixed and variable costs of operating an automobile is used to determine what the standard mileage rate will be for a given year.

In addition to the mileage rate, a separate deduction may be claimed for parking fees, tolls, interest relating to the purchase of the automobile, and state and local personal property taxes.

The standard business mileage rate can't be used for automobiles used for hire (e.g., taxicabs) or for fleets of automobiles used simultaneously by the taxpayer. Nor can the standard rate be used if the vehicle was previously depreciated by other than the straight-line method, including using bonus depreciation or the Section 179 deduction.

When the business mileage rate is used in 2014, depreciation will be considered to have been allowed at a rate of 22¢ a mile. This depreciation reduces the taxpayer's cost basis in the vehicle.

Start the new year by dealing with problem customers

Sometimes in order to serve your customers better you have to get rid of the problem customers. Problem customers tend to complain about your prices or rates. They are slow payers, and they may be rude to you and your employees. They have had problems with all of your competitors. They cannot decide what they want, and they waste your time. They make unrealistic demands on your business. Problem customers are a drain on the resources of your business, and chances are they are not profitable.

* Separate the best and the worst. You should evaluate your customer base to determine your best and your worst customers. Then decide which of the worst customers can be salvaged and which should be eliminated. You can do this by examining the facts and figures. Determine the profitability of each customer. Also, ask for employee input to get a more complete evaluation.

* Some can be salvaged. Some unprofitable customers can be salvaged by reducing the costs of servicing them. Eliminating discounts, changing payment policies, increasing prices, and even renegotiating contracts can help. Customers who are profitable but are still problematic because of the way they deal with your company can be saved if you can eliminate the source of the problem.

* Change your policies. If an individual customer is a problem because of unacceptable behavior, refuse to deal with that individual. If the problem customer is a slow-payer, change your sales terms to them. If you sell merchandise, have the slow-payer pay for freight or have them pay COD. For any returned merchandise, charge a restocking fee. If your business is service-oriented, have the slow-paying customer pay a large deposit before you begin any work and have them pay as you progress through the job.

* When it's time to say goodbye. There are several methods that can be used to eliminate a customer. You can suggest that the customer try a competitor. Another method is to have your worst customers eliminate themselves by providing them with the lowest level of service and having them pay for any additional services you provide. Sometimes the best approach is to be blunt and to tell the bad customer in person or by telephone exactly what the problems are.

You should view the elimination of your worst customers as a way of making your business better, more productive, and more profitable. But don't let restrictive policies for dealing with bad customers affect the liberal treatment your good customers deserve and expect.

What's New in Finances

Retirement contribution limits released for 2014

Each year, the IRS must make inflation adjustments to certain tax numbers, as required by the tax law. The contribution limits for retirement plans and income phase-out thresholds for plan eligibility are among the numbers adjusted annually.

Here are the 2014 numbers you'll need to know.

* IRA contribution limit for those under age 50 remains at $5,500. Those 50 or older can contribute up to $6,500.

* 401(k) salary deferral limit for those under age 50 remains at $17,500. Those 50 or older can defer up to $23,000.

* SIMPLE deferral limit for those under age 50 remains at $12,000. Those 50 or older can defer up to $14,500.

* SEP annual contribution limit increases for 2014 to $52,000, up from $51,000 for 2013.

* Roth IRA eligibility phases out at the following income levels:
- For singles and head of household – $114,000 to $129,000
- For married filing joint – $181,000 to $191,000

* There is no income limit for rolling over a traditional IRA to a Roth IRA.

* If the taxpayer has a company pension plan, IRA deductibility phases out at the following income levels:
- For singles and head of household – $60,000 to $70,000
- For married filing joint – $96,000 to $116,000
- When taxpayer's spouse has a company pension plan – $181,000 to $191,000

For more information on inflation adjustments made for 2014, please contact our office.

Make some financial resolutions for 2014

Shedding unwanted pounds, recharging a golf score that's stuck in neutral, nurturing a better relationship with your teenager – these resolutions and many more will appear on lists for 2014. Of course, some good intentions will fade before the flowers arrive on Valentine's Day. But other decisions, if allowed to harden into habit, have the potential to greatly affect your financial future. For most people, incremental choices and a lifestyle of discipline are the key to attaining financial independence. Here are five suggestions to help you make headway toward that goal this year.

* Review your expenses. The start of a new year is a great time to take inventory of your finances. Track your expenses for six months or so. You may be surprised at the result. Do I really spend that much on coffee? Are my utility bills really that high? For many people, getting a handle on how cash actually flows through their checkbook can be a great motivator.

* Build an emergency fund. Unless you plan to finance your "rainy days" with expensive credit card debt, setting aside cash in an easy-to-access emergency fund should be a priority. Many companies will allow you to allocate paycheck deposits into more than one bank account. Pick a savings account, designate it as your emergency fund, and start socking money away. Strive to accumulate a large enough balance to cover three to six months of living expenses.

* Save – automatically. Retirement savings can be set up along similar lines. By making deposits directly into a retirement account, the money won't show up in your checking account where it's likely to be spent. Of course, if your employer offers to match contributions to a 401(k) plan, be sure to take full advantage of the matching amount.

* Pay down debts. If you're saddled with debt, you're beholden to others. As the old saying goes, "The borrower is slave to the lender." True, it's often more fun to buy stuff on credit – you don't have to wait. But by whittling away at debt, you can expect to cut your overall interest costs and enjoy more financial flexibility in the future.

* Treat yourself. Most of us can't live like monks. To stay motivated, budget some "fun money" into the mix. Make that meal at a nice restaurant or a weekend get-away your reward for the financial sacrifices you make the rest of the year.

The information contained in this newsletter is of a general nature and should not be acted upon in your specific situation without further details and/or professional assistance. For more information on anything in the Online Advisor, or for assistance with any of your tax or business concerns, contact our office.

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