



Online Advisor – June 2014

Major Tax Deadlines For June 2014

- * June 16 - Second quarter 2014 individual estimated tax is due.
- * June 16 - Due date for calendar-year corporations to pay second installment of 2014 estimated tax.
- * June 16 - Due date for calendar-year trusts and estates to pay second installment of 2014 estimated tax.
- * June 30 - Report on foreign financial assets and accounts (FBAR) must be received by the Treasury Department.

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

Don't overlook FBAR requirement

If you hold foreign bank or financial accounts and the total value of your account exceeds \$10,000 at any time during the calendar year, you may be required to file a Treasury Department report known as the FBAR. It's easy to overlook this requirement because it's separate from your federal income tax filing, with a different deadline and strict rules.

FBAR refers to "Form 114, Report of Foreign Bank and Financial Accounts." That form is new this year, replacing the prior Form 90-22.1.

Your 2013 Form 114 must be filed electronically with the Treasury Department no later than June 30, 2014. No filing extension is available. Contact us if you need details or filing assistance.

Include the Medicare surtax in your 2014 planning

The new 3.8% Medicare surtax on net investment income appears to be here to stay. If this tax caught you by surprise when you filed your 2013 tax return, you should be better prepared this year.

Here's how the tax works.

If your investment income exceeds certain thresholds, you may owe a 3.8% Medicare tax on the excess. The taxable amount would be the lesser of (a) your "net investment income" (NII), or (b) the excess of your "modified adjusted gross income" (MAGI) above \$200,000 for singles, \$250,000 for spouses filing jointly, or \$125,000 for spouses filing separately. MAGI is adjusted gross income increased by certain deductions and exclusions.

Net investment income includes items from most taxable income sources, such as interest, dividends, capital gains, passive activity income, and the like. However, certain other items -including income from an active trade or business, tax-exempt interest, and distributions from qualified plans and IRAs - are specifically exempt.

Note that items exempted from the definition of NII could still cause problems because of the way the surtax is calculated. For instance, if you're over age 70½ and you take a required minimum distribution (RMD) from your IRA, the payout increases your MAGI. This could push you over the threshold for the 3.8% surtax or add to the amount you already owe.

What can you do now to reduce your exposure to the surtax? Consider these five potential strategies.



1. Time income to stay below the threshold. For example, you might delay the sale of securities until next year or sell real estate property on the installment sale basis to reduce current capital gains.
2. Include municipal bonds ("munis") in your investment portfolio. Income from munis doesn't count as NII or increase your MAGI for this purpose.
3. Avoid the passive activity rules. By meeting the tax law test for "material participation," you might be able to turn a passive activity into a regular business activity. But be aware that special rules affect rental real estate activities.
4. Convert traditional IRA funds into a Roth. Because qualified Roth distributions are generally tax-free, this may avoid future problems. Calculate the optimal amount to convert for your personal situation.
5. Maximize deductible contributions to traditional IRAs, 401(k) plans, or similar sheltered investments. Earnings in these accounts are not included in NII, and the contributions will reduce your MAGI.

At the very least, you can't simply ignore the surtax and hope it will go away. Develop a tax plan for 2014 that takes the relevant factors into account.

New Business

Take time to review your business entity choice

Have you reviewed your choice of business entity lately? "Business entity" is the legal form under which your business operates.

Perhaps you organized as a traditional C corporation to obtain the liability protection offered by a corporate structure. Perhaps you operate as a sole proprietor or in a simple partnership, giving up liability protection but avoiding the double taxation of corporate profits. Or perhaps you chose an S corporation or one of the limited liability companies (LLCs). These provide liability protection but allow profits to flow through directly to your personal tax return without double taxation.

However you do business, it's a decision you should revisit periodically. That's because there's no single "correct" choice that is best for every business at all stages of its life.

The tax and nontax consequences of the legal form you choose for your business can be significant. To discuss whether your current business form is still right for you, give us a call.



Don't let loose credit policies sink your ship

There are many ways to make your business more profitable, and sound credit policies are high on the list. The current slowdown in the economy is a good reason to reexamine your company's policies. Keep the following items in mind as you review your policies.

- * Don't be so eager to sign on new customers that you neglect to check out their credit history. Take the time to check references, and obtain a credit report to see how they've handled other financial transactions.
- * Establish collection policies and follow up promptly on delinquent accounts. The more overdue accounts become, the more likely they are to become uncollectable. That cuts into your profits.
- * Calculate what it costs to carry credit for your customers. For example, if your business generates \$1,000 per day in credit sales, and it takes you an average of 60 days to collect, your cost of providing credit to your customers is \$6,000 per year. This example assumes you can borrow money at 10% interest. By speeding up the average collection to 30 days, you cut your carrying costs by half.
- * To speed collections, invoice customers when you ship the goods; don't wait until the end of the month. Make sure your invoice clearly shows your payment terms, including penalties for late payment and the discount, if any, for prompt payment.
- * Be aware of the payment cycles for your industry. For example, if contractors typically pay their bills by the 10th of the month, make sure your invoices arrive in plenty of time for them to process your payment.

Sound credit policies and adhering to those policies enhance your chances for business survival, especially when the economy slows down. Call us to review your policies or to set policies in place to help make your business more profitable.

What's New in Finances

Hands-off approach to investing not recommended

A review of investor behavior done by a national investment company showed that the majority of workers with 401(k) plans are managing their own retirement savings accounts. Furthermore, their management "style" is passive; over half of them have not made any account changes or discussed how their investments are doing with an advisor.



If you're a "do-it-yourself" investor, you should consider reviewing your retirement account's performance at least once a year. If you do not have the time or talent to manage your 401(k) or other retirement savings account, you might want to look into engaging a professional. Keeping track of investment performance and making appropriate adjustments can make a significant difference in the amount you'll have accumulated for retirement.

Cut through the clutter of your financial life

Are you frustrated by the amount of time you spend managing your financial affairs and by how complicated your finances have become? Maybe you need to simplify. Not only can simplifying save you time; it can reduce uncertainty and save you money.

A fundamental step to simplification is to focus on what's important. Decide what your financial goals are, and focus on achieving them. Here are some specific tips to help simplify your financial life.

- * Reduce the number of accounts you handle. For example, if you have more than one checking account, consider consolidating. Ditto for your brokerage accounts, retirement accounts, and credit cards. If you have separate mutual fund accounts, transfer them into a brokerage account. Besides reducing the volume of financial data you handle, consolidating allows you to more easily evaluate your financial position. It can also save you time and money at tax time, and it could cut annual fees.
- * Minimize the time required to monitor your investments. If you spend significant time following the rise and fall of your individual stocks, consider keeping more of your portfolio in mutual funds. If you spend too much time monitoring your mutual funds, consider cutting back on the number of funds you own.
- * Set up a simple filing system to eliminate clutter and make documents easier to find.
- * If you're not already using the computer for your financial affairs, consider doing so. Several popular personal finance programs can simplify bill paying, keep track of tax deductions and other expenses, and help evaluate your investment performance.

Take a few moments now to simplify your finances; then relax and enjoy the extra hours you have created for yourself. Call us if you need help designing a simplification plan that works for you.



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