



## **Online Advisor – October 2014**

### **Major Tax Deadlines For October 2014**

\* October 1 - Generally, the deadline for self-employed and small businesses to establish a SIMPLE retirement plan for 2014.

\* October 15 - Deadline for filing 2013 individual tax returns on automatic extension of the April 15 filing deadline.

\* October 15 - 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.

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**

### **IRS issues new taxpayer "Bill of Rights"**

The IRS has issued a new "Taxpayer Bill of Rights" to highlight the agency's commitment to providing quality service to taxpayers.



The IRS has lost more than \$850 million in funding - about 7% - since 2010 and is finding it challenging to "properly serve taxpayers." The IRS Commissioner John Koskinen said the 10-item Bill of Rights is intended as a "cornerstone document" to give taxpayers a better understanding of their rights.

Included in the ten rights are the right to be informed, to quality service, to pay no more than the correct amount of tax, to challenge the IRS's position and be heard, to appeal an IRS decision, to finality, privacy, and confidentiality, to retain representation, and to a fair and just tax system.

### **Self-employment gives you some tax breaks**

When it comes to taxes, being self-employed has some advantages. Whether you work for yourself on a full-time basis or just do a little moonlighting on the side, the government has provided you with a variety of attractive tax breaks.

\* Save for retirement. When you're self-employed, you're allowed to set up a retirement plan for your business. Remember, contributing to a retirement plan is one of the best tax shelters available to you during your working years.

Take a look at the SIMPLE IRA, SEP IRA, or Solo 401(k), and determine which plan works best for you.

\* Hire your kids. If your business is unincorporated, employing your child under the age of 18 might make sense. That's because your child's earnings are exempt from social security, Medicare, and federal unemployment taxes. This year, your son or daughter can earn as much as \$6,200 and owe no income taxes. You get to deduct the wages paid as a business expense.

\* Deduct health insurance. Are you paying your own medical or dental insurance? How about long-term care insurance? As a self-employed individual, you may be able to deduct 100% of the cost of these premiums as an "above the line" deduction, subject to certain restrictions.

\* Take business-use deductions. Self-employed individuals can also deduct "mixed-use" items directly against their business income. Use your car for business and you can deduct 56¢ per business mile driven. The business-use portion of your computer purchases, Internet access, and wireless phone bills is also allowable. And if you meet the strict requirements, claiming the home office deduction makes a portion of your home expenses tax-deductible.

Please give us a call to find out more about the tax breaks available to self-employed individuals.



## **New Business**

### **Who needs an Employer Identification Number?**

If you do any of the following, you will need an Employer Identification Number (EIN) from the IRS:

- \* If you operate your business as a corporation or partnership.
- \* If you file reports for employment taxes, excise tax, or alcohol, tobacco, and firearms.
- \* If you have even one employee.
- \* If you have a self-employed retirement plan.
- \* If you operate as any of several other entities.

Acquiring an EIN is very quick and simple. You do not need to complete the Form SS-4 unless you prefer to. Go to [www.irs.gov](http://www.irs.gov). Once there, use the search box and type in EIN online. You will be taken to the page that allows you to answer questions online and you will get your EIN upon validation of your answers. You will be able to download and print your confirmation notice.

If you need assistance, please contact our office. We are here to help you.

### **Analyze your breakeven point to make better business choices**

Breakeven analysis is an important and useful tool in business. Whether starting a new business, expanding current operations, contemplating an acquisition, downsizing, or approaching banks and other potential lenders, one should know what the breakeven is.

Breakeven is simply the point at which costs equal income - no profit, no loss. It's an excellent starting point for finding out where the business is and where it can go. It's the first step in planning future growth. It shows how much sales volume is needed to cover fixed and variable expenses. Once a company has reached breakeven, all gross profit beyond that point goes directly to improving the bottom line.



There are certain limitations for the use of breakeven analysis. It makes the assumption that fixed and variable expenses will stay within the parameters used to calculate the breakeven. Sound business assessment will overcome these shortcomings.

### **\* Calculating breakeven**

Breakeven is relatively easy to understand and use. First, review the annual financial statement in order to figure out fixed and variable expenses. Fixed expenses are those that don't generally vary in relation to sales volume. Rent, for example, usually stays constant, whether sales are \$400,000 or \$500,000. The same is generally true for depreciation, utilities, insurance, and so on.

Variable expenses are the cost of goods sold and other costs of sales, such as direct labor and sales commissions.

There are, of course, some costs that are, or seem to be, part fixed and part variable. One must use good business judgment to split these items into reasonable proportions.

Knowing selling price and variable costs allows you to compute gross profit percentage. The rest is pure arithmetic. Divide your fixed costs by your gross profit percentage to arrive at breakeven. For example, if you have fixed costs of \$10,000 and your gross profit percentage is 25%, your breakeven point is sales of \$40,000 ( $\$10,000 \div 25\% = \$40,000$ ).

Call us; we would be happy to assist you with calculating your business's breakeven point and evaluating your profit structure.

## **What's New in Finances**

### **Report says a college degree is still worth it**

A new report by the Federal Reserve Bank of New York indicates that those with a college education will earn more during their lifetime than workers who have no college education.

The study, done by two economists, concluded that individuals with a bachelor's degree are likely to earn \$1.2 million more from age 22 to 64 than those with just a high school diploma. Individuals with an associate's degree will likely earn \$325,000 more than those with just a high school education.



Despite rising college costs and a tougher job market, a college education will pay off, according to the data collected from the U.S. Census Bureau and the Bureau of Labor Statistics and used in the New York Fed report.

## **Understand the tax rules before lending money to relatives**

There are many worthwhile reasons to lend money to a relative. For example, you may want to help a child or sibling continue their education or start their own business.

\* The IRS says you must charge interest. But lending money to relatives can have tax consequences. The IRS requires that a minimum rate of interest be charged on loans. The rates change every month, and can be found at [www.irs.gov](http://www.irs.gov). If you do not charge at least the minimum rate, the IRS will still require you to pay tax on the difference between the interest you should have charged and what you actually charged. If these excess amounts become large, or if the loan is forgiven, there may also be gift tax implications.

\* There are some exceptions, though. Loans of up to \$10,000 can be made at a lower (or zero) rate of interest, as long as the proceeds aren't invested. Loans between \$10,001 and \$100,000 are exempt from the minimum interest requirement as well, as long as the borrower's investment income is \$1,000 or less. If the investment income exceeds \$1,000, you'll be taxed on the lesser of this income or the minimum IRS interest.

\* Do the paperwork. For the IRS to treat the transaction as a loan and not a gift subject to the gift tax rules, the transaction must look like a loan. The borrower should have the ability to repay the principal and interest. A contract should be prepared which specifies the loan amount, interest rate, the payment dates and amounts, any security or collateral, as well as late fees and steps to be taken if the borrower doesn't pay. Have the document signed and dated by all the parties.

\* Can you claim a deduction if you're not repaid? If the borrower defaults, you may be eligible for a nonbusiness bad debt deduction. However, you must document your efforts to collect the unpaid balance. This may involve the unpleasant task of taking legal action against a family member. The preparation of a signed contract, though, may make the borrower think twice before attempting to evade his or her responsibilities.

For assistance in structuring a family loan that doesn't create tax concerns, give us a call. We're here to help.



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.