Online Advisor – August 2015

Major Tax Deadlines
For August 2015

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

Have you forgotten something from your former job?

When you change jobs and abandon vested amounts in your 401(k), your former employer has to follow IRS rules and plan provisions for dealing with your account balance. Pursuant to these guidelines, the 401(k) plan may have a "force-out" provision. That means when your vested balance is less than $5,000, you can be forced to take your money out of the plan.

Your former employer is required to give you advance notice of this rule so you can decide what to do with the money. Your choices are to cash out your account and receive a check, or roll your account balance into an IRA or your new employer's plan.

What happens if you fail to respond to the notice? If your vested balance is more than $1,000, your former employer must transfer the money to an IRA. For balances under $1,000, you will either get a check or your former employer will open an IRA on your behalf.

Neither outcome is optimal, according to a report by the U.S. Government Accountability Office. If you receive the money, you'll owe federal income tax. When the balance is transferred to an IRA, chances are that account fees will outpace investment returns and your balance will be eroded over time.

A job change can be exciting and hectic, and notices from your former employer may seem confusing or unimportant. But protecting assets you worked for and earned is always a smart move. Call us for assistance.

Going back to school? "Your costs may be deductible"

Are you going to school this fall to earn an advanced degree or to brush up on your work skills? If so, you might be able to deduct what you pay for tuition, books, and other supplies.

In general, when you're self-employed or working for someone else, you can claim a deduction for out-of-pocket educational costs if the training is necessary to maintain your skills or is required by your employer.

A caution: Even when the education meets those two tests, if you're qualified to work in a new trade or business when you've completed the course, your expenses are personal and nondeductible. That's true even if you do not get a job in the new trade or business.

Because it's often difficult to determine whether some degrees, such as an MBA, qualify you for a new trade or business, you'll need to look at your specific situation to decide if you can claim a deduction. One useful test is to compare the work you were able to perform before the education to what you are qualified to perform afterward.

Work-related education expenses are an itemized deduction when you're an employee and a business expense when you're self-employed. You may also be eligible for other tax benefits, such as the lifetime learning credit.

For more information, please call our office.

New Business

Use caution when outsourcing your payroll

Do you outsource all or part of your payroll responsibilities to a third-party provider? Be aware that if your provider mismanages or embezzles funds that should have been paid to the IRS, your business is responsible for the unpaid tax, interest, and penalties. Put another way, you may end up paying twice - once to the payroll provider and again to the IRS.

The National Taxpayer Advocate included this item on the list of most serious problems in the 2014 annual report. Some progress is being made to address the issue. For example, you may be able to settle with the IRS for less than the full amount due, and the IRS is establishing a voluntary certification program for certain types of third party providers. However, it's still up to you to be vigilant. Please call for suggestions about how you can protect your business from this type of fraud.

Smoothing out cash flow could save your business

A sad and oft-repeated truth is that half of all new businesses fail within the first five years. In fact, all too many fail in their first decade.

Although many factors contribute to business failure, a common culprit is poor cash management. Farmers, retailers, and car dealers are especially aware of seasonal fluctuations in cash flows. But to some extent, all businesses, large and small, must deal with the uncertainty of fluctuating sales, inven-tories, and expenses. An owner-manager who engages in wishful thinking about profitability, who becomes lackadaisical about money flowing through the business, is often headed for disaster. By endeavoring to smooth out cash fluctuations, prudent managers keep their companies strong throughout the business cycle.

Follow these practices to moderate the ebb and flow of cash in your business.

*** Analyze cash every month.** Analyzing cash doesn't have to be a complicated procedure. You simply prepare a schedule that shows the cash balance at the beginning of the month, then add cash you received (from sales, collections on receivables, asset dispositions, and so forth), subtract cash you spent, and calculate the ending cash balance. If your cash balance is decreasing month by month, you have a negative cash flow. If it's climbing, your cash flow is positive.

* **Monitor receivables.** Many businesses fall short in this area. Extending credit to deadbeats, failing to identify late payers, failing to collect on a timely basis - these practices amplify cash flow problems. Mitigate receivable fluctuations by using financial software to generate aging reports, following up when payments are even a day late and offering discounts to customers who pay early. Factoring receivables - selling your invoices to a factoring company - is another way to maintain a predictable cash flow.

* **Slow down disbursements.** Prudent cash flow management dictates that you retain cash as long as possible. Pay your vendors on time - not too early, not too late. Of course, if suppliers offer discounts for early payment, take advantage of cost savings whenever possible. Consider also negotiating with suppliers to extend payment times.

* **Time large expenses.** If you know a property tax payment is due in June, start setting aside money in a separate fund in January. The same holds true for any large payment that comes due during the year. If your equipment is nearing the end of its useful life or your roof is showing signs of wear, start saving now. Don't let big expenditures catch you by surprise.

* For assistance with this or other business issues, give us a call.

What's New in Finances

Social Security is turning 80

August 14, 2015, is the 80th anniversary of the Social Security Act, which was signed into law in 1935. You can celebrate by reviewing your estimated benefits on your social security statement.

The statement, which you'll get in paper form if you haven't signed up for an electronic account at the social security website, gives you an estimate of how much you'll receive when you retire. You can compare the difference in the amount you'll receive if you retire at your full retirement age or instead choose the earliest or latest age to claim benefits. You'll also learn if you qualify for disability benefits and Medicare.

Reviewing your statement gives you the opportunity to verify and correct the earnings the Social Security Agency is using to calculate your estimated payout.

CIRIMELLI, PYLE AND ASSOCIATES LLP
PHONE: (408) 879-9990 FAX: (408) 879-0992

While the social security statement is only an estimate, it does provide a place to begin your retirement planning. Contact our office to schedule an appointment for a comprehensive review of your options.

Talk finances with your parents

According to a generational finance study, you're probably about as eager as your parents to discuss finances - which is to say, not very eager at all. But addressing the topic can benefit your entire family by clarifying your parents' wishes and enabling you to help establish a joint plan for carrying those wishes to fruition. And the sooner the better - communicating and planning now can alleviate the problems and confusion that arise if you wait until your parents are incapacitated, suffer diminished mental faculties, or pass away.

Before initiating the conversation, plan your approach to enhance mutual trust and understanding. Tailor the discussion to your parents' personalities and viewpoints. Position yourself as helper rather than custodian, and ensure that your parents maintain a sense of control. Emphasize that you want to fulfill your parents' wishes to their satisfaction and help them maintain independence as long as possible.
Involving other supportive family members may also help ease the stress. If your parents have a trusted advisor, such as a family attorney, explore the option of including that person as part of the process. Notify in advance anyone who will be part of the conversation.

The scope of your discussion will depend on your existing knowledge and your family dynamics. If the issues are complex or weighty, consider splitting your talk into multiple sessions.

Here's a framework for starting the dialogue.

* **Legal.** Do your parents have a will and an estate plan? Have they executed a trust, a durable power of attorney for finances, or an advance healthcare directive? Will they allow you to review the documents and/or speak with their attorney?

* **Medical.** What medical insurance policies are in place? Do your parents have long-term care insurance? Who is their personal physician and what significant medical issues exist?

* **Income, expenses, and debt.** What are the sources and amounts of your parents' income and expenses? To whom do your parents owe money, and how much do they owe?

* **Records.** Where do your parents keep tax returns, bank and brokerage statements, and similar records? Who are their tax preparers, financial advisors, and/or stockbrokers? Will your parents allow you current access to those records and advisors?

Discussing finances with your parents can be a daunting prospect. Give us a call if you'd like us to be part of the conversation. 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.

CIRIMELLI, PYLE & ASSOCIATES LLP

CERTIFIED PUBLIC ACCOUNTANTS

CIRIMELLI, PYLE AND ASSOCIATES LLP
PHONE: (408) 879-9990 FAX: (408) 879-0992