Cirimelli, Pyle & Associates LLP
CERTIFIED PUBLIC ACCOUNTANTS

Online Advisor – May 2015

Major Tax Deadlines
For May 2015

* May 15 - Deadline for calendar-year exempt organizations to file 2014 information returns.

* June 1 - Deadline for IRA, SEP, SIMPLE, Roth IRA, MSA, and education savings account trustees to file annual statements (Form 5498) with the IRS, with copies to participants. (Normal deadline of May 31 — a Sunday in 2015 — is moved to the next business day.)

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 tax audits cut by budget issues

The IRS reports that its enforcement budget has been cut by $254 million, a 5% reduction from the previous year. As a result, the agency expects to cut the number of individual and business audits it conducts

CIRIMELLI, PYLE & ASSOCIATES LLP
CERTIFIED PUBLIC ACCOUNTANTS

In 2014 the IRS audited 0.86 percent of individual taxpayers and 26% of large corporations. Though audit statistics show a decline in examinations, the IRS contacts many more taxpayers with questions about their returns. Once statistics include these taxpayer contacts, the 2014 return examination rate is closer to 4% or one in every 25 returns filed.

Watch out for the "dirty dozen"

Each year the IRS publishes a "Dirty Dozen" list of tax-related scams. Here's the list for 2015.

*Phone scams. Con artists impersonating IRS employees may call you, demanding money or promising a refund if you "confirm" your social security number. Remember – a legitimate IRS call will always be preceded by written correspondence from the agency.

*Phishing. Thieves commonly use fake e–mails and websites to steal personal information. Your response: Never click on unfamiliar links or attachments. The IRS won't e–mail you without first sending a notice to your physical address.

*Identity theft. Your financial identity may be stolen through phone scams, phishing, misuse of information provided to businesses, or dumpster diving. Protect your social security number and other personal information, and avoid providing such data whenever possible.:

* Return preparer fraud. Un--scrupulous tax preparers may use your information to create inflated refund claims or steal your identity. If a pre-parer's representations or demeanor makes you uncomfortable, take your business elsewhere.

* Hiding income offshore. The IRS has been stepping up enforcement actions against undeclared offshore accounts. You're allowed to maintain such accounts, but you're required to report them.

*Inflated refund claims. Avoid return preparers who promise refunds up front, or who base fees on a percentage of your refund. Be sure your refund will be mailed to your address or deposited directly into your bank account.

*Fake charities. Fake charities are used to steal your money, your identity, or both. Use the "Exempt Organizations Select Check" feature at www.irs.gov to determine whether a charity is legitimate.

*Fake documents. If a return preparer suggests filing false Forms 1099 or using fake documents for any purpose, walk away.

*Abusive tax shelters. Abusive shelters use structures ranging from phony entities with no real assets to complex multi-entity conglomerates with offshore accounts. Be careful of investments that emphasize tax avoidance over growth or earnings.

*Falsifying income to claim credits. This scam involves reporting nonexistent income in order to claim tax credits. This is tax fraud – and you should never agree.

*Unwarranted claims for fuel tax credits. Fuel tax credits are generally limited to off-highway business use, such as farming. If you don't qualify, don't let anyone talk you into claiming them.

*Frivolous tax arguments. Beware of anyone who urges you to rely on "innovative" legal theories to justify non-payment of taxes. The Sixteenth Amendment to the U.S. Constitution authorizes Congress to levy an income tax and the tax remains enforceable until Congress repeals it.

New Business

Make time for midyear tax planning

It's time to do a review of your business planning. Here are five ideas to consider.

1. Establish a retirement plan if you don't already have one. Examining the choices now gives you time to select the best plan for your business and to get the paperwork completed. Then you'll be set to make contributions as your cash flow allows—and to take the deduction on your 2015 tax return. Another plus: you may be able to claim a credit on this year's tax return for the costs of establishing the plan.

2. Hire your kids. If your child is under age 18 and works for your unincorporated business, there are no social security or Medicare taxes on the child's pay. Wages paid to the child are also deductible. Just make sure the compensation is reasonable for the work actually performed.

3. Track your business driving. For 2015, the rate for business–related mileage is 57.5 cents per mile, and you can deduct actual costs for parking fees and tolls in addition to mileage. Keep detailed records to substantiate your deduction.

4. Deduct equipment purchases. You can expense up to $25,000 of business equipment purchased this year.

5. Start a business. Planning to acquire or start a business this year? Keep good records of your costs to get the business off the ground, including advertising costs, legal fees, and accounting expenses. Up to $5,000 of these expenses could be deductible on your 2015 tax return.

To discuss the tax–saving ideas best suited for your business, give us a call.

How to get your business back on track

For years, your company generated strong revenues. Existing customers seemed satisfied. So you started taking risks. You borrowed money to finance expansion into new markets. You developed new product lines. You augmented your sales force and increased the advertising budget. But problems are beginning to surface. In recent months, profits have been dwindling. Customers are complaining with greater frequency. Competitors are encroaching on your market share. What's going on?

Heed the warning signs.
The problems are warning signs that you're headed in the wrong direction – and you don't want to ignore them until it's too late. Falling sales may indicate that customers are switching to com-petitors because the quality of your flagship product is declining. Perhaps your sales staff is losing motivation. Maybe your new product line has diverted attention from the cash–producing areas of your business.

Turning around an existing business takes humility and a willingness to make hard choices. Admitting you made mistakes may not be easy, but inflexibility in the face of changing market conditions or unpleasant fiscal realities is a sure path to failure. If your company has lost its way, consider these three tips.

*TIP #1. Focus on the money-makers. In the 1960s, The Boeing Company spent over a billion dollars to develop a supersonic transport plane known as the SST that would carry approximately 200 passengers at more than twice the speed of sound. But demand for the SST – at least at a cost customers were willing to pay – didn't materialize. So the company changed direction and re–focused on slower but more profitable airliners. On a smaller scale, your business may have developed products that customers simply aren't willing to buy. If that's the case, it may make sense to redirect your company's available resources. Does that mean you should never create new product lines or expand into new markets? No. But new products must eventually improve the bottom line. If they don't make money within a reasonable time, you need to refocus.

*TIP #2. Establish (or reestablish) your brand. Identify what you do best; then tell everyone. Your goal is to educate customers, vendors, and employees on the reasons why your product or service is better than the competition. Be specific. Don't say, "We do quick oil changes." Instead, let people know, "Your car will be in and out in 30 minutes or less." Of course, to remain credible you must back up your claims, so it's im-portant to be realistic. Win your customers' trust by following through.

*TIP #3. Track results. Once you're re-focused on the money-making segments of your business, keep a close eye on the numbers. Know whether customer complaints are down, cash flow is improving, back orders are declining, and market share is holding steady or increasing. If profits aren't showing an upward trend, take another look – then adjust and remeasure.

If you'd like help getting your business back on track, give us a call.

What's New in Finances

New myRA program now available.

You might want to check out the newest retirement plan. The account is called myRA (short for "my retirement account"). It's funded by having your employer make direct paycheck deposits to your account. The contributions to your myRA are invested in government–guaranteed Treasury securities.

A myRA isn't connected to your employer; it belongs entirely to you and can be moved to any new employer that offers direct deposit capability.

The annual contribution limits that apply to regular IRAs apply to myRAs. To find out more about myRAs, contact our office.

Is it smart to use retirement savings to pay off a mortgage?

In these days of high unemployment and declining home values, people are searching for ways to regain control over their financial lives. For many, that includes paying off debts as quickly as possible. After all, if you no longer have a mortgage, the banker can't foreclose on your house. If your credit card balances are zero, the collection agency will stop calling. If you've retired your auto loan, the repo guy won't be knocking on your front door.

But sometimes paying off debts — especially a mortgage — shouldn't be your first priority. For example, it's wise to establish an emergency fund to keep from going further into debt when you encounter the inevitable bumps on life's journey. Also, if your employer matches contributions to your retirement account, it makes sense to contribute up to the matching amount before paying off debts. That's because an employer match represents a very high return on your investment. And the longer your money is invested, the longer it has to grow. With a relatively conservative return of 6%, your money will double in about 12 years and double again in 24 years.

By withdrawing retirement funds to pay off a low-interest mortgage, you lose the opportunity to earn a return on those withdrawals. Let's say you pull $100,000 from your retirement account to pay off a 5% fixed-rate mortgage. If you plan to retire in 24 years and the return on your investments averages 6%, that $100,000, if left in the account, could have grown to $400,000 by your retirement date. Withdraw the money now and that earning power is lost forever. You're giving up a return of 6% to pay off a debt that costs less than 5% (when tax-deductible interest is factored into the equation). In addition, withdrawals from tax-advantaged retirement accounts can generate enormous tax consequences. If you're under age 59½, expect to pay a 10% penalty (in addition to general income taxes) on that $100,000. That means you'll need to withdraw substantially more than $100,000 to pay off your mortgage today.

Generally speaking, it's prudent to establish an emergency fund, contribute to retirement accounts (at least up to the matching percentage offered by your employer), and pay off high-interest credit cards and loans - before you consider raiding a 401(k) account to pay off the mortgage.