CIRIMELLI, PYLE & ASSOCIATES LLP
CERTIFIED PUBLIC ACCOUNTANTS

# Online Advisor – May 2017

# Major Tax Deadlines For May 2017

**For MAY 2017**

* May 16 – Deadline for calendar-year exempt organizations to file 2016 information returns

* May 31 – 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

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 FICA 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

## Tax tips for those getting married

If you are planning to get married, or know someone taking the matrimonial plunge, here are some important tax tips every couple should know before they walk down the aisle.

Notify Social Security. Notify the Social Security Administration (SSA) of any name changes by filling out Form SS-5. The IRS matches names with the SSA and may reject your joint tax return if the names don't match what the SSA has on file.

Address change notification. If either of you are moving, update your address with your employer as well as the Postal Service. You will also need to update the IRS with your new address using Form 8822.

Review your benefits. Getting married allows you to make midyear changes to employer benefit plans. Take the time to review health, dental, auto, and home insurance plans and update your coverage. If both of you have employer health plans, you need to decide whether it makes sense for each of you to keep your plans or whether it's better for one to join the other's plan as a spouse.

Update your withholdings. You will need to recalculate your payroll withholdings and file new W-4s reflecting your new status. If both of you work, your combined income could put you in a higher tax bracket. This can result in reduced and phased-out benefits. This phenomenon is known as the "marriage penalty."

Update beneficiaries and other legal documents. Review your legal documents to make sure the names and addresses reflect your new marital status. This includes bank accounts, credit cards, property titles, insurance policies, and living wills. Even more importantly, review and update beneficiaries on each of your retirement savings accounts and pensions.

Understand the tax impact of your residence. If you are selling one or two residences, review how capital gains tax laws apply to your situation. This is especially important if one of you has been in your home for only a short time or if either home has appreciated in value. This should be done as soon as possible prior to getting married to maximize your tax benefits.

Sit down with an expert. It is natural for newlyweds to focus their attention on the big day. Because of this, reviewing your tax situation often is an afterthought. Do not make this mistake. A simple tax and financial planning session prior to the big day can save on future headaches and avoid potentially expensive tax mistakes.

If you'd like a review of how marriage will affect your tax and financial situation, call at your earliest opportunity.

## Everyone knows someone who missed the boat

This year's April 18 tax deadline has come and gone, but not everyone has filed a 2016 tax return. While many have filed an extension and intend on getting their return in order, too many taxpayers who should file simply do not. This missed tax filing opportunity costs taxpayers over $1 billion in refunds every year.

While you may be done with your tax filing, you probably know someone who could be helped with a little reminder. Common culprits are older, retired parents and young adults who are new to tax filing requirements.

Here are some of the reasons why it will help them to file a tax return.

Get withholdings. People who work but earn less than the required filing threshold may need to file a tax return so they can get back any withholdings that their employer has taken out of their paycheck.

This happens because many taxpayers focus on the income threshold required to file a tax return and forget to look at their W-2 to see if money was taken out of their paycheck. Single individuals making less than $10,350 and married couples making less than $20,700 in 2016 don't have to file, but they may want to anyway to recover those withholdings.

Get refundable credits. There are a number of refundable or partially refundable tax credits that are only available if you file a tax return. Refundable credits are special because they come off the top of your tax bill and can even reduce it below zero. In that case you'd get the amount of the credit back in a refund check from the IRS.

Examples of refundable credits include the earned income tax credit, the additional child tax credit, and the premium tax credit available to those using the Affordable Care Act marketplace to purchase their health insurance. The American opportunity tax credit to help students pay for college is also partially refundable by up to $1,000 – but only if you file a tax return.

Help apply for loans or financial aid. Many banks or colleges will ask to see your tax return information to help you qualify for loans or financial aid, particularly for students. Filing a tax return, even if you're not required to, will help support your application.

Protect yourself. There's a disturbing trend of identity thieves filing false returns in order to try to collect illicit refunds from the IRS. They often target people who do not usually file a return. By filing even a simple return, you can shut down this attempt at fraud by identity thieves.

Close the door. By filing, you also limit the potential for an IRS audit stretching back years. The agency typically has three years to audit a return from the date it's filed or the original due date, whichever is later. If no return is filed, this audit window is never closed.

You may know someone who hasn't filed and who needs help doing so. If so, feel free to pass on this article and suggest they get in touch for a consultation.

What’s New in Business: Consider a midyear self-audit

The word "audit" makes most of us uncomfortable. But by using auditing principles within your own business, you may quickly discover ways you can enhance your firm's full-year performance. Here are some factors to consider.

Prepare with a pre-audit. Perhaps the most obvious use of a self-audit comes to play as you prepare for a pending or potential tax audit. For example, if you receive notice of a sales tax audit, conduct your own self-audit before the auditor arrives. Your self-audit might find areas in the state sales tax code where the state actually owes you money.

Internal controls. Consider auditing areas in your company that may be tempting for potential thieves. This may be your inventory, cash register, or accounts receivable. Understand your vulnerabilities and create two different ways to independently verify their accuracy. Internal control self-audits can discover theft, but most often they will identify ways you can reduce the chance of theft ever occurring.

An eye towards ID theft. Consider auditing your data to ensure it is properly protected. This has become more important as most small businesses are now using cloud-based services to take orders, pay bills, and receive payments.

Focus on key financial areas. In your self-audit, focus on the areas of your company that make the most financial sense. For most of us it's auditing those financial processes that impact cash flow. A good place to start is an independent review of your bank accounts and their related reconciliation.

Look at performance progress. Another benefit of a midyear self-audit can simply be creating year-to-date performance reporting, forecasting your full year, and then comparing it to your plan. If you find problems, you still have plenty of time before the end of the year to take corrective action.

## Business or a Hobby? - The IRS is interested

When you incorrectly claim your favorite hobby as a small business, it's like waving a red flag that says "Audit me!" to the IRS. However, there are tax benefits if you can correctly categorize your activity as a small business.

Why does hobby versus business matter?

Chiefly, you're allowed to reduce your taxable income by the amount of your qualified small business expenses, even if your business activity results in a loss. On the other hand, you cannot deduct losses from hobby activities. Any hobby expenses are treated as miscellaneous itemized deductions and don't count against taxable income until they (and other miscellaneous expenses) surpass 2 percent of your adjusted gross income.

Here are some tips to determine whether you can define your activity as a business.

* Profit Motive.

Business: You have a reasonable expectation of making a profit.
Hobby: You may sell occasionally, but making money is not your main goal.

* Effort and income

Business: You invest significant personal time and effort. You depend on the resulting income.
Hobby: It's something you do in your free time; you make the bulk of your money elsewhere.

* Reasonable expenses

Business: Your expenses are ordinary and necessary to run your business.
Hobby: Your expenses are driven by your personal preferences and not strictly necessary.

* Background

Business: You have a track record in this industry, and/or a history of making profits.
Hobby: You don't have professional training in the field and have rarely or never turned a profit.

* Customers

Business: You have multiple customers or professional clients.
Hobby: You have a few customers, mainly relatives and friends.

* Professionalism

Business: You keep professional records, including a separate checkbook and balance sheet; you have business cards, stationery, and a branded business website.
Hobby: You don't keep strict professional records of your activities; you don't have a formal business website or business cards.

Should you need a review of your situation please call.

# What's New in Finances

## Plan a summer vacation without breaking the bank

When setting your family budget, often the first thing that gets slashed is the summer vacation. However, if you to do a little research and planning, you can find simple ways to save and keep your vacation on the calendar. Here are a few ideas.

Flexible location to save money. Sometimes you just want to get away to recharge and the location isn't the biggest factor. If your heart isn't set on a specific city, find a location that offers substantial savings over popular tourist destinations.

Avoid airport parking. Have a friend or family member drop you off for your flight. If you know people who live near the airport, ask if you can park your car at their home during your vacation. Some hotels that are near airports offer "park and fly" packages that may save you some money.

Get creative about flying. Many destinations have a number of airport options that are relatively close together. Find out if you can save by flying into the less popular airport. The day and time you fly can also save you money. Consider flying midweek. Fridays and Sundays remain the most popular days to fly, but choosing to fly on a Tuesday, Wednesday, or Saturday might give you a price break. Even adjusting the time of day of your flight can save you money. See if you find savings by choosing a flight time between 5 and 7 a.m. or after 8 p.m. It used to be that a round-trip ticket always produced the best deal, but this is not necessarily the case anymore. Experiment with one-way ticket options to see if you can find a better deal.

Stay with relatives. You don't have to spend your entire vacation with relatives, but enjoying their hospitality for a night or two can do wonders for your vacation budget. They will likely appreciate that you included a visit to their home in your vacation plans.

Eat for less. Most airlines now charge for in-flight food options. Stock your carry-on bag with solid snacks to avoid high-priced snacks on the plane. When researching your destination, look for hotels that offer free breakfast. Buying groceries on vacation is another great way to save on meals. Consider a light dinner a few times a week to give you additional savings. When you do dine out, consider smaller neighborhood restaurants rather than those in high-priced touristy areas.

These options may offer a bit of savings here and there, but added up, you could save hundreds by planning ahead and being flexible about your summer vacation experience.

## Is paying for identity theft protection worth it?

Identity theft is a growing problem in the United States, and dozens of companies offering various forms of "identity theft" protection have sprung up to combat it. Unfortunately, these services do little to actually protect people's identities, according to a study released by the U.S. Government Accountability Office (GAO).

An identity protection company will typically charge $10 to $20 a month to monitor changes in a person's credit reports and public records that could indicate someone has either exploited existing accounts (such as credit cards) or tried to open up new accounts in their name (such as loans). However, these services often amount to just notifying a person promptly after their identity has already been stolen, the GAO said.

Both the GAO study and consumer protection organizations, like the Identity Theft Council, point out that consumers have more effective, low-cost methods to protect themselves from identity theft. Here are some of their tips:

Monitor your own credit. You can get a free credit report from each of the three credit reporting agencies once a year at www.annualcreditreport.com. You can stagger your request from each agency so that you can check your credit history for any suspicious new account openings every four months.

In addition, one of the most effective things only you can do yourself is to scan your monthly credit card and bank account statements. If you see any irregularities, contact the financial institution at once and let them know if you believe the charge is the result of identity theft.

Place a fraud alert. You can place a free fraud alert on your identity if you believe you've become vulnerable for any reason, either because you lost your wallet, had your home or car broken into, or had your information stolen online. All you have to do is call any of the three credit reporting agencies (Equifax 1-888-766-0008; Experian 1-888-397-3742; or TransUnion 1-800-680-7289) and they will notify the other two.

Placing a fraud alert lasts for 90 days and means that any credit provider will have to take extra steps to verify the identity of any person claiming to be you who tries to use your credit and open new accounts. It can be renewed for free every 90 days.

Freeze your credit. If you aren't going to be applying for new credit for a while, one of the most effective things you can do to combat identity theft is to put a temporary freeze on your credit. You'll have to call each of the three credit reporting agencies and pay a small fee ($5 to $10 each) to freeze your account, after which no one will be able to access your credit to open new accounts. It won't affect your credit rating or your ability to use your existing accounts.

Keep in mind that while this shuts down other people from accessing your credit, it also stops you from opening new accounts. It typically takes three days for the agencies to unfreeze your accounts, so keep that lead time in mind if you want to apply for new credit, or need to allow a potential new employer to access your credit report as part of a background check.

Do your taxes early. One of the most common kinds of identity theft is when people use a stolen Social Security number and other personal information to file a fraudulent tax return in the hope of snatching a refund. Credit protection services can't protect against this, unfortunately. The best defense is to simply file your return as soon as possible – once the IRS receives your return, it shuts the door on potential identity thieves.

If you have a fraudulent return filed in your name, you can still recover your refund from the IRS. If you'd like more information about that or have any other questions, feel free to reach out.