Online Advisor – April 2018

Major Tax Deadlines For April 2018

April 17 –

- Individual income tax returns for 2017 are due.
- 2017 calendar-year C corporation income tax returns are due.
- 2017 annual gift tax returns are due.
- Deadline for making 2017 IRA contributions.
- First installment of 2018 individual estimated tax is due.

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.

When an extension makes sense

While most people should file a tax return by April 17, you have the option of delaying your filing date until Oct. 15 with a tax extension.

When to file an extension

- **Missing or incorrect information.** If one of the forms you need to file your return has an error on it, it is often better to receive a corrected form before filing.
- **Recharacterizing Roth IRA rollover amounts.** If you've rolled funds from a traditional IRA into a Roth IRA, you may want to reverse it later if the investments lose value. This so-called recharacterization process can be done up to the extended tax-filing date of Oct. 15, and in many cases it makes sense to wait until then. Note that 2017 is the last tax year you can use the recharacterization process, which was eliminated for future years by the Tax Cuts and Jobs Act.
- **For self-employed retirement donations.** The self-employed can use an extension to buy time to fund an SEP IRA. This extended time frame does not apply to traditional IRAs and Roth IRAs.
- **Avoid late filing penalty.** If you fail to file a tax return, two tax penalties come into play: a late filing penalty and a late payment penalty. By filing an extension, you can push out the potential late-filing penalty for another six months even if you cannot yet pay the tax.

Know the IRS's "Dirty Dozen" tax scams

Every year the IRS releases its "Dirty Dozen" list of the year's most prevalent tax scams. They include ploys to steal personal information, talk people out of money, or engage in questionable tax activity. Here are some of the top scams:

- **Phishing.** Fake emails or websites claiming to represent the IRS, for the purpose of stealing personal information. The IRS will never try to contact you via email about a bill or refund.

- **Phone scams.** Scammers impersonating IRS agents over the phone. These impersonators may threaten you with arrest if you don't make immediate payment for fake tax bills. Don't fall for it – the real IRS makes contact via a letter, and never threatens or demands immediate payment.

- **Identity theft.** Using a stolen Social Security number to file a fraudulent return and claim a refund. The IRS said it is making great progress on reducing this scam as identity theft reports are down 40 percent from a year ago.

- **Fake charities.** Some fraudsters use the mask of charitable activity to get you to donate funds to fake organizations. Only donate to legitimate charities, which are listed in the IRS database.

- **Inflated refund claims.** Many taxpayers are wooed by tax-refund services offering payouts that seem too good to be true. Cheap tax-preparation services that promise unrealistic refunds are illegal and often get taxpayers in trouble.

- **Padded deductions.** The IRS is focusing on identifying tax returns that try to reduce tax by overstating deductions such as charitable deductions or business expenses.

- **Falsifying income to claim credits.** Improper use of the Earned Income Tax Credit (EITC), meant for eligible low-income taxpayers. The IRS has been cracking down on EITC fraud in recent years.

- **Abusive tax shelters.** Some fraudsters peddle complex tax avoidance schemes known as tax shelters that they portray as legal tax strategies. Make sure you get an independent opinion on any complex tax schemes.

- **Frivolous tax arguments.** Frivolous arguments to avoid paying taxes (for example, arguing a personal vacation is a business expense) can be penalized by up to $5,000 per tax return.

- **Offshore tax avoidance.** Using offshore bank accounts and complex international tax structures to avoid paying taxes is still a common scam on the radar of IRS auditors.

The often-overlooked R&D Tax Credit

Tax credits are one of the best tax-reduction tools for your business because they directly decrease your tax bill dollar for dollar. The business research and experimentation credit, also called the "R&D credit" could be one opportunity worth looking at this year.

The R&D credit basics

The R&D credit allows business owners to reduce their tax relative to their spending on research and development of new products. It's often used by large businesses and corporations, but it can be used by small businesses as well.

The downside of the R&D credit is that you will need to keep careful documentation over several years. The calculation to determine business expenses that qualify for the credit can also be quite complex. That can be daunting, especially for a small business, but the benefits may still outweigh the cost and hassle.

Is the R&D credit right for you?
Here are answers to some common questions about the R&D credit to help you determine if it's right for your business:

- ***What qualifies as R&D?*** This is not a comprehensive list, but if your business applies for patents, develops prototypes, develops software or builds manufacturing facilities, you may be eligible for the credit.

- ***How much could I get?*** There are two methodologies to calculate the credit. One is a complex formula offering up to a 20 percent credit on qualified expenses, and the second is a more simplified calculation offering a maximum 14 percent credit.

- ***How are qualified research expenses determined?*** The IRS uses several criteria to judge whether something qualifies as a research activity, including whether it is technological in nature, is used to eliminate uncertainty, and whether it is part of the experimentation process. Once you have a research activity that qualifies, you have to link it with qualified business expenses. This could be something as simple as timesheets that show which employees worked on the research and what activities they performed.

- ***What do I need?*** Having a disciplined system for organizing documentation over several years is essential to support your costs in the event of an IRS audit. The IRS uses information about what you've spent in the past on research and development. For the first year claiming a credit, the qualified research expenditures must be calculated for up to four prior years.

- ***Can the credit be carried forward?*** Yes, if you don't have enough income in one year to offset the credit, your company can carry forward unused credit dollars to next fiscal year, or even apply the tax credit to your employer share of Social Security payroll taxes.

- ***How should I get started?*** A consultation with an R&D credit expert can help to assess your situation and guide your efforts. It will help you understand how to document research activity, calculate costs and apply the credit to ensure you take advantage of the tax savings.

Stay prepared to sell your business

If you enjoy running your own business, selling it may be the furthest thing from your mind. But the reality is that eventually an opportunity to sell will come, whether due to your own life changes or a perfect buyer walking in the door. Planning, often years in advance of the sale date, is necessary to get the most value for the love, sweat and tears you've invested. Here are some tips to stay prepared:

- **Assemble a great team.** Selling a business is a complex process, especially as you grow larger. You're likely to need three kinds of professionals to help: an accountant, to help review and produce clean and easy-to-understand financial statements; a lawyer, to create the necessary legal documents and help you negotiate terms; and a trusted business broker, to evaluate the worth of your business and find buyers.

- **Develop your exit strategy.** With the help of your advisory team, create a clear picture of what selling your business might look like. Outline the risks and opportunities that could affect the valuation of your business. Planning out an ideal scenario as well as a plan B will help you avoid getting backed into a corner and selling at a discount.

- **Clean up your financials.** As you get closer to selling, go over your business financial statements as well as your tax returns from the last three years. A broker will like to present a clear and compelling financial picture to a client, and that will include a year-to-date financial report.

- **Have a plan to improve sales.** The worst time to sell is when sales are declining, even if it's just a temporary or seasonal dip. Part of your planning should include some tactics to boost your sales and cash flow, such as increasing marketing and promotion, liquidating bloated inventories or collecting on accounts receivables.

- **Be prepared to evaluate buyers.** Be prepared to take a calm approach to any offers you get. You don't want to jump at the first offer, and many offers that seem too good to be true often are. Lack of solid financing is often an issue, so work with your business broker to find buyers who have been prequalified by a lender.

- **Have your after-sale plan down.** Often a buyer will want to include a clause that the previous owner stay on awhile as an advisor. Make sure that the advisory period lined out in the contract isn't longer than is comfortable for you. Finally, work with your accountant on a tax-efficient plan for the proceeds of your sale.

Great uses for your tax refund

Most Americans get a refund every year, with the average check weighing in at $2,895 last year. Even though it's really money that they earned, many people are tempted to treat it like a windfall and splurge. If you can resist that temptation, here are some of the best ways to put your refund to good use:

- **Pay off debt.** If you have debt, part of your refund could be used to reduce or eliminate it. Paying off high-interest credit card or auto loan debt means freeing up the money you had been paying in interest for other uses. And making extra payments on your mortgage can put more money in your pocket over the long haul.

- **Save for retirement.** Saving for retirement allows the power of compound interest to work for you. Consider depositing some of your refund check into a traditional or Roth IRA. You can contribute a total of $5,500 every year, plus an extra $1,000 if you are at least 50 years old.

- **Save for a home.** Home ownership can be a source of wealth and stability for many people. If you dream of owning a home, consider adding your refund to a down payment fund.

- **Invest in yourself.** Sometimes the best investment isn't financial, it's personal. A course of study or conference that improves your skills or knowledge could be the best use of your money.

- **Give to charity.** Giving your refund to a charity helps others *and* gives you a deduction for your next tax return.

- **Don't give to scammers!** Scammers are using a new tactic to separate people from their tax refunds. First, they file fraudulent refunds on behalf of their victims. Then, after a refund check arrives at the taxpayer's address, they impersonate an IRS agent over the phone and demand to be sent the refund because it was sent in error. Remember, real IRS agents will never call over the phone and demand immediate payment for any reason.

If you use some of your refund for one of the ideas here, you can also feel good about setting a little aside for yourself to have some fun!

Win the battle against retirement health care costs

When you think about how much money you'll need in retirement, you may consider your living costs, travel expenses and hobbies you'd like to enjoy. But you may be overlooking one of the largest costs for most retirees: health care. A recently retired couple will need an average of $275,000 to cover medical costs even after Medicare coverage, according to research by broker Fidelity Investments. Medical prices have nearly doubled in the past twenty years, according to statistics kept by the U.S. Department of Labor.

Here are some tips to meet the challenge of rising health care costs without compromising your other retirement goals:

- **Save more now.** The best way to manage rising health care costs is to save more money *before* you retire. Consider maximizing your annual contributions to your tax-advantaged employer 401(k) plan and your IRAs.
- **Use health savings accounts.** If you're eligible, save money in health savings accounts (HSAs). HSAs allow you to contribute pre-tax money to an account that can be invested like a 401(k) or IRA. HSA funds are not taxed as long as the funds are used to pay for qualified medical, dental or vision expenses. If you are eligible, you can contribute up to $6,900 a year in a family plan, or $7,900 if you are age 55 or older.
- **Reduce costs by being network-smart.** Out-of-pocket health care costs rise considerably if you use doctors or facilities out of your insurer network. Even if your primary doctor and clinic is in your insurer's network, a specialist or testing center may fall outside of it. Be sure to check your insurer's network rules before each visit to a new doctor or location.
- **Use alternative providers.** Consider avoiding hospital visits and emergency rooms when practical. If you have the option to go to a clinic or urgent care center, out-of-pocket costs are often a fraction of out-of-pocket costs at a hospital.
- **Reduce Medicare premiums.** A large portion of the cost of retiree health care comes from Medicare premiums, which rise according to several tiers of income brackets. To pay the lowest

rate, keep your adjusted gross income below $85,000 if you are single, or $170,000 if you are married filing jointly. There are various tax-planning strategies you can use to stay below the threshold, including managing required minimum distributions from retirement accounts and Social Security payments with your other sources of income.

Planning that takes into account rising health care costs can save you the added financial burden upon retirement, leaving more funds for the things you look forward to doing during your golden years.