

April 2013

Volume 4, Issue 1

# Leslie A. Cesario, Ltd.

## Monthly Newsletter

1313 MARENGO COURT • NAPERVILLE, ILLINOIS 60564-9505 • (630) 961-9602 • FAX (630) 961-9953

### **Are You Collecting the Needed W-9s?**

If you use independent contractors to perform services for your business or rental that is a trade or business, and you pay them \$600 or more for the year, you are required to issue them a Form 1099 after the end of the year to avoid facing the loss of the deduction for their labor and expenses. (This requirement generally does not apply for payments made to a corporation. However, the exception does not apply to payments made for attorney fees and for certain payments for medical or health care services.)

It is not uncommon to have a repairman out early in the year, pay him less than \$600, then use his services again later and have the total for the year exceed the \$600 limit. As a result, you overlook getting the information needed to file the 1099s for the year. Therefore, it is good practice to always have individuals who are not incorporated complete and sign the IRS Form W-9 the first time you use their services. Having a properly completed and signed Form W-9 for all independent contractors and service providers eliminates any oversights and protects you against IRS penalties and conflicts.

Many small business owners and landlords overlook this requirement during the year, and when the end of the year arrives and it is time to issue 1099s to contractors, they realize they have not collected the required documentation. Often it is difficult to acquire the contractor's information after the fact, especially from those contractors with no intention of reporting the income.

IRS Form W-9, "Request for Taxpayer Identification Number and Certification" is provided by the government as a means for you to obtain the data required from your vendors in order to file the 1099s. It also provides you with verification that you complied with the law should the vendor provide you with incorrect information. We highly recommend that you have a potential vendor or independent contractor complete the Form W-9 prior to engaging in business with him or her.

If you have questions or need copies of the Form W-9, please call this office. This office can also assist you with your 1099 filing requirements next January.

### **Beware of Bogus IRS Emails**

Every tax-filing season, the scammers and ID thieves try to sucker people into providing personal and financial information through the use of phony e-mails.

The IRS receives thousands of reports every year from taxpayers who received emails out of the blue claiming to be from the IRS. Scammers use the IRS name or logo to make the message appear authentic in an effort to get you to respond and then to trick you into revealing your personal and financial information. The criminals use this information to commit identity theft or steal your money. It is a scam known as "phishing" and we do not want you to become a victim.

**You should know that the IRS does not initiate contact with any taxpayer via e-mail or social media to request personal or financial information.** If you should

receive an e-mail claiming to be from the IRS or directing you to an IRS site, the first thing you should do is contact this office. But above all, **DO NOT**

- Reply to the message
- Open any attachments (attachments may contain malicious code that will infect your computer)
- Click on any links in a suspicious email or phishing website and enter your confidential information

Here are additional key points you to know about phishing scams:

- The IRS never asks for detailed personal and financial information like PINs, passwords, or similar secret access information for credit cards, banks, or other financial accounts.
- The address of the official IRS website is [www.irs.gov](http://www.irs.gov). Do not be misled by sites claiming to be the IRS but ending in .com, .net, .org or anything other than .gov. If you discover a website that claims to be the IRS but you suspect it is bogus, do not provide any personal information on the site.
- If you receive a phone call, fax, or letter in the mail from an individual claiming to be from the IRS, you should immediately contact this office before providing any information. You should do this whether you suspect the contact is legitimate or not. You can also contact the IRS at 1-800-829-1040 to determine if the IRS has a legitimate need to contact you.
- You can help the IRS and other law enforcement agencies shut down these schemes. Visit the IRS.gov website for Reporting Phishing: <http://www.irs.gov/uac/Report-Phishing> to get details on how to report scams and helpful resources if you are the victim of a scam. You can report any bogus e-mails by forwarding a suspicious email to [phishing@irs.gov](mailto:phishing@irs.gov).

**Identity Theft is a Growing Problem**—When a taxpayer's ID has been stolen, the IRS will issue the individual a special number with which to file a return. The victim gets a new one each year for three years to provide time for the taxpayer to correct the ID theft damage. In 2012, the IRS issued 250,000 of these special numbers and for the 2013 filing season it issued 770,000—an increase of more than 300%. That is why it is so important for you to protect yourself from the nightmare of ID theft.

To learn more about how to protect yourself from ID theft, visit the following IRS webpages: Identity Protection Tips <http://www.irs.gov/uac/Identity-Protection-Tips> and Identity Protection Home Page <http://www.irs.gov/uac/Identity-Protection>.

### **Checking the Status of Your Federal Tax Refund is Easy**

If you already filed your federal tax return and are due a refund, you can check the status of your refund online.

**Where's My Refund?** <http://www.irs.gov/Refunds/Where%27s-My-Refund-It%27s-Quick,-Easy,-and-Secure>. is an interactive tool on the IRS web site. Whether you split your refund among several accounts, opted for direct deposit into one account, or asked the IRS to mail you a check, *Where's My Refund?* will give you online access to your refund information nearly 24 hours a day, 7 days a week.

If you e-file, you can get refund information 72 hours after the IRS acknowledges receipt of your return. Nine out of 10 taxpayers typically receive refunds in less than 21 days when they use e-file with direct deposit. If you file a paper return, refund information will be available within three to four weeks. When checking the status of your refund, have a copy

of your federal tax return handy. To access your personalized refund information, you must enter:

- Your Social Security Number (or Individual Taxpayer Identification Number);
- Your Filing Status (Single, Married Filing Joint Return, Married Filing Separate Return, Head of Household, or Qualifying Widow(er)); and
- The exact refund amount shown on your tax return.

Once your personal information has been entered, one of several responses may come up, including the following:

- Acknowledgement that your return was received and is in processing.
- The mailing date or direct deposit date of your refund.
- Notice that the IRS could not deliver your refund due to an incorrect address. You can update your address online using the *Where's My Refund?* feature.

*Where's My Refund?* also includes links to customized information based on your specific situation. The links guide you through the steps to resolve any issues affecting your refund. For example, if you do not get the refund within 28 days from the original IRS mailing date shown on *Where's My Refund?*, you can start a refund trace online.

*Where's My Refund?* is also accessible to visually impaired taxpayers who use the Job Access with Speech screen reader used with a Braille display and is compatible with different JAWS modes.

If you do not have Internet access, you can check the status of your refund by calling the IRS TeleTax System at 800-829-4477 or the IRS Refund Hotline at 800-829-1954. When calling, you must provide your Social Security Number (or your spouse's), your filing status and the exact refund amount shown on your return.

IRS2Go is the IRS' first smartphone application that let's taxpayers check on the status of their tax refund. Apple users can download the free IRS2Go application by visiting the Apple App Store. Android users can visit the Android Marketplace to download the free IRS2Go app.

*Where's My Refund?* provides the most up-to-date information the IRS has. There's no need to call the IRS unless *Where's My Refund?* tells you to do so. *Where's My Refund?* is updated every 24 hours – usually overnight -- so you only need to check once a day. Please call this office if you encounter problems.

### **Individual Estimated Tax Payments for 2013**

Our tax system is a "pay-as-you-go" system, and if your pre-paid amount is not enough, you become liable for non-deductible interest penalties. To facilitate that concept, the government has provided several means of assisting taxpayers in meeting the "pay-as-you-go" requirement. The primary among these include:

- Payroll withholding for employees;
- Pension withholding for retirees; and
- Estimated tax payments for self-employed individuals and those with other sources of income not covered by withholding.

Determining how much tax to pre-pay through withholding and estimated tax payments has always been difficult, but thanks to Congress' constant tinkering with the tax laws, ensuring there are no underpayment penalties or tax surprises when the tax return is prepared next year can be challenging.

There are several new tax laws and changes taking effect in 2013 that add complexity to estimating one's tax liability including: higher ordinary tax rates, higher capital gains tax

rates, the phase out of exemptions and itemized deductions for higher income taxpayers, the new 3.8% tax on net investment income and .9% increase in self-employment tax for upper-income self-employed individuals, not to mention myriad of extended and sun setting tax provisions.

When a taxpayer fails to prepay a safe harbor (minimum) amount, he or she can be subject to the underpayment penalty. This penalty is the short-term federal rate plus 3 percentage points and the penalty is computed on a quarter-by-quarter basis. So, even if you pre-pay the correct amount for the year, if the amounts are not paid evenly you could be subject to a penalty. Interestingly enough, withholding amounts are treated as paid ratably throughout the year, so taxpayers who are underpaid in the earlier part of the year can compensate by bumping up their withholding in the later part of the year.

Federal tax law does provide ways to avoid the underpayment penalty. If the underpayment is less than \$1,000 (referred to as the de minimis amount), no penalty is assessed. In addition, the law provides "safe harbor" prepayments. There are two safe harbors:

1. The first safe harbor is based on the tax owed in the current year. If your payments equal or exceed 90% of what is owed in the current year, you can escape a penalty.
2. The second safe harbor is based on the tax owed in the immediately preceding tax year. This safe harbor is generally 100% of the prior year's tax liability. However, for a higher income taxpayer whose AGI exceeds \$150,000 (\$75,000 for married taxpayers filing separately), the prior year's safe harbor is 110%.

**Example:** Suppose your tax for the year is \$10,000 and your prepayments total \$5,600. The result is that you owe an additional \$4,400 on your tax return. To find out if you owe a penalty, see if you meet the first safe harbor exception. Since 90% of \$10,000 is \$9,000, your prepayments fell short of the mark. You can't avoid the penalty under this exception.

However, in the above example, the safe harbor may still apply. Assume your prior year's tax was \$5,000. Since you prepaid \$5,600, which is greater than 110% of the prior year's tax (110% = \$5,500), you qualify for this safe harbor and can escape the penalty.

If your state has a state tax, the state's de minimis amount and safe-harbor percentage and amount may be different.

This example underscores the importance of making sure your prepayments are adequate, especially if you have a large increase in income. This is common when there is a large gain from the sale of stocks, sale of property, when large bonuses are paid, when a taxpayer retires, etc.

If you have questions regarding your pre-payments or would like to review and adjust your W-4 payroll withholding, W-4P pension withholding, and estimated tax payments to provide the desired tax result for 2013, please give this office a call.

## **Tax Breaks for Charity Volunteers**

If you volunteer your time for a charity, you may qualify for tax breaks. Although no tax deduction is allowed for the value of services performed for a charity, some deductions are permitted for out-of-pocket costs incurred while performing the services. The normal deduction limits and substantiation rules also apply. The following are some examples:

- Away-from-home travel expenses while performing services for a charity, including out-of-pocket roundtrip travel cost, taxi fares, and other costs of transportation between the airport or station and hotel, plus lodging and meals are allowed at 100%. Unlike other areas of taxes, meals are not subject to the 50% limitation. These expenses are only deductible if there is no significant element of personal pleasure associated with the travel, or if your services for a charity do not involve lobbying activities. Any "significant element of personal pleasure" negates a deduction (i.e., not even partial deduction is allowed). Significant personal pleasure is assumed if the taxpayer has only minor duties and is not required to perform any duties for the charity for major portions of the away-from-home stay.
- The cost of entertaining others on behalf of a charity, such as wining and dining a potential large contributor are allowed at 100 % (but the cost of your own entertainment or meal is not deductible).
- If you use your car while performing services for a charitable organization, you may deduct your actual unreimbursed expenses directly attributable to the services, such as gas and oil costs, or you may deduct a flat 14 cents per mile for the charitable use of your car. You may also deduct parking fees and tolls.
- You can deduct the cost of the uniform you wear when doing volunteer work for the charity, as long as the uniform has no general utility. The cost of cleaning the uniform can also be deducted.

No charitable deduction is allowed for a contribution of \$250 or more unless the contributions substantiated with a written acknowledgment from the charitable organization.

To verify your contribution:

- Get written documentation from the charity about the nature of your volunteering activity and the need to pay for related expenses. For example, if you travel out-of-town as a volunteer, request a letter from the charity explaining why you're needed at the out-of-town location.
- Submit a statement of expenses if you are out-of-pocket for substantial amounts, and preferably, a copy of the receipts to the charity. Also, arrange for the charity to acknowledge the amount of the contribution in writing.
- Maintain detailed records of your out-of-pocket expenses, including receipts and a written record of the time, place, amount and charitable purpose of the expense.

Please call this office if you have questions related to your volunteer expenses or any other charitable contributions.

## **Preparing Purchase Orders Precisely**

*Modifying the default template makes tracking easier, more accurate.*

Part of the reason for QuickBooks' success is its exceptional flexibility. By allowing users to turn features and preferences on and off, the same software can be used by a wide variety of business types and sizes.

In some cases, the default settings that QuickBooks supplies will work fine for your company. This is not necessarily true in the case of purchase orders, since the whole inventory procurement process is so complex, and users can have such a diverse range of needs.

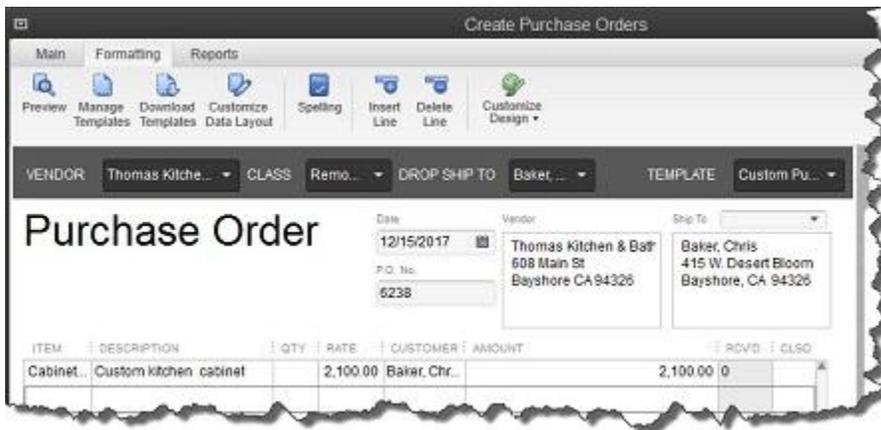


Figure 1: QuickBooks 2013's default **Create Purchase Orders** screen. You can see that formatting options are available when you click the **Formatting** tab.

So before you order your first widget, make sure that your purchase order form is designed to accommodate all of the information you want to record and track, with no unnecessary data fields to confuse staff.

### **Working With Templates**

There aren't many program preferences to check. If you can open a purchase order, you're set. If not, go to **Edit | Preferences | Items & Inventory** and be sure that the box next to **Inventory and purchase orders are active** is checked.

What you want to find first is the **Additional Customization** screen for the **Custom Purchase Order Template**. This is easily accessed from the **Create Purchase Order** screen itself in QuickBooks 2013, but if you're using an earlier edition, go to **Lists | Templates | Custom Purchase Order Template**. Double-click on it to open the **Basic Customization** page. Here, you can add a logo, change fonts and colors, etc. But go ahead and click on the **Additional Customization** button at the bottom of the screen. This window opens:

	Screen	Print	Title
Default Title	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	Purchase Order
Date	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	Date
P.O. No.	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	P.O. No.
Vendor	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	Vendor
Ship To	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	Ship To
Other1	<input type="checkbox"/>	<input type="checkbox"/>	Other1
Terms	<input type="checkbox"/>	<input type="checkbox"/>	Terms
Due Date	<input type="checkbox"/>	<input type="checkbox"/>	Due Date
Account Number	<input type="checkbox"/>	<input type="checkbox"/>	Account #
Expected	<input type="checkbox"/>	<input type="checkbox"/>	Expected
Ship Via	<input type="checkbox"/>	<input type="checkbox"/>	Ship Via
FOB	<input type="checkbox"/>	<input type="checkbox"/>	FOB
Other2	<input type="checkbox"/>	<input type="checkbox"/>	Other2
Discount	<input type="checkbox"/>	<input type="checkbox"/>	Discount Available

Figure 2: The left pane of the **Additional Customization** window contains additional fields that you might want on your purchase orders, like **Ship Via** and **Terms**.

(**Tip:** If you want to design multiple purchase order templates, click **Manage Templates** on the **Basic Customization** screen, then **Copy** on the **Manage Templates** page.

Rename the form and make your modifications. This version will always be available as an option when you create purchase orders.)

### **Making It Yours**

Each of this window's four tabs opens a new screen that gives you customization control over a different element of the purchase order form: the top, bottom and midsection, and printing options. You simply check the boxes next to the fields that you want to add to the current form (be sure to check both columns if you want the fields to appear both onscreen and in your printed versions; sometimes, one is not an option) and uncheck any you want to delete.

In the right pane of this window, a dynamic preview changes to reflect each addition or deletion. And when you've finished altering the set of fields, you can see an actual print preview. Close that and keep clicking **OK** until you get back to the **Templates** window.

This simplicity and ease carries over into the more cosmetic elements of your purchase order. Make sure the template you want to redesign is highlighted and click **Templates | Create Form Design**. QuickBooks walks you through the process of adding a logo and background, colors and fonts, and a grid style, and it lets you apply this same theme automatically to all of your forms. (You can modify your design similarly on the **Basic Customization** page, minus the wizard-like approach and the background options.)

### Simple But Complicated

One more comment about the QuickBooks 2013 purchase order screen. Beyond making your formatting options available in the “ribbon,” it also moves you through purchasing to the receiving process. With the appropriate purchase order open, click **Create Item Receipts** in the ribbon. This window opens, with the correct vendor name selected. When you click in the **Item** field, this small window appears:

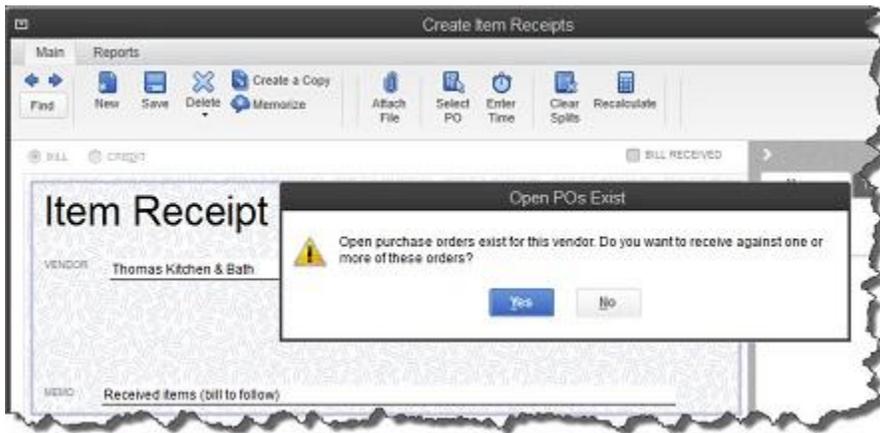


Figure 3: Click **Yes** here and select the correct PO, and QuickBooks fills in the data. If you check the **Bill Received** box, the **Enter Bills** window opens.

QuickBooks’ purchasing and receiving tools makes your inventory-tracking job easier, but you still need to understand the workflow. We encourage you to let us work with you as you begin managing inventory – or to contact us if you’re tangled up in what can be a very challenging element of QuickBooks.