December 2013
Volume 12, Issue 1

Leslie A. Cesario, Ltd. Monthly Newsletter

Avoid Home Cancellation of Debt Income

Article Highlights

- Forgiven debt is taxable.
- Forgiven home mortgage acquisition debt is excludable.
- Without a last-minute congressional extension, the home mortgage acquisition debt exclusion expires at the end of 2013.

When a taxpayer settles a debt for less than its full amount, the forgiven amount of the debt is taxable, unless the taxpayer qualifies for one of two currently available exclusions. With the downturn in the economy and the accompanying drop in home prices that occurred in recent years, many taxpayers are unable to keep up the mortgage payments on their home, and unable to sell their homes because they owe more than the market price. As a result, a large number of homeowners have let their homes go back to the lender.

Congress offered help for those in this situation by providing an exclusion from income of the forgiven acquisition debt from a taxpayer's principal residence. If a taxpayer's home is upside down, and they are considering letting it go back to the lender, they should be aware that unless Congress provides a last-minute extension, this Principal Residence Acquisition Debt Relief Exclusion will expire at the end of 2013. The only other exclusion available is the insolvent taxpayer exclusion, which limits the amount that can be excluded to the excess of the taxpayer's total debts over the taxpayer's total assets.

An individual not able to exclude the forgiven debt on their home using the insolvent taxpayer exclusion may wish to act before year's end. The tax implications of forgiven debt are very complicated and not all the details are covered in this article. You are strongly urged to contact this office if you are contemplating letting your home go back to the bank.

Take Advantage of the IRA-to-Charity Transfer

Article Highlights

- Direct IRA-to-charity transfers are allowed in 2013 for taxpayers age 70½ and over.
- Maximum transfer allowed is $100,000.
- Transfer counts towards the required minimum distribution.
- Beneficial for taxpayers with Social Security income and those who do not itemize their deductions.

For 2013, if you are age 70½ and over, you are allowed to make direct distributions (up to $100,000) from your Traditional or Roth IRA account to a charity. The distribution is tax free, but there is no charitable deduction, and the distribution can count toward your required minimum distribution (RMD). This provision can be very beneficial for a taxpayer who is inclined to make substantial charitable contributions for the year and:

- Receives Social Security (SS) benefits, and the taxpayer's required minimum distribution for the year causes an increase in the tax on the SS benefits; or
- Is unable or is marginally able to itemize deductions for the year.

Example: A 75-year-old married taxpayer's adjusted gross income (AGI) before taking his RMD is $28,000. His RMD for the year is $10,000, and he wishes to contribute $8,000 to the building fund for his house of worship. If he takes his RMD and then contributes the $8,000 to the building fund, his AGI will be $38,000; it will be more, if his income includes SS benefits. On the other hand, if he makes a direct transfer of the $8,000 to his house of worship, his AGI would only be $30,000; some or all of his SS benefits would be tax free, depending how much he receives in SS benefits.

Arranging a direct transfer may require some extra time, so if you want to donate some of your IRA to a charity, don't wait until the last minute to make arrangements with your IRA trustee to do so.

The higher a taxpayer's income tax bracket, the greater the tax benefits when making a direct IRA-to-charity distribution. Please contact this office if you have questions related to the tax benefits derived from this strategy.

Basis Is An Important Tax Term!

Article Highlights:

- Basis is the point from which taxable gain or loss is measured
- Good basis records are required to minimize taxable gains
- Improvements, casualty losses, business depreciation, legal expenses, title costs, etc., can all affect basis.

An important tax term that everyone should know is "basis." The odds are very high that you will encounter the term sometime during your lifetime, and it can have a profound impact on your tax liability.

Simply stated, "basis" is the monetary value from which a taxable gain or loss is calculated when an asset is sold. For example, you purchase 100 shares of ABC stock for $10 a share. Your basis for those shares of stock is $1,000 (100 x $10). Then, if the stock were sold for $1,500, you'd have a gain of $500, which is determined by subtracting your basis from the sale price. However this is a very simplistic example of basis. Determining basis, as you will see from the following explanation, can be complicated.

<u>*Cost Basis*</u> – This is the simplest form of basis and is what you originally pay when you purchase stock, other financial securities, a house, rental property, cars, business assets, land, and other assets. However, even cost can be a little tricky as it includes the asset acquisition costs such as: brokerage costs, escrow closing costs, acquisition travel, legal services, title charges, sales tax, etc. So in our earlier example, let's say you paid a broker $50 to purchase the ABC stock; then your cost basis would have been $1,550.

<u>*Adjusted Basis*</u> – After purchasing an asset your basis will change, either up or down, if you make improvements to the asset, suffer damage due to casualty losses, or claim business depreciation or amortization. One example of how your basis increases would be purchasing

your home and then adding a pool, family room or other improvements; the cost of the improvements would increase your basis. Keep in mind that routine maintenance is not considered an improvement and does not increase your basis in an asset.

Depreciated Basis - An example of when your basis decreases would be a business asset that you are depreciating (deducting as a business expense the cost of the asset over its useful life). In this case, the basis is reduced by the amount of the depreciation you have deducted against your rental or business income. Examples of assets where basis is typically adjusted downward due to depreciation include rental property, business vehicles, tools, business machinery, etc. In some cases, business assets can actually be 100% deducted (expensed) in the year they are acquired, in which case the asset's basis is reduced to zero.

Inherited Basis – When you inherit an asset, you inherit it at its fair market value (FMV) at the decedent's date of death. This is because the FMV is included in the value of the estate of the decedent and taxed if the estate's value exceeds the exemption credit. This is not necessarily the basis for a future sale because there may be subsequent improvements, casualty losses, and perhaps depreciation taken after the inheritance. If the inherited asset was used in business before the inheritance, all prior depreciation is disregarded in the hands of the beneficiary.

Gift Basis – If someone gifts an asset to you, your gift basis generally is the same as the giver's basis; however, the gift comes with some potential tax strings attached since you'll also be receiving the giver's built-in gains at the time of the gift. Thus, unlike inherited basis, you assume the tax liability for built-in gains. For example, say your aunt gave you 100 shares of stock for which her basis was $1,000. Thus, your basis is $1,000. At the date of the gift, the stock was worth $2,500. You sell the stock for $5,000 a couple of years after receiving it. Your tax gain is $4,000 ($5,000 - $1,000), which includes the $1,500 ($2,500 - $1,000) gain your aunt would have had if she had sold the stock on the date she gave it to you, plus the $2,500 ($5,000 - $2,500) gain from the date you received the stock. The rules are a bit more complex, and not covered in this article, if the asset's value at the date of the gift is less than the giver's adjusted basis.

Determining your basis and the resulting gain or loss when an asset is sold can be complicated, and of course, good records are needed to verify the basis, including improvements and other adjustments in case of an audit or the sale of that asset. You are encouraged to consult with this office with any questions relating to basis and the potential gain from the sale of a personal or business asset.

Underpayment Penalties Going to Get You?

Article Highlights

- Taxpayers can be hit with underpayment penalties if their withholding and estimated payments are too low.
- Underpayment penalties can be avoided by prepaying a safe-harbor amount of 90% of the current tax liability or 100% of the prior year's tax liability.
- The safe harbor for taxpayers with an AGI greater than $150,000 in the prior year is 90% of the current tax liability or 110% of the prior year's tax liability.
- Prepayment adjustments can still be made to minimize the underpayment penalty.

- Prepayments must generally be made evenly during the year to avoid the penalty.
- Withholding is treated as paid evenly throughout the year and can be used as a tool to avoid underpayment penalties.

Our "pay-as-you-go" tax system requires that you make payments of your tax liability evenly throughout the year. If you don't, it's possible that you owe an underpayment penalty. Some taxpayers meet the "pay-as-you-go" requirements by making quarterly estimated payments. Typically this is how self-employed individuals and those with other non-tax-withheld sources of income satisfy their prepayment obligation. When your income is primarily from wages, however, you meet the requirements through wage withholding and likely rely on your employer's payroll department to take out the right amount of tax, assuming that you have given them accurate Form W-4 data and that this information has not changed through marital changes, a second job, or your spouse working. Unfortunately, what payroll withholds may not be enough!

You may also be underpaid if you:

- Have a gain from the sale of property, e.g., stocks, bonds, or real estate;
- Have other income from which there is no withholding (for example, a pension, alimony, IRA, interest, or dividends);
- Are subject to the new surtax on net investment income for higher-income taxpayers; and/or
- Are married or self-employed and subject to the new additional Medicare (hospital insurance) taxes.

To avoid underpayment penalties, you generally must prepay more than 90% of your current year tax liability or 100% of your prior year tax liability. For taxpayers with incomes in excess of $150,000 in the prior year, pre-paying either 90% of the current year tax liability or 110% of the prior year tax liability will generally avoid underpayment penalties. In addition, the penalties are quarterly-based, so the withholding and estimated taxes need to be paid evenly throughout the year. Please note that state prepayment rules may be different from the federal rules explained in this article.

Even though it is late in the year, withholding is treated as paid evenly throughout the year, so you may still have time to adjust your withholding to make up for underpayments in prior quarters. In addition, underpayments are based on when the income was received during the year, and late-year increased estimated tax payments can help offset underpayment penalties for income received later in the year.

Think you may have underpaid? Why not give this office a call to be on the safe side? If you have questions related to the underpayment penalty or need assistance in determining if there are any late-year moves you can make to avoid the penalty, please give this office a call.

Your 2013 Tax Bill May Give You A Shocker

Article Highlights

- Regular and capital gains tax rates increase for higher income taxpayers
- New 3.8% net investment income tax
- Additional 0.9% health insurance payroll and self-employment tax
- Phase-out of exemption deduction
- Phase-out of itemized deductions

Many higher-income taxpayers are in for a shock when their 2013 income tax returns are prepared. In 2013, a significant number of tax increases, and new limitations on deductions, will impact higher income taxpayers. Before you decide that you are not a higher income taxpayer, keep in mind that your income does not just include your earnings from work—it also includes gains from the sale of property, investments, business assets, and other capital items. So if you have a significant gain from a sale, even though the gain can be attributed to many years of appreciation, it is all taxable in the year of sale, and could place you in the higher income category.

It is important that you are aware of these changes, plan for them in advance, are prepared for the higher taxes, avoid underpayment penalties, and when appropriate, do some tax planning in advance to mitigate the bite of these new taxes. This article highlights many of the tax changes that take effect in 2013.

- **Higher individual income tax rates for some.** Generally, the regular income tax rates remain the same at 10%, 15%, 25%, 28%, 33%, and 35%. But to the extent a single individual's income exceeds $400,000 it will be subject to a new, 39.6% tax rate. The 39.6% threshold for joint filers and surviving spouses will be $450,000, and $425,000 for those filing as the head of household.
- **New Hospital Insurance tax.** For higher income workers and self-employed individuals, an additional 0.9% hospital insurance (Medicare) tax is added to the FICA payroll tax (for employees), and self-employment tax (for self-employed individuals). This additional tax applies to wages and net self-employment income in excess of $250,000 for joint filers, $125,000 for married filing separately, and $200,000 for all others. For employees, this tax is automatically withheld from their payroll checks.
- **Surtax on unearned income.** As part of the Affordable Care Act, a new tax is imposed upon the net investment income of individuals, estates, and trusts. For single individuals, the tax is 3.8% of the lesser of: (1) net investment income; or (2) the excess of modified adjusted gross income over the threshold amount of $200,000. For joint filers and surviving spouses, the threshold is $250,000, and for married taxpayers filing separately, the threshold is $125,000. Net investment income is investment income less investment expenses. Investment income includes income from interest, dividends, non-qualified annuities, royalties, rents (other than derived from a trade or business), capital gains (other than derived from a trade or business), trade or business income that is a passive activity with respect to the taxpayer, and trade or business income with respect to trading financial instruments or commodities.
- **Increased Capital Gains**. Generally the long-term capital gains and qualified dividends tax rates remain at 0% and 15%, except for the fact that a 20% rate has been added for single taxpayers with incomes exceeding $400,000. For joint filers, the threshold for the 20% rate is $450,000, and $225,000 for married individuals filing separately.
- **Personal exemption phase-out.** The personal exemption allowance for the taxpayer, a spouse, and each claimed dependent for 2013 is $3,900. For example a married couple claiming their two children as dependents would be able to deduct $15,600 (4 x $3,900) in personal exemptions when determining their taxable income. However, beginning in 2013, the exemption allowance begins to phase out for single taxpayers when their adjusted gross income exceeds the threshold amount of $250,000. The starting threshold of joint filers and surviving spouses is $300,000, $275,000 for heads of household, and $150,000 for married taxpayers filing separately. The exemption allowances are reduced by 2% for each $2,500 (or a portion thereof), by which the taxpayer's adjusted gross income exceeds the thresholds.
- **Itemized deductions limitations.** As with the exemption phase-out explained above,

the itemized deductions are also phased out for 2013. The phase-out thresholds are the same as those for exemptions, and the itemized deductions are reduced by 3% of the amount by which the taxpayer's adjusted gross income exceeds the threshold amount, with the reduction not to exceed 80% of the otherwise allowable itemized deductions. The reduction does not apply to the following deductions: medical and dental expenses, investment interest expense, casualty losses, and gambling losses.

As you can see, for some taxpayers the impact can be quite significant. However, it may not be too late to improve your situation with some year-end planning, and the sooner the better. Options include taking advantage of unrealized losses, business expensing, tax credits, delaying certain deductions and tax prepayments, income deferral, and other techniques. Please call this office for assistance.

You and the New Medicare Tax

Article Highlights:

- New additional 0.9% Medicare tax for higher-income taxpayers.
- Threshold for paying the tax is combined wages and net self-employment income of over $250,000 for married individuals and $200,000 for others.
- Certain combinations of income and marital status could result in unexpected tax liabilities and penalties.

There is a new additional Medicare tax in effect for 2013 that may require year-end actions. The new tax, which is part of the Affordable Care Act, imposes an additional 0.9% Medicare (HI) tax on some higher-income taxpayers. The threshold for paying the tax is combined wages and net self-employment income of over $250,000 for married individuals and $200,000 for others. (Taxpayers who do not have wage or self-employment income—for example, retirees or those with only investment income—are not subject to this new tax, regardless of the amount of their income.)

Employers are required to begin withholding the additional tax from an employee's wages when the employee's wage income exceeds $200,000. There are situations in which this will generate an additional refund and situations in which the withholding will be insufficient, creating an unexpected year-end tax liability and possibly penalties.

Here are some situations that may need your attention:

- A married couple, both working for wages, and neither has wages in excess of $200,000, but the combination of wages exceeds $250,000. They will be liable for the full additional 0.9% tax on their combined wages that exceed $250,000 because neither of their employers withheld any of the additional Medicare tax.
- A single individual has two separate jobs, neither producing wages in excess of $200,000, but the combination of wages exceeds $200,000. The individual will be liable for the full additional 0.9% tax on his or her combined wages that exceed $200,000 because neither of the employers will have withheld any of the additional Medicare tax.
- A single individual has both wages and self-employment income, and the combination exceeds the $200,000 threshold. The individual will need to pay the extra Medicare tax on the combination of the wages and net self-employment income

in excess of $200,000.

These and similar situations can lead to unexpected tax liability and can cause an underpayment penalty to be assessed. Also, in determining whether taxpayers may need to make adjustments to avoid a penalty for underpayment of the estimated tax, individuals should also be mindful that the additional Medicare tax might be over-withheld. This could occur, for example, in a situation in which only one spouse of a married couple works and reaches the threshold for the employer to withhold, but the couple's income won't exceed the $250,000 threshold to actually cause the tax to be owed.

In all of these (and other) situations, a new form in the taxpayers' 2013 returns will be used to reconcile the Medicare tax that was withheld, if any, and the actual additional Medicare tax liability.

If you think you might be subject to this new tax and have questions or need assistance projecting your 1040 results and potential for unexpected tax liabilities and penalties, please give this office a call.

2013 May Be Your Last Chance to Deduct Sales and Use Tax

Article Highlights

- Taxpayers can choose to deduct sales tax or state income tax.
- Sales tax deduction includes IRS table amount plus big-ticket items, or actual sales tax paid.
- Primarily benefits taxpayers in states with no income tax.
- Can also benefit taxpayers with low state income tax.
- Generally will not benefit taxpayers subject to the alternative minimum tax.
- Without congressional extension, the sales tax deduction expires after 2013.
- Purchasing big-ticket items before year-end could increase tax deductions.

The 2013 tax year may be the last chance for taxpayers who itemize deductions to deduct state and local sales taxes. That is because the option to deduct state and local sales taxes in lieu of state and local income taxes expires after the year's end unless Congress extends it.

If you are considering the purchase of a big-ticket item on which you'll pay sales tax, you may want to make that purchase this year in order to achieve a higher itemized deduction for sales taxes.

Here is how it works: If you itemize your deductions you can choose to deduct state and local:

1. General sales and use taxes, **or**
2. Income taxes.

You will obviously want to deduct the higher of the two options. When determining the deduction for sales tax you may either:

1. Deduct the actual amount of sales and use taxes you paid during the year, or
2. Use the amount from the IRS-published tables based on your income, family size, and the sales and use tax rates in your locale. To the table amount you may add the actual amount of sales to the table amount and use tax for certain "big-ticket" items purchased during the year, such as motor vehicles,

boats, aircraft, homes (including mobile and prefabricated homes), and home-building materials.

This provision primarily benefits taxpayers who live in states without an income tax where they have no state income tax to deduct. These states include Alaska, Florida, Nevada, South Dakota, Texas, Washington, and Wyoming.

However, you may still be able to benefit, even if you reside in a state that has an income tax. This is especially true if your state tax is low, or if you are benefiting from state tax credits that reduce your tax state tax and the sales tax option produces a larger deduction.

Taxes—either sales or state income tax—are not deductible at all when computing the alternative minimum tax (AMT). So if you are subject to the AMT, the sales and use tax deduction strategy may be of no benefit to you.
As you can see, whether you will benefit from accelerating any big-ticket purchases before the end of the year will depend upon a number of circumstances. If you are unsure on the appropriate course of action, please call this office for assistance.

Fine Tuning Capital Gains and Losses

Article Hightlights

- Long-term capital gains rates are zero to the extent that the taxpayer is in the 10 or 15% regular tax bracket.
- Long-term capital rates are 15% to the extent that the taxpayer is in the 25% through the 35% regular tax bracket.
- Long-term capital rates are 20% to the extent that the taxpayer is in the 39.6% regular tax bracket.
- Both short-term and long-term capital gains are subject to the new 3.8% surtax on net investment income for higher-income taxpayers.
- Significant tax savings may be achieved by planning and timing gains and losses.

Year-end has historically been a good time to plan tax savings by carefully structuring capital gains and losses. Conventional wisdom has always been to minimize gains by selling "losers" to offset the gains from "winners" and where possible, generate the maximum allowable $3,000 capital loss for the year.

Long-term capital losses offset long-term capital gains before they offset short-term capital gains. Similarly, short-term capital losses offset short-term capital gains before they offset long-term capital gains ("long-term" means that the stock or property has been held over one year). Keep in mind that taxpayers may use up to $3,000 of total capital losses in excess of total capital gains as a deduction against ordinary income in computing adjusted gross income (AGI). Individuals are subject to federal income tax at a rate as high as 39.6% on short-term capital gains and ordinary income. But long-term capital gains are generally taxed at a maximum rate of 15 or 20%.

All of this means that having long-term capital losses offset long-term capital gains should be avoided where possible, since those losses will be more valuable if they are used to offset short-term capital gains or ordinary income. Avoiding this requires ensuring that the long-term capital losses are not taken in the same year as the long-term capital gains. However, this is not just a tax issue; investment factors also need to be considered. It would be unwise to defer recognizing gain until the following year if there is too much risk that the property's value will decline before it can be sold. Similarly, one wouldn't want to risk increasing a loss on property that is expected to continue declining in value by deferring its sale until the following year.

To the extent that taking long-term capital losses in a different year than long-term capital gains is consistent with good investment planning, a taxpayer should take steps to prevent those losses from offsetting those gains.

Increased Capital Gains Rates - The special long-term capital gains rates that have been in effect since 2003 are revised as of 2013 and for future years without further Congressional tinkering. The capital gains rates are now 0% to the extent that your marginal tax rate is 10 or 15%, and 15% to the extent your marginal rate is between 25 and 35%. This means that the 15% capital gains rate will apply for individuals who file the single status with taxable income in 2013 between $36,251 and $400,000. The 15% capital gains rate for married couples filing jointly will be in effect if their 2013 taxable income is between $72,501 and $450,000. For higher income taxpayers – those in the 39.6% tax bracket – the capital gains rate increases to 20%.

Individuals with large long-term capital gains in their investment portfolios might consider taking a profit up to the amount that would be taxed at 0%. The good news here is that the wash sale rules do not apply to assets sold at a gain. So if you like a stock, you are free to buy it back right away. If your state doesn't have a lower tax rate on capital gains, then the additional state tax you'd pay from selling profitable capital assets will need to be weighed against the federal tax you'd potentially save when deciding whether to make tax sales before year-end.

> ***Example:*** *You are single with an annual taxable income (income minus deductions and exemptions), before including any stock gains, of $30,000. Thus, the first $6,251 ($36,251 - $30,000) of capital gains added to your income will be in the zero capital gains tax bracket (no tax). The next $363,749 ($400,000 - $36,251) of capital gains (without considering the 3.8% surtax on net investment income discussed later) would be taxed at 15%. After that, any additional capital gains are taxed at 20%. Thus when you take a gain, it can have a significant impact on the amount of tax you pay and careful planning can minimize the tax. This gives rise to the following strategies:*

- *If in any year some portion of your gain will be taxed at the zero capital gain rate you should probably take that amount of gain since it produces no tax.*
- *If you have a substantial gain, and some of it is added to your other income, it will push some portion of the gain into the 20% capital gains bracket and you may be able to spread the gain over two or more years and keep more of the gain in the 15% capital gains bracket. This is done by structuring the sale as an installment sale. Unfortunately, the law doesn't allow installment sales for publicly traded securities, so this strategy won't work when you sell most stocks and bonds, but could be used when selling real estate.*

• **Increased Marginal Tax Rates** – Beginning in 2013, the marginal rates are 10, 15, 25, 28, 33, 35 and 39.6%, the highest rate being a new one. These rates apply to "ordinary" income including short-term capital gains.

Conventional wisdom has always been to defer income, but depending upon your tax bracket and future anticipated income, it may be appropriate to consider accelerating your income to take advantage of a lower tax rate.

• **Surtax on Net Investment Income** - One should also be aware of the 3.8% Net Investment Income (NII) Tax taking effect in 2013. It will apply to higher-income taxpayers. This new tax, part of the healthcare reform legislation, imposes a 3.8% surtax on the lesser of net investment income (investment income less investment expenses) or the amount that the modified adjusted gross income exceeds a threshold of $200,000 ($250,000 for joint filers and $125,000 for married individuals filing separately). Taking a large gain in one year can increase your income and make you susceptible to the NII tax. However, where possible you might spread that gain over two or more years, and avoid the surtax by using the installment sale method mentioned above.
Of course all of these tax-saving suggestions will go out the window if there is an overriding investment strategy or if there are investment risks to consider.

It may be in your best interest to review your current year tax strategy with an eye to the future in order to maximize your benefits from gains or losses associated with capital assets. Please call this office for assistance.

Avail Yourself of Your Employer's Tax-Advantaged Benefits

Article Highlights

- Employer dependent care benefits allow you to exclude up to $5,000 in childcare expenses from your wages.
- Employer health care plans allow you to exclude the cost of insurance for you and your family from your wages.
- Employer 401(k) plans allow you to set aside $17,500 ($23,000 if you are 50 years or over) per year, tax deferred for your retirement.
- Employer flexible spending arrangements allow you to pay up to $2,500 of medical and dental expenses with pre-tax dollars.
- Employer's education assistance plans allow the employer to reimburse you by up to $5,250 tax-free for education expenses.
- Employer stock purchase or option plans allow you to acquire the employer's stock at favorable prices.
- Employers can provide certain transportation, commuting, and parking costs free of tax.

Employers have the option of providing a number of tax-advantaged benefits to their employees. The following is a rundown of those benefits. You may wish to check with your employer to see if the company provides any that interest you. Generally, larger employers provide these benefits.

- **Dependent Care Benefits**—If you incur childcare expenses so that you can work, you should check to see if your employer has a dependent care program. If dependent care benefits are provided by your employer under a qualified plan, you may be able to exclude up to $5,000 ($2,500 if Married Filing Separately) of child care expenses from your wages, which generally provides a greater tax benefit than the child care credit.
- **Health Care Insurance**—Many employers offer income-excludable group medical and even dental plans. Generally, everyone, under the Patient Protection Act, will be required to have basic affordable health insurance in 2014 or face penalties on their tax return. If you are currently uninsured, utilizing your employer's plan may be your best option to avoid a penalty.
- **Adult Children's Health Care Insurance**—Employers are allowed, but not required, to provide insurance coverage for your children under the age of 27. If allowed under your employer's plan, enrolling your young adult children in your employer's medical insurance is an option to get them covered, and at the same time, avoid their penalties for being uninsured in 2014.
- **401(k) or Similar Retirement Plans**—If your employer has a 401(k) plan, you can elect to defer (pre-tax) a maximum of $17,500 for 2013. If you are 50 years or older, the maximum is increased to $23,000. These plans are especially beneficial when the employer provides a matching contribution.
- **Flexible Spending Accounts**—Some employers provide flexible spending accounts, which allow an employee to make contributions on a pre-tax salary reduction basis to provide coverage for up to $2,500 of medical and dental expenses. However, the participant must use the contributed amounts for qualified expenses, or else forfeit any amounts remaining in the account at the end of the plan year. Medical expenses paid for or reimbursed through pre-tax plans cannot be deducted as part of itemized deductions on your tax return.
- **Educational Assistance Programs**—An educational assistance program provided by your employer can provide up to $5,250 per year of educational assistance benefits that can be excluded from your income. If you have been thinking about continuing your education and your employer offers an educational assistance program, taking advantage of it is a great way to make going back to school more affordable.
- **Stock Purchase and Option Plans**—A variety of plans available to employers are designed to allow the employees to invest in the employer's stock at favorable prices. The most commonly encountered are:
  (1) Employee stock ownership plan (ESOP);
  (2) Nonqualified stock option; and
  (3) Incentive Stock Options (ISOs). Note: Because of the tax ramifications, it may be prudent for you to consult with this office prior to exercising a stock option, especially an ISO.
- **Tax-Free (income excludable) Employee Fringe Benefits**—If the employer provides them, the law allows an exclusion from the employee's taxable income for the following benefits:
  (1) The cost of up to $50,000 of group-term life insurance.
  (2) $245 (in 2013) per month for qualified parking.
  (3) $245 (in 2013) per month for transit passes and commuter transportation.

(4) $20 per month for bicycle commuting expenses.

If you have any questions related to these employer-provided benefits, please give this office a call.

Receiving Payments from Customers in QuickBooks

Depending on the situation, there's more than one way to record a payment in QuickBooks. Here are your options.

There are undoubtedly some QuickBooks tasks that are more enjoyable than others. It's no fun paying bills, for example, and making collection calls on unpaid invoices can be downright unpleasant.

But you probably don't mind recording payments after all of your hard work creating products or providing services, sending invoices or statements, and generating reports to make sure you're on top of it all.

QuickBooks offers more than one way to document customer remittances, and it's important that you use the right one for the right situation.

Defining the destination

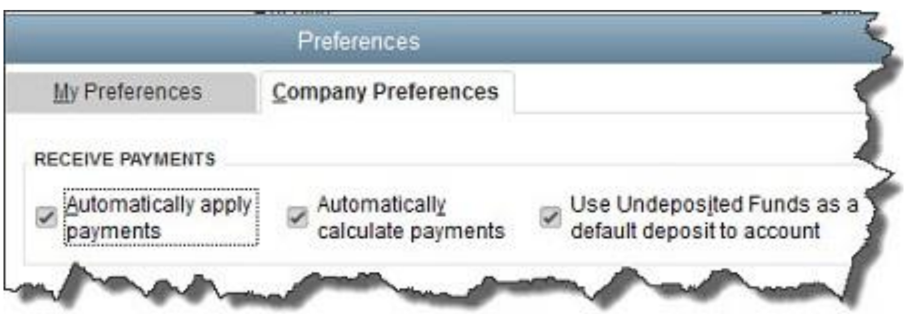

Figure 1: Uncheck the box on the farthest right if you think you may want to direct payments to other accounts sometimes.

Before you begin receiving payments, you need to make sure they'll end up in the correct account. The default is an account called **Undeposited Funds**. To make sure that this setting is correct, open the **Edit**menu and select **Preferences**, and click the

Company Preferences tab. Use **Undeposited Funds as a default deposit to account** should have a check mark in the box next to it.

If you think you'll sometimes want to deposit to a different account, leave the box unchecked. Then every time you record a payment, there'll be a **Deposit to** field on the form. Talk to us if you're planning to use any account other than Undeposited Funds, as you can run into serious problems down the road if payments are earmarked for the wrong account.

The right tool for the job

Probably the most common type of payment that you'll process will come in to pay all or part of an invoice or statement that you sent previously.

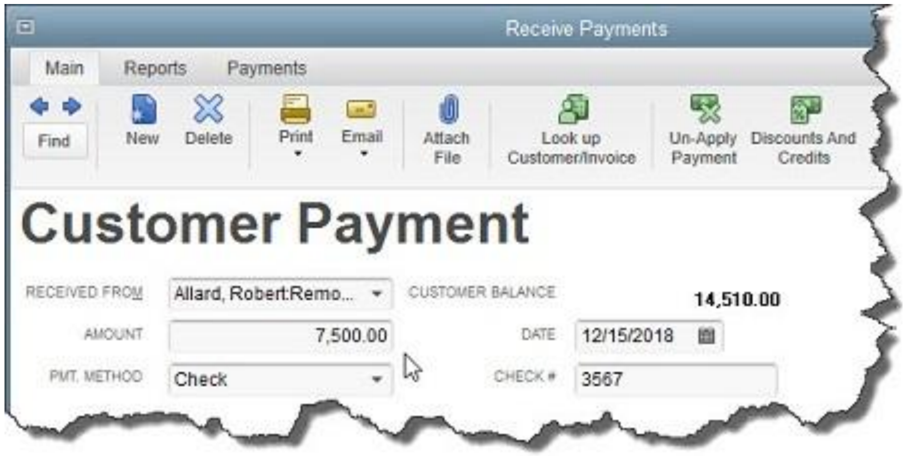

Figure 2: You'll record payments on invoices you've sent in this window.

To do this, open the **Customers** menu and select **Receive Payments**. In the window that opens, click on the arrow in the field next to **RECEIVED FROM** to display the drop-down list, and choose the correct customer. You'll see the outstanding balance. Enter the amount of the payment you received in the**AMOUNT** field and change the date if necessary. Click the arrow in the field next to **PMT**. **METHOD**, and then select the type of payment.

If you established a credit card as the default payment method in the customer record, the card number and expiration date will be filled in. If not, or if a check was submitted, enter the information requested.

Any outstanding invoices will appear in a table. Make sure that there's a check mark in front of the correct one(s). If the customer only made a partial payment, you'll have to indicate how you want to handle the underpayment. Here are your options:

Figure 3: You can select how to handle partially-paid invoices here.

When you're done, save the payment.

Instant income
There may be times when you receive payment immediately, at the time your products or services change hands. In these cases, you'll want to use a sales receipt. Open the **Customers** menu again and click **Enter Sales Receipts**.

Select a customer from the drop-down list or add a new one, then fill out the rest of the form like you would an invoice, selecting the items and quantities sold, and indicating the type of payment made (cash, check, credit).

Figure 4: Fill out a sales receipt when payment is received simultaneously with the sale.

Other scenarios
These are the most common methods of receiving payments from customers, and you may never have to do anything other than simple payment-recording and sales receipts.

But unusual situations may arise that leave you stumped. For example, a customer may want to make a partial, advance payment before you've created an invoice or at the same time you're entering it. In a case like this, you'll have to create a **payment item** so that the money you've just received is reflected on the invoice. Or you may get a down payment on a product or service, or even an overpayment.

Let us help you when such situations occur. It's much easier –and more economical for you – to spend some time with us before you record a puzzling payment than to have us track it down later on. We'll help ensure that your money makes it to the right destination.