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Monthly Newsletter

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President's Proposed Tax Changes for 2014

The budget proposal released by President Obama on April 10 includes a substantial number of proposed tax changes impacting individuals, businesses, estate taxation, energy incentives, and international issues. Although these are only proposals, they provide an insight into the administration's thinking on tax reform. An overview of the most prominent issues related to individuals and small business is provided below.

Individual Proposals

- Reduce the value of itemized deductions and other tax preferences to 28% for families with income in the three highest tax brackets. This limit would apply to all itemized deductions; foreign excluded income; tax-exempt interest; employer-sponsored health insurance; retirement contributions; and selected above-the-line deductions.
- Observe the "Buffett rule" by requiring millionaires to pay no less than 30% of income (after charitable contributions) in taxes. This would be referred to as the "fair share tax."
- For tax years beginning after Dec. 31, 2017, permanently extend the American Opportunity Tax Credit (AOTC), a partially refundable tax credit worth up to \$10,000 per student over the course of four years of college.
- For tax years beginning after Dec. 31, 2017, permanently extend the increased refundability of the child tax credit (CTC) by permanently reducing the earned income threshold to \$3,000.
- Extend the exclusion from income for the cancellation of certain home mortgage debts to amounts that are discharged before Jan. 1, 2016 and amounts that are discharged pursuant to an agreement entered into before that date.
- For tax years beginning after Dec. 31, 2017, make permanent the expansion of the EITC for workers with three or more qualifying children by maintaining (i) at 45%, the phase-in rate of the EITC for workers with three or more qualifying children, and (ii) the phase-out range for married couples at \$5,000 higher than those for unmarried filers (indexed after 2009).
- Increase the child and dependent care credit available to working families with incomes between \$15,000 and \$103,000.
- Extend the exclusion for income from the discharge of qualified principal residence indebtedness (QRPI) to amounts that are discharged before Jan. 1, 2015, and to amounts that are discharged pursuant to an agreement entered into before that date.
- Prohibit individuals from accumulating over \$3 million in tax-preferred retirement accounts.

Business Proposals

- Make permanent the \$500,000 Sec. 179 deduction with a \$2million phase-out threshold.
- Enhance and make permanent the research credit and increase the simplified credit percentage to 14%.
- Permanently extend the work opportunity tax credit (WOTC) to wages paid to qualified individuals who begin work after Dec. 31, 2013.
- Offer a one-time, temporary, 10% tax credit for increases in company wage payments over wages paid in 2012, whether driven by new hires, increased wages or salaries, or both.

- Require employers who have over 10 employees and do not currently offer a retirement plan to enroll their employees in a direct-deposit Individual Retirement Account (IRA) that is compatible with existing direct-deposit payroll systems. (Employees can opt out if they choose.) Employers would be entitled to a tax credit of \$25 per participating employee, up to \$250 per year, for six years.
- Deny deductions for punitive damages.
- Make the 100% exclusion permanent for qualified small business stock (QSBS) acquired after Dec. 31, 2013.
- Permanently double the maximum amount of start-up expenditures that a taxpayer may deduct (in addition to amortized amounts) in the tax year in which a trade or business begins from \$5,000 to \$10,000 for tax years ending on or after the date of enactment. Reduce this maximum amount of start-up expenditures (but not to below zero) by the amount that start-up expenditures with respect to the active trade or business exceed \$60,000.
- For tax years beginning after Dec. 31, 2012, expand the group of employers who are eligible for the tax credit available to small employers providing health insurance to employees so as to include employers with up to 50 full-time (or the equivalent) employees, and begin the phase-out at of the restriction to no more than 20 full-time equivalent employees.
- Create a new general business credit against income tax equal to 20% of the eligible expenses paid or incurred in connection with insourcing a U.S. trade or business.
- Disallow deductions for expenses paid or incurred in connection with outsourcing a U.S. trade or business.

Estate and Gift Tax Proposals

- Beginning in 2018, return to 2009 levels the estate, generation-skipping transfer (GST), and gift tax exemptions and rates. Thus, the highest tax rate would be 45%, and the exclusion amount would be \$3.5 million for estate and GST taxes and \$1 million for gift taxes.
- Require that the basis of property in the hands of the recipient be no greater than the value of that property as determined for estate or gift tax purposes (subject to subsequent adjustments). These rules would apply to transfers on or after the enactment date.

Keep in mind that these are only proposed changes, and they must be passed by both houses of Congress in order to become law.

Energy Costs Rise as Tax Incentives Fade

With energy costs skyrocketing, you would think that the federal government would come up with some tax incentives aimed at curbing the consumption of energy. However, on the consumer end of taxes, the incentives are actually fading away. Apparently, federal lawmakers and administrators believe the high cost of energy itself is incentive enough to reduce consumption. The following are the only energy-related tax incentives remaining for individual taxpayers:

- **Credit for Energy-Efficient Home Modifications**—Through 2013, a taxpayer can still claim a credit for making qualifying energy-saving improvements to his existing home. But after 2013, this credit will not be available. The credit is 10% of the cost of making the improvement but is limited to \$500 and is reduced by any credit claimed under this provision in any prior year.

Qualified energy-efficiency improvements are the following building-envelope

components installed on or in a taxpayer's main home in the United States that the taxpayer owned during 2012, provided that the original use of the component (1) began with the taxpayer and the component can be expected to remain in use at least 5 years and (2) the component meets certain energy standards. These credits are nonrefundable and can offset both income tax and alternative minimum tax (AMT) for the year.

- Any insulation material or system that is specifically and primarily designed to reduce heat loss or gain of a home when installed in or on the home⁽¹⁾.
- Exterior windows and skylights. The credit for these items is limited to \$200⁽¹⁾⁽²⁾.
- Exterior doors⁽¹⁾⁽²⁾.
- Any metal roof with appropriate pigmented coatings or an asphalt roof with appropriate cooling granules that are specifically and primarily designed to reduce the heat gain of the home⁽¹⁾⁽²⁾.
- Certain electric heat pump water heaters; electric heat pumps; central air conditioners; natural gas, propane, or oil water heaters; and stoves that use biomass fuel. No more than \$300 of the cost is credit-eligible.
- Qualified natural gas, propane, or oil furnaces and qualified natural gas, propane, or oil hot water boilers. No more than \$150 of the cost is credit-eligible.
- Certain advanced main air circulating fans used in natural gas, propane, or oil furnaces. No more than \$50 of the cost is credit-eligible.

⁽¹⁾ To figure the credit, do not include the amounts paid for the onsite preparation, assembly, or original installation.

⁽²⁾ Must meet or exceed the Energy Star program requirements.

- **Energy Generation Credits**—Through 2016, a taxpayer can claim a credit for installing systems that generate energy. The expenses used to determine the credit include installation costs; but generally no portion of the cost allocated to heating a swimming pool or hot tub can be used toward the credit.
 - **Solar electric systems**—A credit equal to 30% of the cost for the installation of a qualified solar electric system (50% of the energy is generated from the sun) in the taxpayer's *primary or secondary* home in the United States.
 - **Solar water heating systems**—A credit equal to 30% of the cost for the installation of a qualified solar water heating system in the taxpayer's *primary or secondary* home in the United States.
 - **Fuel cell power plant**—A credit of \$500 per 0.5 kilowatts of electricity generated by electrochemical means from a qualified fuel cell plant installed in the taxpayer's primary home in the United States.

These credits are nonrefundable and can offset both income tax and AMT for the year. However, any unused credit can be carried forward.

- **Plug-in Electric Vehicles Credit**—The American Taxpayer Relief Act (ATRA) of 2012 modified and extended for two years, through 2013, the individual income tax credit for highway-capable plug-in motorcycles and 3-wheeled vehicles, replacing the 10% tax credit that expired at the end of 2011 for plug-in electric motorcycles, 3-wheeled vehicles, and low-speed vehicles.

Through revised definitions, ATRA repeals the ability of golf carts and other low-speed vehicles to qualify for the credit. The credit continues to be the lesser of 10% of the purchase cost or \$2,500 per qualified vehicle. The revised rules require that the vehicle must have been manufactured primarily for use on public streets, roads, and highways; be capable of a speed of at least 45 miles per hour; and be acquired in 2012 or 2013.

Other requirements are the same as under the old credit: The vehicle must have 2 or 3 wheels, have a gross vehicle weight rating of fewer than 14,000 pounds, and have been acquired for use or lease by the taxpayer and not for resale. The original use must be with the taxpayer and the vehicle must have been made by a manufacturer and be propelled to a significant extent by an electric motor that draws electricity from a battery with a capacity of no less than 2.5 kilowatt hours.

The *personal use* portion of this credit is nonrefundable and may offset both the current year's income tax and AMT. However, if the vehicle is used for business, the unused business portion of the credit can be carried back one year and then carried forward up to 20 years. This credit (other than any business portion being carried over) will no longer be available after 2013.

If you have a question related to any of these credits, you may wish to contact this office in advance to verify how the tax benefits will apply to your specific tax situation.

Did You Overlook Something on a Prior Tax Return?

Occasionally, clients will realize that an item of income was overlooked, a deduction was not claimed, or that an amended tax document was received after the tax return was already filed. Regardless of whether the oversight will result in more tax due or a refund, it should not be dismissed. Failing to report an item of income will most certainly generate an IRS inquiry, which typically happens a year after the original return was filed and after the interest and penalties have built up. On the other hand, if you have a refund coming, you certainly don't want that to go by the wayside.

The solution is to file an amended return as soon as the error or omission is discovered. Amended returns can also be used to claim an overlooked credit, correct the filing status or the number of dependents, report an omitted investment transaction, submit delayed K-1s, or anything else that should have been reported on the original return.

If the overlooked item will result in a tax increase, penalties and interest can be mitigated by filing an amended return as soon as possible. Procrastination leads to further complication once the IRS determines something is missing, so it is best to take care of the issues right away.

Generally, to claim a refund, an amended return must be filed within three years from the date the original return was filed or within two years from the date the tax was paid, whichever is later.

If any of the above applies to your situation, please give this office a call so we can prepare an amended tax return for you.

10 Tips to Perfect Check-Printing in QuickBooks

But be sure that you've established all the right settings and understand the process.

If you used small business accounting products in the early days, you know how frustrating it was to print checks correctly from your software. Pre-printed checks weren't cheap, and you probably printed at least a few that didn't line up right or were otherwise unusable.

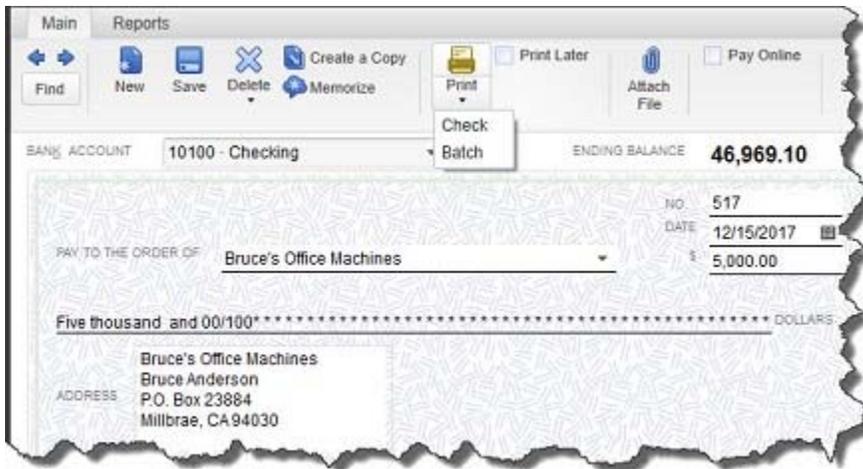


Figure 1: The **Write Checks** window in QuickBooks 2013.

Printing checks from QuickBooks has gotten easier, and online banking has made this task less of a necessity for many businesses. But when you do print checks, precision is still required.

So to minimize frustration, save time and money, and ensure that everything will be copacetic when your checks are processed at the bank, it's important that you use the tools that QuickBooks offers appropriately. If you've been having trouble with check-printing or you're considering attempting it, keep these tips in mind:

1. First, be sure you are creating standard checks, not paychecks. Go to **Banking | Write Checks** or click the **Write Checks** icon on the home page.
2. QuickBooks offers a few options for check creation. Click **Edit | Preferences | Checking | My Preferences**. Here, you can specify a default account for the **Write Checks** function. Click **Company Preferences** for additional options.

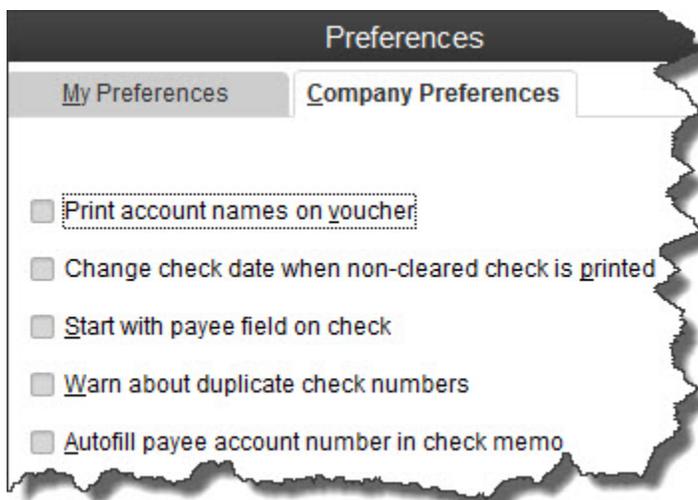


Figure 2: Check the boxes here to activate options.

3. You can customize the appearance of your checks. Click **File | Printer Setup | Check/PayCheck**. Specify printer options and check style, change the fonts in some fields, designate a partial page printing style (using the envelope feed) and add your company's name and address, logo and a signature image.

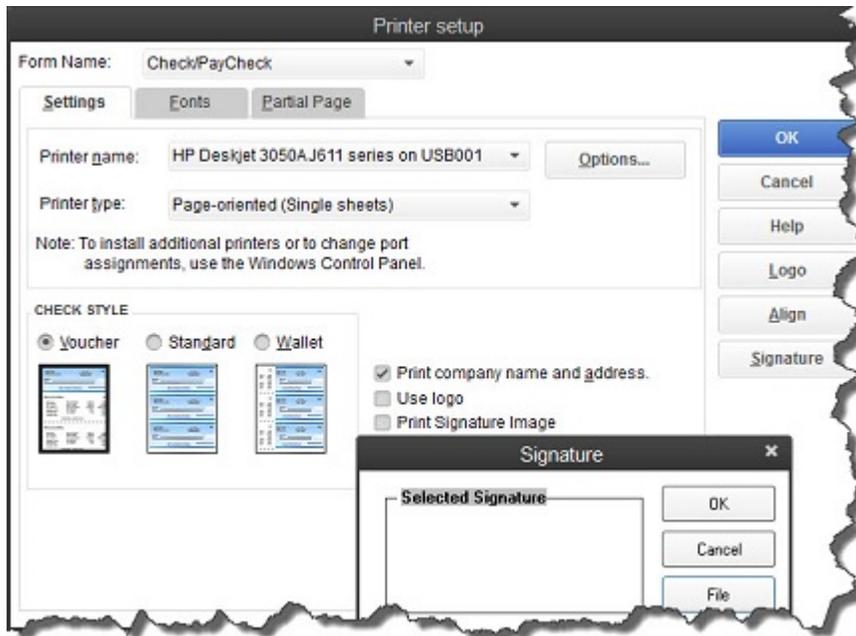


Figure 3: The **Printer Setup** window provides access to your output options.

4. Be sure that your printer has enough ink or toner before you begin a job.
5. If you print a lot of checks, consider dedicating one printer to that task. But secure your blank checks. Don't leave them in the printer.
6. Does your printer process pages in reverse order, last page first? This can cause problems when you're printing multiple checks. You have several options here. You can:
 - o Modify your printer's property settings in Windows and/or consult your printer documentation
 - o Load the paper to accommodate reverse printing or
 - o Alter the check numbers in QuickBooks. Go to **Lists | Chart of Accounts** and open the correct checkbook register to change them. (This option is the least elegant and most risky, and not something you want to do on a regular basis. Let us help you with your printer setup if you can't resolve the problem.)
7. QuickBooks supports batch printing. If you're writing multiple checks that you'll want to print later, click the **Print Later** or **To be printed** link (depending on your version of QuickBooks). When you're ready, you can either select **File | Print Forms | Checks** or click the **Print Checks** link on the home page. Both will open this window:



Figure 4: Uncheck any items you don't want printed to remove them from the batch job.

8. Printing a batch of checks and realize that you've set something up wrong? Hit the **Esc** key to halt it.
9. Double-check to make sure that your numbers match before you launch a print job. Compare the number in the **First Check Number** field to the number of the first check queued up in the printer.
10. Ruin a check or an entire page of them? If your accounting protocol allows you to skip check numbers, just start over by changing the **First Check Number** so that it corresponds with the starting number on a fresh batch of check blanks. If not, you'll have to create a check for each one that was ruined, choosing a name and account and an amount of \$0.00. Then void the check(s). (Click **Banking | Use Register** and select the account. Highlight the transaction(s), select the edit option and void. Do not delete them.

Check-printing can be tricky, but it must absolutely follow the rules. Let us know if you get stuck or want some guidance up front - or if you want to switch to online banking and bill-pay.