April 2014

Volume 4, Issue 1

Leslie A. Cesario, Ltd.
Monthly Newsletter

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April 15 - Individual Tax Returns Due

File a 2013 income tax return (Form 1040, 1040A, or 1040EZ) and pay any tax due. If you want an automatic six-month extension of time to file the return, please call this office.

Caution: The extension gives you until October 15, 2014 to file your 2013 1040 return without being liable for the late filing penalty. However, it does not avoid the late payment penalty; thus, if you owe money, the late payment penalty can be severe, so you are encouraged to file as soon as possible to minimize that penalty. Also, you will owe interest, figured from the original due date until the tax is paid. If you have a refund, there is no penalty; however, you are giving the government a free loan, since they will only pay interest starting 45 days after the return is filed. Please call this office to discuss your individual situation if you are unable to file by the April 15 due date.

April 15 - Estimated Tax Payment Due (Individuals)

It's time to make your first quarter estimated tax installment payment for the 2014 tax year. Our tax system is a "pay-as-you-go" system. To facilitate that concept, the government has provided several means of assisting taxpayers in meeting the "pay-as-you-go" requirement. 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.

When a taxpayer fails to prepay a safe harbor (minimum) amount, they can be subject to the underpayment penalty. This penalty is equal to the federal short-term rate plus 3 percentage points, and the penalty is computed on a quarter-by-quarter basis.

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

- 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.

- 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 higher-income taxpayers 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 the 110% of the prior year's tax (110% = $5,500), you qualify for this safe harbor and can escape the penalty.

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. Timely payment of each required estimated tax installment is also a requirement to meet the safe harbor exception to the penalty. If you have questions regarding your safe harbor estimates, please call this office as soon as possible.

CAUTION: Some state de-minimis amounts and safe harbor estimate rules are different than those for the Federal estimates. Please call this office for particular state safe harbor rules.

April 15 - Last Day to Make Contributions

Last day to make contributions to Traditional and Roth IRAs for tax year 2013.

Refund Statute Expiring: Don't Miss Out!

Article Highlights:

- The refund statute expires on April 15, 2014 for unfiled 2010 returns.
- Unfiled returns will lose out on refundable credits.
- Refunds may be offset by unpaid child support, past due student loans, and back taxes.

If you have not yet filed your 2010 tax return and have a refund coming, time is running out! The IRS estimates that there are more than 1 million taxpayers who have not filed their 2010 tax return approximately $1 billion of unclaimed refunds available for those taxpayers. If you fall in this category, you need to act quickly because the return must be filed by April 15, 2014 to claim a refund for 2010. Otherwise, the money becomes the property of the U.S. Treasury.

People stand to lose more than a refund of taxes withheld or paid during 2010 by failing to file a return. In addition, many low- and moderate-income workers may not have claimed the Earned Income Tax Credit (EITC). The EITC provides financial assistance to individuals and families with incomes below certain thresholds. In addition, taxpayers may also qualify for the refundable child and education credits.

When filing a 2010 return, the law requires that the return be properly addressed, mailed, and postmarked by April 15. There is no penalty for filing a late return that qualifies for a refund.

As a reminder, taxpayers seeking a 2010 refund should know that their checks will be held if they have not filed tax returns for 2011 and 2012. In addition, the refund will be applied to any amounts still owed to the IRS and may be used to offset unpaid child support or past due federal debts, such as student loans.

Please give this office a call as soon as possible if you have not filed your 2010 return. Sufficient time is needed to prepare and print the return and for you take it to the post office to send with proof of mailing.

Can’t Pay Your Taxes by the April Due Date?

Article Highlights:

- Unpaid tax liabilities are subject to substantial interest and penalties.
- Options for coming up with the money to pay your taxes.
- Making installment agreements with the IRS.

The vast majority of Americans get a tax refund from the IRS each spring, but what if you are one of those who end ends up owing?

The IRS encourages you to pay the full amount of your tax liability on time by imposing significant penalties and interest on late payments if you don’t. So, if you are unable to pay the taxes you owe, it is generally in your best interest to make other arrangements to obtain the funds for paying your taxes rather than be subjected to the government’s penalties and interest. Here are a few options to consider.

- **Family Loan –** Obtaining a loan from a relative or friend may be your best bet because this type of loan is generally the least costly in terms of interest.
- **Credit Card –** Another option is to pay by credit card with one of the service providers that work with the IRS. However, as the IRS will not pay the credit card discount fee, you will have to pay it and pay the higher credit card interest rates.
- **Installment Agreement –** If you owe the IRS $50,000 or less, you may qualify for a streamlined installment agreement where you can make monthly payments for up to six years. You will still be subject to the late payment penalty, but it will be reduced by half. Interest will also be charged at the current rate, and there is a user fee to set up the payment plan. In making the agreement, a taxpayer agrees to keep all future years’ tax obligations current. If the taxpayer does not make payments on time or has an outstanding past due amount in a future year, they will be in default of their agreement, and the IRS has the option of taking enforcement actions to collect the entire amount owed. Taxpayers seeking installment agreements exceeding $50,000 will need to validate their financial condition and an installment agreement by providing the IRS with a Collection Information Statement (financial statements). Taxpayers may also pay down their due balance to $50,000 or less to take advantage of the streamlined option.
- **Tap a Retirement Account –** This is possibly the worst option for obtaining funds to pay your taxes because you are jeopardizing your retirement and the distributions are generally taxable at your highest bracket, which adds more taxes to your existing problem. In addition, if you are under the age of 59½, the withdrawal is also subject to a 10% early withdrawal penalty that compounds the problem even further.

Whatever you decide, don’t just ignore your tax liability, because that is the worst thing you can do. Please call this office for assistance.

Receiving Tips Can Be Taxing

Article Highlights:

- Tips are taxable and must be included on your tax return
- Tip splitting and cover charges
- Tip reporting to employer
- Employer tip allocation
- Daily log for tip record keeping

If you work in an occupation where tips are part of your total compensation, you need to be aware of several facts relating to your federal income taxes:

- **Tips are taxable —** Tips are subject to federal income, social security, and Medicare taxes. The value of non-cash tips, such as tickets, passes, or other items of value, is also income and subject to taxation.
- **Include tips on your tax return —** You must include all cash tips received directly from customers, tips added to credit cards, and your share of any tips received under a tip-splitting arrangement with fellow employees in gross income.
- **Tip-splitting and cover charges —** Tips given to others under the tip-splitting arrangement are not subject to the reporting requirement by the employee who initially receives them. That employee should only report the net tips received to the employer. Service (cover) charges, which are arbitrarily added by the business establishment, are excluded from the tip reporting requirements. The employer should add each employee's share of service charges to each employee's wages.
- **Report tips to your employer —** If you receive $20 or more in tips in any month, you should report all of your tips to your employer. Your employer is required to withhold federal income, social security, and Medicare taxes. If the tips received are less than $20 in any month, they do not need to be reported to the employer. However, these tips are still taxable and must be reported on your tax return as they are subject to income and social security taxes.
- **Employer allocation of tips —** Tip allocation is applicable to "large food and beverage establishments" (i.e., food service businesses where tipping is customary and that have 10 or more employees). These establishments must allocate a portion of their gross receipts as tip income to those employees who "underreport." Underreporting occurs if an employee reports tips that are **less than 8%** of the employee's applicable share of the employer's gross sales. The employer must allocate the difference between what the employee reported and the 8% to those underreported employees. The allocation amount is noted on the employee's W-2, but it does not have to be reported as additional income if the employee has adequate records to show that the amount is incorrect. Note that these allocated tips are not included in the total wages shown on the employee's W-2. The IRS frequently issues inquiries where the taxpayer's W-2 shows an allocation of tips and a lesser amount is reported on the tax return.
- **Keep a running daily log of tip income —** Tips are a frequently audited item and it is a good practice to keep a daily log of your tips. The IRS provides a log in Publication 1244 that includes an *Employee's Daily Record of Tips* and a *Report to Employer* for recording your tip income.

If you are receiving tips and have any questions about their tax treatment, please give this office a call.

Spring-Clean Your QuickBooks Company File

There are a lot of clues that indicate trouble with your QuickBooks company file. Is it time for a check-up and tune-up?

After this ridiculously long winter, you'll probably hear few complaints about things like puddles in the street, summer heat and spring cleaning. Most people are eager to throw open the doors and windows, and attack the dirt that the season left behind, both inside and outside of the house.

It's not hard to see when your home is dirty. QuickBooks company file errors are harder to detect, but they're there, including:

- Performance problems
- Inability to execute specific processes, like upgrading
- Occasional program crashes
- Missing data (accounts, names, etc.)
- Refusal to complete transactions, and
- Mistakes in reports.

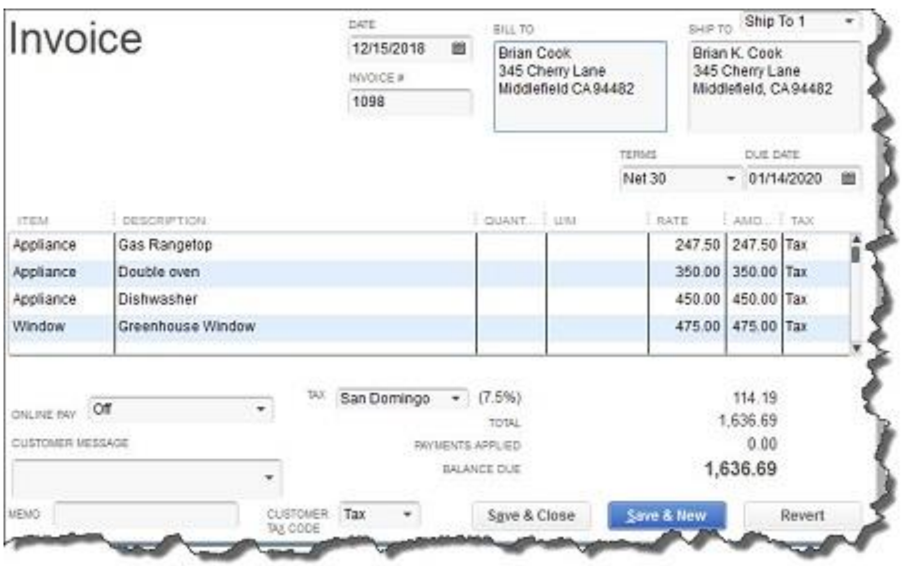


Figure 1: If some transactions won't go through when you click one of the Save buttons – or worse, QuickBooks shuts down -- you may have a corrupted company file.

Call for Help
The best thing you can do if you notice problems like this cropping up in QuickBooks – especially if you're experiencing multiple ones – is to contact us. We understand the file structure of QuickBooks company data, and we have access to tools that you don't. We can analyze your file and take steps to correct the problem(s).

One of the reasons QuickBooks files get corrupt is simply because they grow too big. That's either a sign of your company's success or of a lack of periodic maintenance that you can do yourself. QuickBooks contains some built-in tools that you can run occasionally to minimize your file size.

One thing you can do on your own is to rid QuickBooks of old, unneeded data. The software contains a **Condense Data** utility that can do this automatically. *But just because QuickBooks offers a tool doesn't mean that you should use it on your own.*

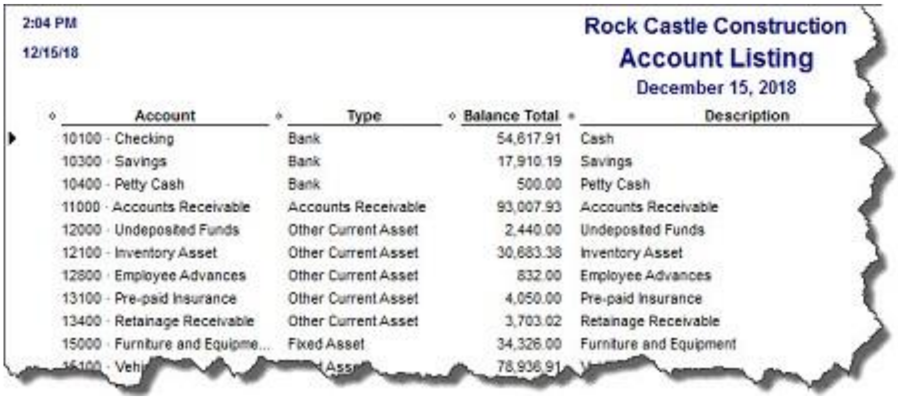
Figure 2: Yes, QuickBooks allows you to use this tool on your own. But if you really want to preserve the integrity of your data, let us help.

A Risky Utility
The program's documentation for this utility contains a list of warnings and preparation steps a mile long.

We recommend that you don't use this tool. Same goes for **Verify Data** and **Rebuild Data** in the **Utilities** menu. If you lose a significant amount of company data, you can also lose your company. It's happened to numerous businesses.

Be Proactive
Instead, start practicing good preventive medicine to keep your QuickBooks company file healthy. Once a month or so, perhaps at the same time you reconcile your bank accounts, do a manual check of your major Lists.

Run the **Account Listing** report (**Lists | Chart of Accounts | Reports | Account Listing**). Are all of your bank accounts still active? Do you see accounts that you no longer used or which duplicate each other? Don't try to "fix" the Chart of Accounts on your own. Let us help.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Rock Castle Construction
Account Listing
December 15, 2018

Account	Type	Balance Total	Description
10100 · Checking	Bank	54,617.91	Cash
10300 · Savings	Bank	17,910.19	Savings
10400 · Petty Cash	Bank	500.00	Petty Cash
11000 · Accounts Receivable	Accounts Receivable	93,007.93	Accounts Receivable
12000 · Undeposited Funds	Other Current Asset	2,440.00	Undeposited Funds
12100 · Inventory Asset	Other Current Asset	30,683.38	Inventory Asset
12800 · Employee Advances	Other Current Asset	832.00	Employee Advances
13100 · Pre-paid Insurance	Other Current Asset	4,050.00	Pre-paid Insurance
13400 · Retainage Receivable	Other Current Asset	3,703.02	Retainage Receivable
15000 · Furniture and Equipme...	Fixed Asset	34,326.00	Furniture and Equipment
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Figure 3: You might run this report periodically to see if it can be abbreviated.

Be very careful here, but if there are **Customers and Vendors** that have been off your radar for a long time, consider removing them – once you're sure your interaction with them is history. Same goes for **Items** and **Jobs**. Go through the other lists in this menu with a critical but conservative eye. If there's any doubt, leave them there.

A Few Alternatives

There are other options. Your copy of QuickBooks may be misbehaving because it's unable to handle the depth and complexity of your company. It may be time to upgrade. If you're using QuickBooks Pro, move up to Premier. And if Premier isn't cutting it anymore, consider QuickBooks Enterprise Solutions.

There's cost involved, of course, but you may already be losing money by losing time because of your version's limitations. All editions of QuickBooks look and work similarly, so your learning curve will be minimal. Also, try to minimize the number of open windows that are active in QuickBooks. That will improve your performance. And what about your hardware? Is it getting a little long in the tooth? At least consider adding memory, but PCs are cheap these days. If you're having problems with many of your applications, it may be time for an upgrade.

A Stitch in Time…

We've suggested many times here that you contact us for help with your spring cleanup. While that may seem self-serving, remember that it takes us a lot less time and money to take preventive steps with your QuickBooks company file than to troubleshoot a broken one.