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Leslie A. Cesario, Ltd. Monthly Newsletter

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Credit for Small Employer Health Insurance Premiums

The tax law provides a credit for small business employers who pay the health insurance premiums for their workers. This credit can be as much as 35% (25% for tax-exempt organizations) of the insurance premiums paid by the employer in 2013.

Beginning in 2014, the credit percentage increases to 50% (35% for tax-exempt organizations), and claiming the credit is limited to two consecutive years, but if the credit was claimed for any of years 2010 through 2013, those years aren't counted for the two-year limit. In addition, for 2014 and later years, the insurance must be purchased through a state exchange, and the coverage must be uniform and not less than 50% of the premium cost.

To qualify for the credit, the employer can't have more than 25 full-time equivalent employees, and the average wage of the employees cannot exceed $50,000 for the year. The 25 full-time equivalent employee limit is computed by taking into account both full-time and part-time employees for the year using a formula.

To see if your firm may qualify for the credit, complete the two worksheets below. The results at lines 6 and 9 will tell you if your firm is under the maximum full-time equivalent employee and average wage limitations.

Determine the Number of Full-Time Equivalent Employees:

1. Enter the number of employees who worked 2,080 hours or more during the year………………………………………………………………………… ______
2. Multiply line 1 by 2,080 ………………………………………………………………… ______
3. Enter the total hours worked by all employees who worked less than 2,080 hours during the year…………………………………………………………… ______
4. Enter the total of lines 2 and 3……………………………………………………… ______
5. Divide the result on line 4 by 2,080……………………………………………………______
6. **Number of full-time equivalent employees** (round line 5 down to the next whole number, unless the number is less than one, in which case enter 1.

If line 6 is greater than 25, stop—your firm does not qualify for this credit.

Determine the Average Annual Wage:

7. Enter the total of all wages paid to employees during the tax year…………. ______
8. Divide line 7 by the number of full-time equivalent employees (line 6)…… ______
9. **Average annual wage** (round amount from line 8 down to the next whole $1,000)………………………………………………………………………………………

If the amount on line 9 is $50,000 or less, you may qualify for the credit. Besides meeting the limits of lines 6 and 9, to qualify for the credit an employer has to contribute at least 50% of the premiums for the employees' health insurance coverage on a uniform basis.

The amount of the credit gradually phases out if the number of full-time equivalent employees exceeds 10 or if the average annual wage of the employees exceeds $25,000. Under the phase-out, the full amount of the credit is available only to an employer with 10 or fewer full-time equivalent employees and whose employees have average annual wages of less than $25,000.

The credit is in lieu of taking a business deduction for the employer-paid premiums used in computing the credit. It is also part of the general business credit, which may exceed the amount of the business' income tax, and any unused credit in the current year can be carried back one year and then forward until used up but no longer than 20 years.

When counting employees and wages, make the following adjustments:

- Self-employed individuals, including partners and sole proprietors, 2% shareholders of an S corporation, and 5% owners of the employer are not treated as employees for purposes of the small-employer health insurance credit. Thus, the wages and hours of these business owners and partners, and of their family members and dependent members of their household, are disregarded in determining full-time equivalent (FTE) employees and average annual wages, and the premiums paid on their behalf are not counted in determining the amount of the credit.
- Leased employees are included in employee count, but insurance premiums paid for the benefit of the leased employee by the leasing company are not taken into account in determining the credit.
- The number of hours of service worked by, and wages paid to, an employer's seasonal worker are not taken into account in determining the FTE employees and average annual wages of the employer unless the worker works for the employer more than 120 days during the tax year. Premiums paid on behalf of seasonal workers can be counted in determining the amount of the credit. There is no minimum number of hours of service that a worker has to work in a day before that day is taken into account for purposes of the 120-day test.

Please give this office a call if you have questions related to this credit, the pros and cons of offering health insurance to employees, and determining how much your firm can benefit from claiming the credit.

Saver's Credit Can Help You Save for Retirement

Low- and moderate-income workers can take steps to save for retirement and earn a special tax credit.

The saver's credit helps offset part of the first $2,000 workers voluntarily contribute to traditional or Roth Individual Retirement Arrangements (IRAs), SIMPLE-IRAs, SEPs, 401(k) plans, 403(b) plans for employees of public schools and certain tax-exempt organizations, 457 plans for state or local government employees, and the Thrift Savings Plan for federal employees. Also known as the retirement savings contributions credit, the saver's credit is available in addition to any other tax savings that apply as a result of contributing to retirement plans.

2013 Credit Still Available for IRA Contributions – Unlike other workplace retirement plans, IRAs can be set up and funded after the end of the year. Thus, eligible workers still have time to make qualifying IRA contributions and get the saver's credit on their 2013 tax return. People have until April 15, 2014, to set up a new IRA or add money to an existing IRA and still get credit for 2013.

Taxpayers with 401(k), 403(b), 457 and Government Thrift plans who were unable to set aside money for 2013 may want to schedule their 2014 contributions soon so their employer can begin withholding them in January. While these contributions won't be eligible for the saver's credit for 2013, they will qualify for 2014 for eligible individuals.

The saver's credit can be claimed by:

- Married couples filing jointly with incomes up to $59,000 in 2013 or $60,000 in 2014;
- Heads of Household with incomes up to $44,250 in 2013 or $45,000 in 2014; and
- Married individuals filing separately and singles with incomes up to $29,500 in 2013 or $30,000 in 2014.

Like other tax credits, the saver's credit can increase a taxpayer's refund or reduce the tax owed. Though the maximum saver's credit is $1,000 ($2,000 for married couples), taxpayers are cautioned that it is often much less and, due in part to the impact of other deductions and credits, may, in fact, be zero for some taxpayers.

A taxpayer's saver's credit amount is based on his or her filing status, adjusted gross income, tax liability, and amount contributed to qualifying retirement programs.

The saver's credit supplements other tax benefits available to people who set money aside for retirement. For example, most workers may deduct their contributions to a traditional IRA. Though Roth IRA contributions are not deductible, qualifying withdrawals, usually after retirement, are tax-free. Normally, contributions to 401(k) and similar workplace plans are not taxed until withdrawn.

Other special rules that apply to the saver's credit include the following:

- Eligible taxpayers must be at least 18 years of age.
- Anyone claimed as a dependent on someone else's return cannot take the credit.
- A student cannot take the credit. A person enrolled as a full-time student during any part of five calendar months during the year is considered a student.

Certain retirement plan distributions reduce the contribution amount used to figure the credit. For 2013, this rule applies to distributions received after 2010 and before the due date (including extensions) of the 2013 return.

Begun in 2002 as a temporary provision, the saver's credit has since been made a permanent part of the tax code.

If you have questions about how this tax benefit might apply in your situation, please give the office a call.

How Business Website Expenses Are Deducted

With the explosion of online businesses, one would think that there would be a standard method of deducting the cost of your business website. But some questions still exist as to what part of a website is considered software, and to date, the IRS has not fully clarified that issue for tax purposes.

Purchased Websites – If the website is purchased from a contractor who is at economic risk should the software not perform, the design costs are amortized (ratably deducted) over the 3-year period, beginning with the month in which the website is placed in service. For 2013, non-customized computer software placed in service during the year can be expensed as Sec 179 property up to the $500,000 limit of this special expense deduction.

In-House Developed Websites - If, instead of being purchased, the website design is “developed” by the company or designed by an independent contractor who is not at risk should the software not perform, the company launching the website can choose among alternative treatments, one of which is deducting the costs in the year that the costs are paid or accrued, depending on the taxpayer's overall accounting method. Or, as an alternative, the costs may be amortized under the 3-year rule.

Non-Software Expenses – Some website design costs, such as graphics, may not be classified as software and must be deducted over the useful life of the element. Non-software portions of the design with a useful life of no more than a year are currently deductible.

Advertising Content – Advertising costs are currently generally deductible. Thus, the costs of website content that is advertising are generally deductible in the year paid or accrued, depending on the business’ accounting method.

Cost Before Business Starts – Business expenses that are incurred or accrued prior to the actual activation of the business are generally not deductible until the business is terminated or sold. However, a taxpayer can elect to deduct up to $5,000 of the costs in the year that the business starts and amortize the costs in excess of $5,000 over a period of 180 months (15 years), beginning with the month that the business starts.

As you can see, deducting the expenses of a website can be complicated. Please call this office if you have questions.

Maximizing Qualified Tuition Program Contributions

Qualified Tuition Programs, commonly referred to as Section 529 plans (named after the section of the IRS Code that created them), are plans established to help families save and pay for college in a tax-advantaged way and are available to everyone, regardless of income. These state-sponsored plans allow you to gift large sums of money for a family member’s college education, while you maintain control of the funds. The earnings from these accounts grow tax-deferred and are tax-free if used to pay for qualified higher education expenses. 529 plans can be used as an estate-planning tool as well, providing a means to transfer large amounts of money without gift tax. With all these tax benefits, 529 plans are excellent vehicles for college funding.

Tax Benefits: There is no federal tax deduction for making a contribution, but taxes on the earnings within a 529 plan are not only tax-deferred while they are held in the account, but are tax-free when withdrawn to pay for qualified education expenses. This allows you to accumulate money for college at a much faster rate than you can with an account where you have to pay tax on the investment gains and earnings.

How Much Can Be Contributed? Unlike the Coverdell Education Savings Accounts that limit the annual contribution to $2,000, Section 529 plans allow you to put away larger amounts of money. There are no income or age limitations for the Section 529 plans. The maximum amount that can be contributed per beneficiary is based on the projected cost of a college education and will vary between state plans. Some states base their maximums on an in-state, four-year education, while others base theirs on the costs of the most expensive schools in the U.S., including graduate studies. Most have limits in excess of $200,000. Generally, once an account reaches the plan-imposed cap, additional contributions cannot be made, but that doesn't prevent the account from continuing to grow through investment earnings and growth.

How Much Should You Contribute? Although there is no contribution limit other than the plan's limit based on the cost of the education, there are some gift tax limitations that may influence the amount of your contribution. Contributions to Section 529 plans are considered completed gifts and are subject to the gift tax rules. Under these rules, individuals can annually give away (gift) money to another individual, only up to an annual limit (double for a married couple), without triggering gift taxes or reducing their lifetime gifts and inheritance exclusions. The gift exclusion amount is inflation adjusted. For 2014, the gift tax exclusion is $14,000 per recipient.

Five-Year Option: Where contributions to a qualified tuition program exceed the annual gift exclusion amount, a donor may elect to take certain contributions to a QTP into account ratably over a five-year period in determining the amount of gifts made during the calendar year. The provision applies only for contributions of up to five times the annual exclusion amount available in the calendar year of the contribution. Any excess may not be taken into account ratably and is treated as a taxable gift in the calendar year of the contribution. Thus, for 2014 an individual could contribute up to $70,000 (five times the 2014 annual exclusion amount), while a married couple could contribute twice that amount ($140,000) to the same individual. The gift would reduce the donor's estate by the full amount of the gift by the end of the five-year period. Should the donor die before the five-year period elapses, any amount in excess of the allowable annual exclusions would revert back to the donor's estate. **Note:** A gift tax return must be filed for the year of the contribution if it exceeds the annual gift tax exclusion and to claim this special exemption.

Don't Overlook Additional Contribution Opportunities During The Five-Year Period: If in any year after the first year of the five-year period the annual exclusion amount is increased, the donor may make an additional contribution in any one or more of the four remaining years up to the difference between the exclusion amount as increased and the original exclusion amount for the year or years in which the original contribution was made.

If you have previously utilized the five-year option, you may have the opportunity to make additional annual contributions since the annual exemption amount has increased in the past few years (see table below).

Year	2009–12	2013–14
Annual Gift Exemption	13,000	14,000

If you need assistance evaluating the benefits of a Section 529 plan and its impact on your estate plan, please give this office a call.

Don't Overlook the Earned Income Tax Credit

The Earned Income Tax Credit (EITC) is a refundable credit primarily for lower-income individuals and couples with qualifying children. The credit first offsets any tax liability of the taxpayer(s), and any credit left over is fully refundable. For 2013, the credit can be as much as $6,044 for a taxpayer with three children. The IRS reports that in the past, 1 in 5 individuals who qualified for the credit failed to claim it.

The credit is based on an individual's financial, marital, and parental status for the year. The credit increases with earned income until the maximum credit is reached and phases out for higher-income taxpayers. For 2013, the following is the maximum credit, based on the number of children, and the income level at which the credit is fully phased out.

Number of Qualifying Children:	None	One	Two	Three
Maximum Credit ………………………………..	$487	$3,250	$5,372	$6,044
Totally Phased Out when AGI or Earned Income Exceeds:				
Joint Filers	$19,680	$43,210	$48,378	$51,567
Others	$14,340	$37,870	$43,038	$46,227

The following are the general requirements to claim the credit:

1. A federal income tax return must be filed to claim the credit even if the taxpayer is not otherwise required to file.
2. A qualifying child must live with the taxpayer in the U.S. for more than half the year. Temporary absence from home (such as to attend school) can still qualify as time spent at home.
3. Requirements for a qualifying child:
   - The child must be under age 19 at the end of the tax year or be a full-time student under age 24 at the end of the tax year. A child who is permanently and totally disabled is a qualified child regardless of age.
   - The child will not be a qualifying child if he or she files a joint return, unless the return is filed solely to claim a refund.
   - The child must be younger than the taxpayer who is claiming the EIC. This means, for example, that a taxpayer cannot claim the credit for an older brother or sister.
4. The credit is NOT available to individuals whose filing status is Married Filing Separately.
5. The credit is NOT available to individuals whose "disqualified income" (i.e., investment income) is more than $3,300.
6. The filer, spouse (if filing a joint return), and any qualifying child included in the computation must have a valid SSN issued by the Social Security Administration.

7. The filer or spouse must have earned income. Earned income is income from working, such as wages, profits from self-employment, income from farming, and, in some cases, disability income. If a taxpayer retired on disability, benefits received under an employer's disability retirement plan are considered earned income until the taxpayer reaches minimum retirement age.
8. Special rules apply to members of the U.S. Armed Forces in combat zones. Members of the military can elect to include their nontaxable combat pay in earned income for the EITC. If you make this election, the combat pay remains nontaxable.

If you have questions related to the EITC and how it might apply to you, a friend, or a family member, please call.

Haven’t Filed an Income Tax Return?

Article Highlights:
☐ Late filing penalties
☐ Three-year statute of limitations
☐ Forfeited refunds
☐ Earned income credit
☐ Self-employment income

If you have been procrastinating on filing your 2013 tax return or have other prior year returns that have not been filed, you should consider the consequences. The April 15 due date for the 2013 returns is just around the corner. That is also the last day to file a 2010 return and be able to claim a refund.
Taxpayers should file all tax returns that are due, regardless of whether or not full payment can be made with the return. Depending on an individual’s circumstances, a taxpayer filing late may qualify for a payment plan. All payment plans require continued compliance with all filing and payment responsibilities after the plan is approved.

Facts about Filing Tax Returns

☐ Failing to file a return or filing late can be costly. If taxes are owed, a delay in filing may result in penalty and interest charges that could substantially increase your tax bill. The late filing and payment penalties are a combined 5% per month (25% maximum) of the balance due.

☐ If you are due a refund, there is no penalty for failing to file a tax return. However, you can lose your refund by waiting too long to file. In order to receive a refund, the return must be filed within three years of the due date. If you file a return and later realize you made an error on the return, the deadline for claiming any refund due is three years after the return was filed, or two years after the tax was paid, whichever expires later.

☐ Taxpayers who are entitled to the refundable Earned Income Tax Credit must file a return to claim the credit, even if they are not otherwise required to file. The return must be filed within three years of the due date in order to receive the credit.

☐ If you are self-employed, you must file returns reporting self-employment income within three years of the due date in order to receive Social Security credits toward your retirement.

Taxpayers who continue to not file a required return and fail to respond to IRS requests to do so may be subject to a variety of enforcement actions, all of which can be unpleasant. Thus, if you have returns that need to be filed, please call this office so we can help you bring your tax returns up-to-date, and—if necessary—advise you on a payment plan.

Don't Get Scammed, They Are Very Clever

Article Highlights:
☐ Scammers disguise e-mails to look legitimate.
☐ Legitimate businesses and the IRS never request sensitive personal and financial information by e-mail.
☐ Don't become a victim.
☐ Stop—Think—Delete

You may think we harp a lot on protecting yourself against identity theft. You are right…because having your identity stolen becomes an absolute financial nightmare, sometimes taking years to straighten out. Identity thieves are clever, relentless, and always coming up with new schemes to trick you. And all you have to do is slip up just once to compromise your identity and your nightmare begins.
What they try to do is trick you into divulging your personal information such as bank account numbers, passwords, credit card numbers, or Social Security number.
One of the most popular methods these unscrupulous people use is requesting your personal information by e-mail. They are pretty good at making their e-mails look as if they came from a legitimate source such as the IRS, your credit card company, or your bank. You need to be very careful when responding to e-mails asking you to update such things as your account information, pin number, or password. First and foremost, you should be aware that no legitimate company would make such a request by e-mail. If they do, they should be deleted and ignored just like spam e-mails.
We have seen bogus e-mails that looked like they were from the IRS, well-known banks, credit card companies, and other pseudo-legitimate enterprises. The intent is to trick you and have you click through to a website that also appears legitimate where they have you enter your secure information. Here are some examples:
☐ E-mails that appeared to be from the IRS indicating you have a refund coming and they need information to process the refund. The IRS never initiates communication via e-mail! Right away, you should know that it is bogus. If you are concerned, please free to call this office.

☐ E-mails from a bank indicating they are holding a wire transfer and need your bank routing information and account number. Don't respond; if in doubt, call your bank.

☐ E-mails saying you have a foreign inheritance and they need your bank info so they can wire the funds. The funds that will get wired are yours going the other way. Remember, if it seems too good to be true, it generally is.

We could go on and on with examples. The key here is for you to be highly suspect of any e-mail requesting personal or financial information. A good rule of thumb is to: STOP—THINK—DELETE
If you receive something from the IRS or your state taxing agency and feel uncomfortable ignoring it, call this office to check so you don't need to worry.
The IRS just published the 2014 "Dirty Dozen Tax Scams" which details current scams. However, the perpetrators of those scams are not the only ones trying to steal your financial information, so always be vigilant.

Your life can become a nightmare if your identity is stolen. Identity thieves will even file tax returns under your Social Security number claiming huge refunds and leaving you with a horrendous mess to clean up with the IRS. Don't be a victim. Please call this office if you believe your tax ID has been compromised.

Don't Overlook the Spousal IRA

Article Highlights:

☐ Non-working spouses can contribute to an IRA based upon the working spouse's earned income.

☐ The combined contributions of both spouses cannot exceed the combined earned income.

☐ Each spouse's contribution is limited to a maximum of $5,500 ($6,500 if over age 49).

One frequently overlooked tax benefit is the "spousal IRA." Generally, IRA contributions are only allowed for taxpayers who have compensation (the term "compensation" includes wages, tips, bonuses, professional fees, commissions, alimony received, and net income from self-employment). Spousal IRAs are the exception to that rule and allow a non-working spouse who files a joint return to contribute to his or her own IRA, otherwise known as a spousal IRA.

The maximum annual amount that a non-working spouse can contribute is the same as the limit for a working spouse, which is $5,500 for the years 2013 and 2014. A non-working spouse who is age 50 or older can also make "catch-up" contributions (limited to $1,000 for 2013 and 2014), raising the overall yearly contribution limit to $6,500. These limits apply provided that the couple together has compensation equal to or greater than their combined IRA contributions.

Example: *Tony is employed and his W-2 for 2013 is $100,000. His wife, Rosa, age 45, has a small income from a part-time job totaling $900. Since her own compensation is less than the contribution limits for the year, she can base her contribution on their combined compensation of $100,900. Thus, Rosa can contribute up to $5,500 to an IRA for 2013.*

The contributions for both spouses can be made either to a Traditional or Roth IRA or split between them, as long as the combined contributions don't exceed the annual contribution limit. **Caution:** The deductibility of the Traditional IRA and the ability to make a Roth IRA contribution are generally based on the taxpayer's income:

☐ **Traditional IRAs** – There is no income limit restricting contributions to a Traditional IRA. However, if the working spouse is an active participant in any other qualified retirement plan, a tax-deductible contribution can be made to the IRA of the non-participant spouse only if the couple's adjusted gross income (AGI) doesn't exceed $178,000 for 2013 and $181,000 for 2014. This limit is phased out for AGI between $178,000 and $188,000 for 2013 and between $181,000 and $191,000 for 2014.

☐ **Roth IRAs** – Roth IRA contributions are never tax deductible. Contributions to Roth IRAs are allowed in full if the couple's AGI doesn't exceed $178,000 for 2013 and $181,000 for 2014. The contribution is ratably phased out for AGI between $178,000 and $188,000 for 2013 and between $181,000 and $191,000 for 2014.

Example: *Rosa, in the previous example, can designate her IRA contribution to be either a deductible Traditional IRA or a nondeductible Roth IRA since the couple's AGI is under $178,000. Had the couple's AGI been $183,000, Rosa's allowable contribution to a deductible Traditional or Roth IRA would have been limited to $2,750 because of the phaseout. The other $2,750 could have been contributed to a nondeductible Traditional IRA.*

These contributions can be made up to the April due date of your tax return, and even if you have already filed your return, you can still make the contribution and file an amended tax return reporting the contribution and claiming a refund if the contribution is deductible. Please give this office a call if you would like to discuss IRAs or need assistance with your retirement planning.

Tax Breaks for Grandparents

Article Highlights:

☐ Head of household filing status
☐ Exemption deduction for the grandchild
☐ Earned income tax credit
☐ Child tax credit
☐ Childcare credit for certain working grandparents
☐ Grandchild education credits and deductions

More and more individuals who thought their child-rearing days were over are now raising their grandchildren. The U.S. Census Bureau has found that there were 7 million grandparents whose grandchildren younger than 18 were living with them in 2010. Another study found that the number of grandchildren living with their grandparents has increased 50% over the past ten years. Grandparents in this challenging situation should be aware that a variety of tax breaks may be available to ease the financial burden of becoming primary caregivers for grandchildren. These include:

☐ **Head of household filing status -** An unmarried grandparent may be eligible to use head of household as his or her filing status. This filing status generally is more favorable than the single filing status. To qualify, the grandparent must maintain a household that is the principal place of abode for the grandchild for more than half the year. Generally the grandchild must not be self-supporting and under the age of 19 (24 if a full time student) at the close of the tax year or permanently and totally disabled.

☐ **Exemption for the grandchild –** If the grandchild qualifies as the grandparent’s dependent, the grandparent is entitled to a deduction equal to the exemption amount, which for 2014 is $3,950 (up from $3,900 in 2013). For a grandchild to qualify as a dependent, the grandchild generally must meet the definition of a “qualifying child,” which includes being under the age of 19 (24 if a full time student) at the close of the tax year or permanently and totally disabled, and a U.S. citizen, U.S. National, or a resident of the U.S., Canada, or Mexico. The grandchild may not have provided more than half of his or her own support. Additional rules apply if the grandchild is married.

☐ **Earned income credit –** A grandparent who is working and has a grandchild who is a qualifying child living with him or her may be able to take the earned income tax credit (EITC), even if the grandparent is 65 years of age or older. Generally, to be a qualified child for EITC purposes, the grandchild must meet the same requirements as to be a dependent but without the requirement that the child didn't provide more than half of his own support.

To qualify for EITC for 2013 on account of a grandchild or grandchildren, a taxpayer's adjusted gross income (AGI) must be less than: $46,227 ($51,567 for married filing jointly) if he or she has three or more qualifying children; $43,038 ($48,378 for married filing jointly) if he or she has two qualifying children; and $37,870 ($43,210 for married filing jointly) if he or she has one qualifying child. There's no EITC if the taxpayer files as married filing separately, isn't a U.S. citizen or resident alien all year, files Form 2555 or Form 2555-

EZ (relating to foreign earned income), doesn't have earned income, or has more than $3,300 of investment income for 2013 ($3,350 for 2014).

☐ **Child tax credit -** A grandparent who is raising a grandchild may be able to take the $1,000 child tax credit and, under specific circumstances, the credit may be refundable.

To qualify, the grandchild must be under the age of 17, a U.S. citizen or resident alien, and the grandchild must be the grandparent’s dependent. The credit is reduced for higher-income taxpayers.

☐ **Credit for grandchild care expenses –** A grandparent may also qualify for the child and dependent care credit if the grandparent pays someone to care for a dependent grandchild under the age of 13 or a grandchild who is physically or mentally not able to care for himself or herself, and the grandparent works or looks for work and has the same principal place of abode as the grandparent for more than half the tax year.

The credit is 35% of employment-related expenses for taxpayers with an AGI of $15,000 or less. The percentage decreases by 1% for each $2,000 (or fraction thereof) of AGI over $15,000, but not below 20%. The maximum amount of employment-related expenses that may be used to compute the credit is $3,000 for one qualifying individual or $6,000 for two or more qualifying individuals. These maximums must be reduced, dollar-for-dollar, by the total amount excludable from gross income through an employer’s dependent care assistance program.

☐ **Grandchild education expenses -** There are a number of tax breaks that may be available to a grandparent who pays his or her dependent grandchild's education costs. These include:

○ *Education credits* - An individual taxpayer may claim an income tax credit of up to $2,500 for the American Opportunity tax credit (AOTC) and the Lifetime Learning credit (up to $2,000) for higher education expenses of a grandchild at accredited post-secondary educational institutions. The AOTC is available for qualified expenses of the first four years of undergraduate education. The Lifetime Learning credit is available for qualified expenses of any post-high school education at "eligible educational institutions." Both credits can't be claimed in the same tax year for any one student’s expenses, and they phase out for higher-income taxpayers.

○ *Deduction for interest on qualified education loans* – Grandparents may qualify to claim an above-the-line deduction for up to $2,500 of interest paid on a qualified higher education loan for any debt incurred by the taxpayer solely to pay qualified higher education expenses for a grandchild, who is at least a half-time student. The deduction phases out for higher-income taxpayers.

These education tax benefits only apply to a grandparent who claims the grandchild as a dependent. Many generous grandparents pay these types of expenses for a non-dependent grandchild, but unfortunately, they get no tax breaks for doing so.

☐ **Medical and dental expenses** – A grandparent who itemizes deductions can deduct certain unreimbursed medical and dental expenses paid for a dependent grandchild during the year. The grandchild’s medical expenses are combined with the grandparent’s medical deductions and are allowed to the extent that they exceed 10% of the grandparent’s adjusted gross income for the year. Where a grandparent is age 65 or older, the 10% is reduced to 7.5% through 2016.

Blog: The foregoing is an overview of the tax benefits available to grandparents. Not all limits and requirements were covered in complete detail. Please contact this office to determine if you qualify for one or more of them.

Are You Missing a W-2?

Have you received all of your W-2s? These documents are essential for completing individual tax returns. You should receive a Form W-2, Wage and Tax Statement, from all of your employers each year. Employers have until January 31 to provide or send you a 2013 W-2 earnings statement, either electronically or in paper form. If you have not received your W-2, follow these steps:

1. Contact Your Employer – Contact your employer to inquire if and when the W-2 was mailed. If it was mailed, it may have been returned to the employer due to an incorrect or incomplete address. After contacting the employer, allow a reasonable amount of time for the employer to resend or re-issue the W-2.

2. Contact the IRS – If you still have not received your W-2 by February 15, you can contact the IRS for assistance at 800-829-1040. However, we recommend that you hold off from contacting the IRS until you are certain that you will not be receiving a W-2 from the employer. If you do call the IRS, have the following information on hand:

- Employer's name, address, city, and state, including zip code;
- Your name, address, city, state, zip code, and Social Security number; and
- An estimate of the wages you earned, the federal income tax withheld, and the period in which you worked for that employer. The estimate should be based on year-to-date information from your final pay stub, or your leave-and-earnings statement, if possible. This office can assist you with making the estimate.

3. File Your Return – Even if you don’t receive a W-2, you are still required to file your tax return or to request a filing extension by April 15.

- <u>If you anticipate that you will ultimately receive the missing W-2</u>, this office can estimate your 2013 tax liability and file extensions for you. If you have a substantial refund coming, you may opt to have this office prepare a substitute W-2, enabling you to file without the W-2. Refunds for returns that include substitute W-2s can be delayed significantly while the IRS verifies the W-2 information.
- <u>If you don’t anticipate receiving the missing W-2</u>, then this office can prepare a substitute W-2, enabling you to file your 2013 tax return.

If a substitute W-2 is used and it is later determined that the information used to prepare the substitute W-2 was in error, an amended return may need to be prepared for you to file with the IRS and state tax agency, if applicable.

Please call this office if you have questions or need assistance about missing W-2s, 1099s, or other tax documents.

Getting Hit With the Alternative Minimum Tax?

Article Hightlights:
☐ The alternative minimum tax, originally created to curb tax shelters and tax preferences of the wealthy, can now apply to the average taxpayer.
☐ Six commonly encountered deductions routinely cause the average taxpayer to be hit by the AMT.
☐ Incentive stock options can also have a profound impact on the AMT.

There are two ways to determine your tax—the regular way that most everyone understands, and the alternative method. Your tax will be the higher of the two.
So what is the alternative tax and why are you getting hit with it? Well, many, many years ago, Congress, in an effort to curb tax shelters and tax preferences of wealthy taxpayers, created an alternative way of computing tax that disallows certain tax deductions and preferences, and called it the alternative minimum tax (AMT). Although originally intended to apply to the wealthy, years of inflation caused more and more taxpayers to be caught up in the tax. It now no longer just affects wealthy taxpayers and can apply to almost any taxpayer if the conditions are correct. Congress has been discussing AMT reform for years but has failed to take any action.
The list of tax deductions and preferences not allowed when computing the AMT is substantial and at times complicated. However, the following six items routinely cause the average taxpayer to be hit by the AMT:
1. Medical Deductions – Prior to 2013, medical deductions were allowed to the extent they exceeded 7.5% of a taxpayer's income for regular tax purposes and 10% for the AMT computation. However that difference, except for the elderly, has been eliminated now that the Affordable Care Act raised the 7.5% to 10% for regular tax, making it the same as for the AMT. For taxpayers aged 65 and older, the regular tax adjustment remains at 7.5% through 2016, and that creates a medical AMT adjustment for seniors affected by the AMT.
2. Tax Deductions – When itemizing deductions, a taxpayer is allowed to deduct a variety of taxes, including real property, personal property and state income tax. But for AMT purposes, none of the itemized taxes are deductible. For most taxpayers, this represents one of their largest tax deductions, and frequently triggers the AMT. If you are affected by the AMT, conventional wisdom would dictate deferring tax payments to a subsequent year when the AMT may not apply. When deferring, care should be exercised with regard to late payment penalties and interest on underpayments for certain taxes. In addition, taxpayers can annually elect to capitalize taxes on unimproved and unproductive real estate. This means foregoing the deduction currently and adding the tax paid to the cost basis of the real property.
3. Home Mortgage Interest – For both the regular tax and AMT computations, interest paid on a debt to acquire or substantially improve a main home or second home is deductible as long as the debt limit (generally $1 million) isn't exceeded. This is true of refinanced debt, except that any increase in debt is treated as equity debt. For regular tax purposes, the interest on up to $100,000 of equity debt on the two homes can also be deducted. However, equity debt is not deductible against the AMT; neither is the acquisition or equity debt interest on a motor home or boat that qualifies as a second home. Therefore, taxpayers should exercise caution when incurring home equity debt. Generally, loan brokers are not aware of these limitations, and there are numerous pitfalls.
4. Miscellaneous Itemized Deductions – The category of miscellaneous deductions, which includes employee business expenses and investment expenses, is not deductible for AMT purposes. For certain taxpayers with deductible employee business expenses, this can create a significant AMT. Employees with significant employee business expenses should attempt to negotiate an "accountable" reimbursement plan with their employer. Under this type of plan, the reimbursement for qualified expenses is tax-free. Because the employee has been reimbursed, he or she no longer claims a deduction for the expenses, thus eliminating the miscellaneous deduction. Another strategy would be to defer the expenses to a year not affected by the AMT.
5. Personal Exemptions – Personal exemptions for dependents provide no benefit when taxed by the AMT method. Therefore, divorced or separated parents should carefully consider which party should claim the exemption for a dependent child.

6. Standard Deduction – Since the regular tax standard deduction is not allowed as an AMT deduction, taxpayers affected by the AMT should always itemize. While the benefit of some deductions will be lost, there is still a partial advantage. Even the smallest of charitable deductions will benefit at a minimum of 26% (the lowest bracket for the AMT). ***Caution:*** *Although not frequently encountered, incentive stock options (ISO) can have a profound impact on the AMT, and clients are strongly encouraged to seek our advice prior to exercising incentive stock options.*
The AMT is an extremely complicated area of tax law that requires careful planning to minimize its effects. Please contact this office for further assistance.

Clock is Ticking for Retirement Plan Contributions

Article Highlights:
☐ 2013 IRA contributions can be made through April 15, 2014
☐ 2013 SEP IRA contributions can be made through October 15, 2014
☐ 2013 Health Savings Account contributions can be made through April 15, 2014
☐ 2013 Coverdell Education Account contributions can be made through April 15, 2014

Did you know that you can make tax-deductible retirement savings contributions after the close of the tax year? Well, you can and with April 15th looming, the window of opportunity to maximize retirement and other special-purpose plan contributions for 2013 is closing. Many of those contributions not only build the retirement nest egg, but also deliver tax deductions for the 2013 tax return. Let's take a look at some of the ways a taxpayer can benefit.
☐ **Traditional IRA** – The maximum contribution to an IRA for 2013 is $5,500 ($6,500 if over 49 years old). The 2013 contribution can be made up to April 15th. If the taxpayer is covered by another retirement plan, some or all of the contribution may not be deductible. To be eligible to contribute to an IRA of any type, the taxpayer, or spouse if married filing jointly, must have earned income, such as wages or self-employment income.

☐ **Roth IRA** – This is a nondeductible retirement account, but the earnings are tax-free upon withdrawal, provided that the holding period and age requirements are met. Roth IRAs are a good alternative for many taxpayers who aren't eligible to deduct contributions to a traditional IRA. The maximum deductible contribution for the 2013 tax year is $5,500 ($6,500 if the taxpayer is over 49 years old). The 2013 contribution can be made up to April 15th.

Caution: the combined traditional IRA and Roth IRA contributions are limited to $5,500 ($6,500 if the taxpayer is over 49 years old).
☐ **Spousal IRA** – A non-working spouse can open and contribute to a traditional IRA or Roth IRA based upon the working spouse's earned income, subject to the same contribution limits as the working spouse, but the combined contributions of both spouses cannot exceed the earned income of the working spouse.

☐ **SEP-IRA (Simplified Employee Pension)** – SEP-IRAs are tax-deferred plans for sole proprietorships and small businesses. They are probably the easiest way to build retirement dollars, requiring virtually no paperwork. Maximum contributions depend on your net earnings from your business. For 2013, contributions are the lesser of 25 percent of compensation or $51,000. This figure increases to $52,000 for 2014. The 2013 contribution can be made up to the due date of the return, including extensions. Thus, unlike a traditional or Roth IRA, funding of a SEP-IRA for 2013 may occur up to October 15, 2014 when an extension has been granted.

☐ **Solo 401(k) Plans** – A growing number of self-employed individuals with no employees are forsaking the SEP-IRA for a newer type of retirement plan called the Solo 401(k), or Self-Employed 401(k), mostly for its higher contribution levels. For 2013, the maximum contribution to a Solo 401(k) is the sum of: (A) up to 25% of compensation, and (B) salary deferral up to $17,500. The total of A and B can't exceed $51,000 or 100% of compensation. The maximum contribution rises to $52,000 for 2014. On a last note, a Solo 401(k) account must have been established by December 31, 2013 to make 2013 contributions. If one was not established, open one now for 2014 contributions.

☐ **Health Savings Accounts (HSA)** – An HSA is a tax-exempt trust or custodial account established exclusively for the purpose of paying qualified medical expenses of the account beneficiary. An HSA is designed to assist individuals who have high-deductible health plans (HDHP). A taxpayer is only eligible to establish an HSA if he or she has an HDHP. For 2013, this means that the plan must have a deductible amount of $1,250 or more for self-only coverage or $2,500 for family coverage. In addition, the annual maximum out-of-pocket costs for covered expenses can't exceed $6,250 for a self-only plan or $12,500 for a family plan. The maximum 2013 contribution for eligible individuals with self-only coverage under an HDHP is $3,250, while an eligible individual with family coverage under an HDHP can contribute up to $6,450. The contribution limit is increased by $1,000 for an eligible individual who was age 55 or older at the end of 2013; however, no contribution can be made as of the month that an individual is enrolled in Medicare.

Amounts contributed to an HSA belong to individuals and are completely portable. Every year, the money not spent on medical expenses stays in the account and gains interest tax-free, just like an IRA. Unused amounts remain available for later years (unlike amounts in Flexible Spending Arrangements that may be forfeited if not used by the end of the year). Contributions to an HSA for 2013 can be made through April 15, 2014.

☐ **Coverdell Education Savings Account** – These plans were originally called Education IRAs, but that moniker created confusion since they were really not retirement accounts. They are now called Coverdell Education Savings Accounts, named after the late Senator from Iowa. Contributions, which can be made for a beneficiary who is under 18 years of age, are not tax-deductible, but the money grows tax-free if the distributions are used to pay qualified education expenses. The maximum annual contribution is $2,000 per beneficiary, but this amount could be reduced partly or totally depending on income. Contributions do not count toward IRA annual contribution limits; they are also due by April 15, 2014 to be considered as having been made for 2013.

Please note that information for each plan or account above has been abbreviated. Contact this office for specific details on how they may apply to your situation.

5 Ways to Accelerate Your Receivables in QuickBooks

Increasing your income is good. But even if you can't, you can still take steps to collect the money you're already owed faster. Here are five.

If you asked five small business owners to name the top three roadblocks they face in their quest for ongoing profitability, it's likely that all five would point to slow payments.

It's everyone's problem. Accounts receivable requires constant monitoring. As satisfying as it can be to dispatch a group of invoices, you know that it's going to take some work to bring in payment for at least some of them.

By using QuickBooks' tools and complying with accounting best practices, you'll be more confident during the invoicing stage that what you're owed will actually be in your bank account in a reasonable amount of time. Here are five things that we suggest.

Let customers pay invoices electronically.

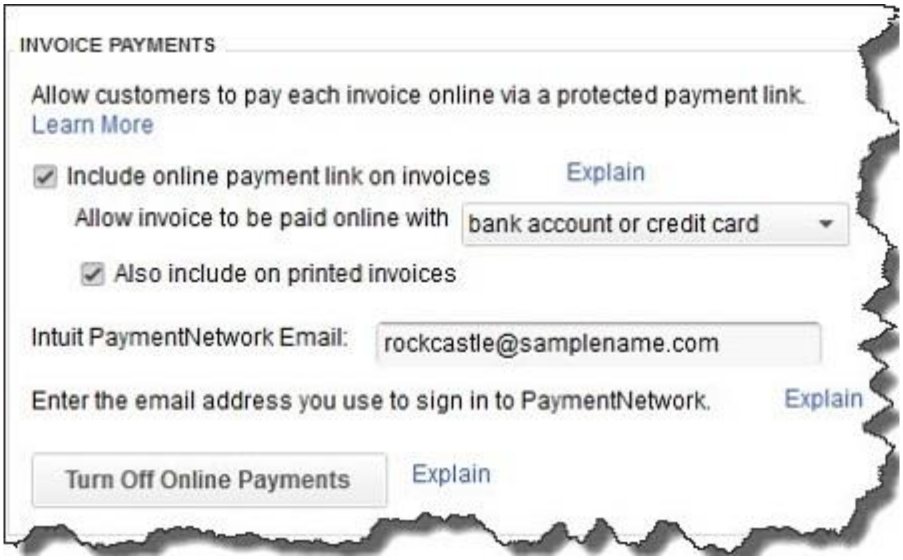

*Figure 1: You're likely to get paid faster if you let customers pay electronically when they receive an invoice. Go to **Edit | Preferences | Payments | Company Preferences**.*

A few years ago, this was a good idea. In 2014, when people have stopped carrying checkbooks and are accustomed to using their mobile devices to pay for merchandise, it's become almost required. Whether or not you know it, you're probably losing some business if you don't have a merchant account that supports credit and debit card payments, and possibly e-checks.

If you have an online storefront, you've undoubtedly been accepting plastic for a long time now.

Not many shoppers want to place an order on a website and hunt for envelopes and stamps and blank checks to complete it. If you invoice customers, it's just as critical that you allow them to remit payment ASAP.

Not set up with a merchant account yet? We can help you get started with the Intuit Payment Network.

Keep a close watch on your A/R reports.
Part of being proactive with your accounts receivable is being vigilant and informed. Create and customize A/R reports regularly. When you customize your A/R Aging Detail report, for example, in addition to the other columns that you include, be sure that **Terms, Due Date, Bill Date, Aging** and **Open Balance** are turned on (click **Customize Report | Display** and click in front of each column label).

You should also be looking at **Open Invoices** and **Collections Report** frequently, or assigning someone else to monitor them closely. We can help here by creating more complex financial reports periodically, like **Statement of Cash Flows**.

Send statements.

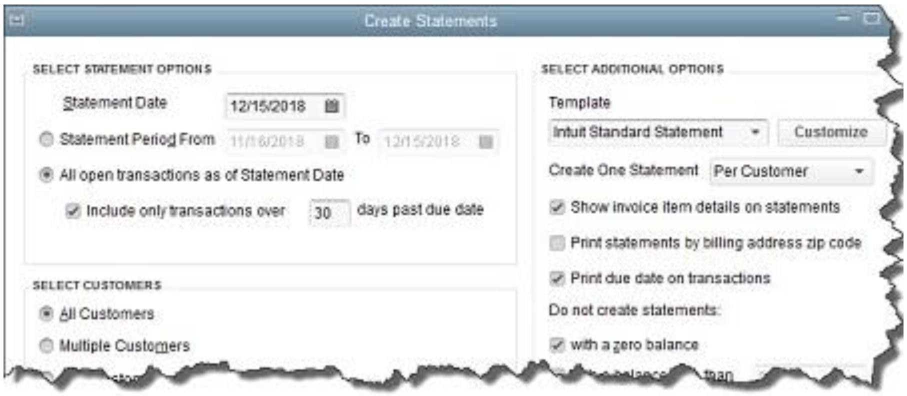

Figure 2: In this window, QuickBooks wants you to create filters to identify customers who should receive statements. Here, everyone with transactions that are more than 30 days old will be included.

Invoices are generally the preferred way to bill your customers, but you should consider sending statements in addition when customers have outstanding balances past a certain date. QuickBooks sometimes calls these reminder statements. You're not providing the recipients with any new information; you're simply sending a kind of report that lists all invoices sent, credit memos and payment received.

To generate statements, click **Customers | Create Statements**. You'll see the window pictured above. You can send statements to everyone, a defined group or one customer, and you can define the past-due status that you want to target in addition to other options.

Send accurate invoices the first time.
Few things will slow down your accounts receivable more than incorrect invoices. The customer can wait until payment is almost due to dispute the charges, which means that they'll probably get another 15 or 30 days (or whatever their terms are) to pay the amended bill. So whoever is responsible for creating invoices needs to be checking and re-checking them. If it's logistically possible depending on your workflow, have them verified by a second employee.

Offer discounts for early payment and assess finance charges.
Offering discounts is a balancing act. You'll be getting less money for your sale – even 5 percent multiplied by many customers can add up – but it may make sense financially for you to take a small hit in return for being able to deposit the payment sooner. We can help you do the math here.

To offer this, you'll have to set up your discount scenario as a **Term** option (**Lists | Customer & Vendor Profile Lists | Terms List**), as seen here:

Figure 3: This Standard discount term gives customers a 5 percent discount if their invoice is paid within 10 days.

To make a customer eligible for the discount, open the **Customer Center** and double-click on a customer, then on **Payment Settings | Payment Terms**.

You might also want to be assessing finance charges. The revenue you bring in from finance charges will probably be negligible. But sometimes, just knowing that a late payment will be more costly may prompt your customers to settle up in a timely fashion.

Whatever approaches you choose to accelerate your receivables, be consistent. If any of your customers should compare notes, you want to be regarded as being firm but fair.