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2014 Tax Season Newsletter

DEPRECIATION of capital assets. 2013 bonus depreciation remains 50% of asset cost. Also section 179 expensing of assets is limited to \$500,000 in 2013 and dropping to \$25,000 in 2014. If you are considering purchasing a major asset you may want to do it before January 1, 2014.

2013 IRA CONTRIBUTIONS. You may contribute up to \$5500 or \$6500 if you are age 50 or older. The contribution must be made before April 15, 2014. If made in 2014 for 2013 be sure to designate the contribution for tax year 2013.

FILING AND PAYING YOUR TAXES are two distinct activities. They are penalized separately, and the failure to file/late filing penalty is much higher than the failure to pay/late paying penalty. In addition to minimizing penalties there are several good reasons to timely file even when you can't pay, such as applying for a loan or filing bankruptcy. Filing before an excepted extended due date is considered a timely filing. If a balance due is owed with an extended return that payment will be late and penalized even though the return itself is not late.

ECONOMIC SUBSTANCE DOCTRINE. This appears to be the subject of increased IRS attention and litigation! The textbook definition is that a taxpayer is denied the tax benefits from a transaction if it has no economic substance or purpose beyond the tax benefits obtained. Business expenses must be both ordinary and necessary as well as used for the production of income to be an allowed expense. In English this means that if a business expense has no substantial purpose or meaningful way to change the taxpayer's economic position aside from lowering their tax bill, it is considered tax avoidance which is unlawful, verses tax minimization which is the lawful planning of legally minimizing taxes.

THERE IS A NEW GREETER in the office. Say hi to Scooter, Bruce and Emmy's new furry friend. He joined the staff this November and has made himself right at home.

THE TOP TAX BRACKETS are 39.6% for Federal and 7.95% for the state of Maine.

HELP, I RECEIVED A NOTICE from the IRS. If this happens to you, call us immediately. We want to assist you in all correspondence with the IRS or Maine Revenue. If it concerns a return we prepared there is usually no extra charge for this service.

ESTIMATED TAX PAYMENTS generally must be made quarterly if a taxpayer expects to owe at least \$1,000 after subtracting withholding and refundable credits. This rule does not apply when the withholding and refundable credits exceeds the lesser of 90% of the current year's taxes or 100% of the previous year's taxes. We can help you determine if you should be making estimated tax payments.

WE PROVIDE PAYROLL SERVICES. You give us your employee hours worked each period and we'll prepare your signed or unsigned payroll checks, employee direct deposits, or detailed pay-stubs for you to attach your own check to. We can accommodate all calculations and deductions such as tips, child support and retirement plan withholding, as well as vacation and sick time accrual if needed. We prepare all quarterly and year-end payroll tax returns as well as 1099MISC forms for payments to independent contractors.

ORGANIZE NOW. If you would like us to send you a tax organizer to help you get ready for tax time, call us at 794-8563 or email taxman2@barkerbusiness.com.

CHARITABLE CONTRIBUTIONS are only deductible if given to a tax exempt (501(c)(3)) organization. Not all non-profit organizations are qualified tax exempt organizations. Contributions exceeding \$250 have been the subject of recent litigation by the IRS. All contributions must be supported by a bank record or receipt including the donee's name, date of donation and the amount donated. Donations of \$250 or more must be supported by the above as well as the amount of cash, description of non-cash property, and whether or not the donee provided the taxpayer with any goods or services in exchange for the donation. If the donee did provide any goods, services or intangible religious benefits than a description and good faith estimate of the value must also be provided, except that no estimate of value is required for intangible religious benefits. All written acknowledgments must be obtained before the due date of the return. Full compliance with the requirements is necessary to deduct contributions exceeding \$250.

WE ARE MEMBERS of the National Association of Tax Professionals (and ME chapter), National Society of Tax Professionals, National Association of Enrolled Agents (and ME chapter), National Society of Accountants (and ME chapter), National Institute of Professional Bookkeepers, National Association for the Self Employed, Lincoln Lakes Region Chamber of Commerce, and the Lincoln Business Referral Group.

IN ORDER TO STAY CURRENT and better serve our clients, we attend many hours of tax training each year. This year's training consisted of a one day Tax Practitioner Institute, a two day National Association of Tax Professionals (NATP) 1040 Workshop, a one day NATP tax seminar, a two day Maine Tax Forum, and a two day Maine Association of Professional Accountants "Gear Up" tax seminar, as well as many telephone forums and webinars hosted by various agencies and associations throughout the year. These training events cover many facets of both federal and Maine tax law as well as current changes.

\$100 WINNER! Last year's winner of our drawing was Dennis & Judy McComb of Lincoln. This year all completed 2013 income tax return clients will be entered and the \$100 winner will be drawn at 5 pm on April 15, 2014.

THERE IS NO PENALTY FOR EARLY withdrawal of retirement funds to the State of Maine for 2013. A 10% penalty to the IRS still applies.

CIRCUIT BREAKER PROGRAM for rent and property tax refunds from the State of Maine has changed. It is now the Property Tax Fairness Credit and is part of the Maine Income Tax Return.

THE FISCAL CLIFF has been avoided with the passage of the American Taxpayer Relief Act of 2012. Many of the Bush-era tax credits, cuts and rates have now been made permanent, at least until they are changed! This was done to avoid last minute uncertainty as credits, cuts and rates expired on Dec 31st of each year pending temporary last minute extensions.

THE SENATE FINANCE COMMITTEE promises 50 years of secrecy in exchange for suggestions on what credits and deductions to preserve in tax reform. This was done because apparently legislators believe that Americans might not reelect a politician based on his or her actions on these matters. Not much change is expected.

A SIMPLIFIED HOME OFFICE deduction is available for the first time in 2013. Instead of prorated actual expenses, \$5 per square foot up to a maximum of 300 square feet can be taken. The square footage must be used for qualified business use and still must pass the exclusive use test.

TAX FRAUD HOTLINE. If you suspect or know of an individual or company that is not complying with the tax laws, you may report this activity by calling the IRS at 1-800-829-0433 or report on Form 3949-A (available at irs.gov). File Form 211 to receive a reward if applicable. Maine tax violations can be reported by email to compliance.tax@maine.gov or by calling 207-624-9600. The caller can remain anonymous.

SSA & MILITARY RETIREES will receive a cost of living adjustment of 1.5% in 2014.

AND FINALLY, GOOD NEWS FROM the Maine Center for Business and Economic Research. The Great Recession ended in 2009, the US economy has been recovering since then, and they tell us it just keeps getting better.

Helping Take the Bite out of Taxes!