Tax Implications of the Health Care Act

The July 2012 Supreme Court ruling upholding what's collectively referred to as the "Affordable Care Act" (ACA) or "Health Care Act" has resulted in a number of changes to the US tax code. As such there are a number of tax implications for individuals and businesses. With that in mind, let's take a closer look at what it might mean for you.

Individuals

Individual Mandate

Starting in 2014, US citizens and legal residents not qualified for Medicare or Medicaid must obtain minimum essential health care coverage for themselves and their dependents or pay a tax penalty that varies based on income level. In 2014, the basic penalty for an individual (no dependents) is $95, with substantial increases in subsequent years--$325 in 2015 and $695 in 2016, indexed for inflation thereafter.

Refundable Tax Credit

Effective in 2014, certain taxpayers will be able to use a refundable tax credit to offset the cost of health insurance premiums so that their insurance premium payments do not exceed a specific percentage of their income. Qualified individuals are those with incomes between 133 percent and 400 percent of the federal poverty level. A sliding scale based on family size will be used to determine the amount of the credit. In addition, married taxpayers must file joint returns to qualify.

FSA Contributions

FSA (Flexible Spending Arrangements) contributions are limited to $2,500 per year starting in 2013 and indexed for inflation after that.

New Rules for HSAs and Archer MSAs

Tax on non-qualified distributions from HSAs and Archer MSAs that are used to cover the cost of over the counter medicine without a script will increase to 20 percent starting in 2011. Medical devices, eyeglasses, contact lenses, copays, and deductibles are not affected, nor is Insulin even if it is non-prescription.

Medicare Part D

Medicare Part D, the tax deduction for employer provided retirement prescription drug coverage, will be eliminated in 2013.

Increase in AGI Limit for Deductible Medical Expenses

The deduction is currently 7.5 percent of AGI, but next year, in 2013, that increases to 10 percent of AGI. The 7.5 percent threshold continues through 2016 for taxpayers aged 65 and older, including those turning 65 by December 31, 2016.

Health Coverage of Older Children

The cost of employer provided health care coverage for children (through age 26) on tax returns is excluded from gross income.

Medicare Tax Increases for High Income Earners

Starting in 2013, there will be an additional 0.9 percent Medicare tax on wages above $200,000 for individuals ($250,000 married filing jointly).

Also starting in 2013, there is a new Medicare tax of 3.8 percent on investment (unearned) income for single taxpayers with modified adjusted gross income (MAGI) over $200,000 ($250,00 joint filers). Investment income includes dividends, interest, rents, royalties, gains from the disposition of property, and certain passive activity income. Estates, trusts and self-employed individuals are all liable for the new tax.

Exemptions are available for business owners and income from certain retirement accounts, such as pensions, IRAs, 401(a), 403(b), and 457(b) plans, is exempt.

Businesses

Small Business Health Care Tax Credit

Small businesses and tax-exempt organization that employ 25 or fewer workers with average incomes of $50,000 or less, and that pay at least half of the premiums for employee health insurance coverage are eligible for the Small Business Health Care Tax Credit. For tax years 2010 through 2013, the maximum credit is 35 percent for small business employers and 25 percent for small tax-exempt employers such as charities. An enhanced version of the credit will be effective beginning Jan. 1, 2014. In general, on Jan. 1, 2014, the rate will increase to 50 percent and 35 percent, respectively.

Additional Tax on Businesses Not Offering Minimum essential Coverage

Effective in 2014 an additional tax will be levied on businesses with 50 or more full-time equivalent (FTE) employees that do not offer minimum essential coverage. Employers with fewer than 50 FTE employees are exempt from the additional tax.

Excise Tax on High Cost Employer-Sponsored Insurance

Effective in 2018, a 40 percent excise tax indexed for inflation will be imposed on employers with insurance plans where the annual premium exceeds $10,200 (individual) or $27,500 (family). For retirees age 55 and older, the premium levels are higher, $11,850 for individuals and $30,950 for families.

Excise Tax on Medical Devices

Effective January 1, 2014, a 2.3 percent tax will be levied on manufacturers and importers on the sale of certain medical devices.

Indoor Tanning Services

A 10 percent excise tax on indoor tanning services went into effect on July 1, 2010. The tax doesn't apply to phototherapy services performed by a licensed medical professional on his or her premises. There's also an exception for certain physical fitness facilities that offer tanning as an incidental service to members without a separately identifiable fee.

If you need assistance navigating the complexities of the new health care act, don't hesitate to call us. We're here to help.

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Paying Off Debt the Smart Way

Being in debt isn't necessarily a terrible thing. Between mortgages, car loans, credit cards, and student loans, most people are in debt. Being debt-free is a worthwhile goal, but most people need to focus on managing their debt first since it's likely to be there for most of your life.

Handled wisely, that debt won't be an albatross around your neck. You don't need to shell out your hard-earned money because of exorbitant interest rates or always feel like you're on the verge of bankruptcy. You can pay off debt the smart way, while at the same time saving money to pay it off faster.

Assess the Situation

First, assess the depth of your debt. Write it down, using pencil and paper, a spreadsheet like Microsoft Excel, or a bookkeeping program like Quicken. Include every financial situation where a company has given you something in advance of payment, including your mortgage, car payment(s), credit cards, tax liens, student loans, and payments on electronics or other household items through a store.

Record the day the debt began and when it will end (if possible), the interest rate you're paying, and what your payments typically are. Add it all up, painful as that might be. Try not to be discouraged! Remember, you're going to break this down into manageable chunks while finding extra money to help pay it down.

Identify High-Cost Debt

Yes, some debts are more expensive than others. Unless you're getting payday loans (which you shouldn't be), the worst offenders are probably your credit cards. Here's how to deal with them.

- Don't use them. Don't cut them up, but put them in a drawer and only access them in an emergency.
- Identify the card with the highest interest and pay off as much as you can every month. Pay minimums on the others. When that one's paid off, work on the card with the next highest rate.
- Don't close existing cards or open any new ones. It won't help your credit rating.
- Pay on time, absolutely every time. One late payment these days can lower your FICO score.
- Go over your credit-card statements with a fine-tooth comb. Are you still being charged for that travel club you've never used? Look for line items you don't need.
- Call your credit card companies and ask them nicely if they would lower your interest rates. It does work sometimes!

Save, Save, Save

Do whatever you can to retire debt. Consider taking a second job and using that income only for higher payments on your financial obligations. Substitute free family activities for high-cost ones. Sell high-value items that you can live without.

Do Away with Unnecessary Items to Reduce Debt Load

Do you really need the 800-channel cable option or that dish on your roof? You'll be surprised at what you don't miss. How about magazine subscriptions? They're not terribly expensive, but every penny counts. It's nice to have a library of books, but consider visiting the public library or half-price bookstores until your debt is under control.

Never, Ever Miss a Payment

Not only are you retiring debt, but you're also building a stellar credit rating. If you ever move or buy another car, you'll want to get the lowest rate possible. A blemish-free payment record will help with that. Besides, credit card companies can be quick to raise interest rates because of one late payment. A completely missed one is even more serious.

Pay With Cash

To avoid increasing debt load, make it a habit to pay with cash. If you don't have the cash for it, you probably don't need it. You'll feel better about what you do have if you know it's owned free and clear.

Shop Wisely, and Use the Savings to Pay Down Your Debt

If your family is large enough to warrant it, invest $30 or $40 and join a store like Sam's or Costco. And use it. Shop there first, then at the grocery store. Change brands if you have to and swallow your pride. Use coupons religiously. Calculate the money you're saving and slap it on your debt.

Each of these steps, taken alone, probably doesn't seem like much. But if you adopt as many as you can, you'll watch your debt decrease every month. If you need help managing debt give us a call. We can help.

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Tax Planning for Small Business Owners

Tax planning is the process of looking at various tax options in order to determine when, whether, and how to conduct business and personal transactions to reduce or eliminate tax liability.

Many small business owners ignore tax planning. They don't even think about their taxes until it's time to meet with their accountants, but tax planning is an ongoing process and good tax advice is a valuable commodity. It is to your benefit to review your income and expenses monthly and meet with your CPA or tax advisor quarterly to analyze how you can take full advantage of the provisions, credits and deductions that are legally available to you.

Although tax avoidance planning is legal, tax evasion - the reduction of tax through deceit, subterfuge, or concealment - is not. Frequently what sets tax evasion apart from tax avoidance is the IRS's finding that there was fraudulent intent on the part of the business owner. The following are four of the areas most commonly focused on by IRS examiners as pointing to possible fraud:

1. Failure to report substantial amounts of income such as a shareholder's failure to report dividends or a store owner's failure to report a portion of the daily business receipts.
2. Claims for fictitious or improper deductions on a return such as a sales representative's substantial overstatement of travel expenses or a taxpayer's claim of a large deduction for charitable contributions when no verification exists.
3. Accounting irregularities such as a business's failure to keep adequate records or a discrepancy between amounts reported on a corporation's return and amounts reported on its financial statements.
4. Improper allocation of income to a related taxpayer who is in a lower tax bracket such as where a corporation makes distributions to the controlling shareholder's children.

Tax Planning Strategies

Countless tax planning strategies are available to small business owners. Some are aimed at the owner's individual tax situation, and some at the business itself, but regardless of how simple or how complex a tax strategy is, it will be based on structuring the strategy to accomplish one or more of these often overlapping goals:

- Reducing the amount of taxable income
- Lowering your tax rate
- Controlling the time when the tax must be paid
- Claiming any available tax credits
- Controlling the effects of the Alternative Minimum Tax
- Avoiding the most common tax planning mistakes

In order to plan effectively, you'll need to estimate your personal and business income for the next few years. This is necessary because many tax planning strategies will save tax dollars at one income level, but will create a larger tax bill at other income levels. You will want to avoid having the "right" tax plan made "wrong" by erroneous income projections. Once you know what your approximate income will be, you can then take the next step: estimating your tax bracket.

The effort to come up with crystal-ball estimates may be difficult and by its very nature will be inexact. On the other hand, you should already be projecting your sales revenues, income, and cash flow for general business planning purposes. The better your estimates, the better the odds that your tax planning efforts will succeed.

Maximizing Business Entertainment Expenses

Entertainment expenses are legitimate deductions that can lower your tax bill and save you money--provided you follow certain guidelines.

In order to qualify as a deduction, business must be discussed before, during, or after the meal and the surroundings must be conducive to a business discussion. For instance, a small, quiet restaurant would be an ideal location for a business dinner. A nightclub would not. Be careful of locations that include ongoing floor shows or other distracting events that inhibit business discussions. Prime distractions are theater locations, ski trips, golf courses, sports events, and hunting trips.

The IRS allows up to a 50 percent deduction on entertainment expenses, but you must keep good records and the business meal must be arranged with the purpose of conducting specific business. Don't hesitate to call us if you need assistance with recordkeeping requirements.

Important Business Automobile Deductions

If you use your car for business such as visiting clients or going to business meetings away from your regular workplace you may be able to take certain deductions for the cost of operating and maintaining your vehicle. You can deduct car expenses by taking either the standard mileage rate or using actual expenses.

The mileage reimbursement rates for 2012 is 55.5 cents a mile for business, 14 cents per charitable mile and 23 cents for moving and medical miles.

If you own two cars, another way to increase deductions is to include both cars in your deductions. This works because business miles driven is determined by business use. To figure business use, divide the business miles driven by the total miles driven. This strategy can result in significant deductions.

Whichever method you decide to use to take the deduction, always be sure to keep accurate records such as a mileage log and receipts. If you need assistance figuring out which method is best for your business, please contact us.

Increase Your Bottom Line When You Work At Home

The home office deduction is quite possibly one of the most difficult deductions ever to come around the block. Yet, there are so many tax advantages it becomes worth the navigational trouble. Here are a few common tips for home office deductions that can make tax season significantly less traumatic for those of you with a home office.

Try prominently displaying your home phone number and address on business cards, have business guests sign a guest log book when they visit your office, deduct long-distance phone charges, keep a time and work activity log, retain receipts and paid invoices. Keeping these receipts makes it so much easier to determine percentages of deductions later on in the year.

Section 179 expensing allows you to immediately deduct, rather than depreciate over time, up to $139,000, with a cap of $560,000, in 2012 worth of qualified business property that you purchase during the year. The key word is "purchase". Equipment can be new or used and includes certain software. All home office depreciable equipment meets the qualification. Also, if you purchase more than $139,000 in equipment, you can expense the first $139,000 then depreciate the rest. In addition, a "Bonus Depreciation" of 50 percent is allowed on qualified assets (new equipment only--no used equipment and no software) placed in service during 2012.

Some deductions can be taken whether or not you qualify for the home office deduction itself. If you'd like to meet with us to learn more about home office deductions, please give us a call.

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Protect Your Business With The Right Insurance

Starting a business is expensive and the capital that you've poured into your company can disappear in an instant if, say, a major weather event damages your offices or one of your products injures someone.

Having the right kind of insurance is critical to your business, which is why multiple insurance policies should be in place before you even open your doors for business. In addition, they should be reviewed every year or, when a business change occurs such as stocking new products or moving to a new location.

Commercial Business Insurance

Commercial Property Insurance policies protect your office and its contents from damage caused by natural disasters, fires, or vandalism. They are either all-inclusive or risk specific.

Product Liability Insurance is necessary if you manufacture or sell products and safeguards you if a product defect causes injury to someone.

For protection against lawsuits related to negligence claims, you need to consider both General Liability Insurance and Professional Liability Insurance.

Other types of insurance your business might need include:

- Coverage that protects Directors and Officers from personal liability
- Key Executive Life Insurance
- Business Interruption (covers lost profits and expenses)
- Commercial Vehicle Insurance
- Website Insurance (protects you from legal claims)

Employer-Related Insurance

Workers' Compensation Insurance (administered by individual states) and Unemployment Insurance (under certain conditions) are mandatory in the United States. Some states require employers to provide other types of insurance. For example, if any of your employees are located in California, Hawaii, New Jersey, New York, Puerto Rico, or Rhode Island you will be required to provide Disability Insurance. Disability Insurance is a benefit provided to employees who are unable to work because of illness or injury.

Employers are not required to provide Life, Medical, and Dental Insurance for employees.

Make Sure You Get the Correct Insurance for Your Business

Some tips:

- Don't under-insure, but don't over-insure either.
- Assess your liability risk honestly and thoroughly.
- Ask your lawyer for advice.
- Get quotes from several companies.
- Talk to your insurer about how you can minimize risk and premiums.

Your insurance company will be your ally if you encounter legal problems because of an accident or injury that happens to someone on your property, to an employee doing business for you, or if a service you provide causes harm to someone.

Avoid lawsuits by making sure you have the right insurance for your business. If you need help figuring out which insurance is best for you, then give us a call now.

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Seven Tax Tips for Students with a Summer Job

Is your child a student with a summer job? Here's what you should know about the income your child earns over the summer.

1. All taxpayers fill out a W-4 when starting a new job. This form is used by employers to determine the amount of tax that will be withheld from your paycheck. Taxpayers with multiple summer jobs will want to make sure all their employers are withholding an adequate amount of taxes to cover their total income tax liability. To make sure your child's withholding is correct, call our office.
2. Whether you are working as a waiter or a camp counselor, you may receive tips as part of your summer income. All tip income you receive is taxable and is therefore subject to federal income tax.
3. Many students do odd jobs over the summer to make extra cash. If this is your situation, keep in mind that earnings you receive from self-employment are subject to income tax. This includes income from odd jobs like baby-sitting and lawn mowing.
4. If you have net earnings of $400 or more from self-employment, you also have to pay self-employment tax. (Church employee income of $108.28 or more must also pay.) This tax pays for your benefits under the Social Security system. Social Security and Medicare benefits are available to individuals who are self-employed just as they are to wage earners who have Social Security tax and Medicare tax withheld from their wages. The self-employment tax is figured on Form 1040, Schedule SE.
5. Subsistence allowances paid to ROTC students participating in advanced training are not taxable. However, active duty pay - such as pay received during summer advanced camp - is taxable.
6. Special rules apply to services you perform as a newspaper carrier or distributor. You are a direct seller and treated as self-employed for federal tax purposes if you meet the following conditions:
   - You are in the business of delivering newspapers.
   - All your pay for these services directly relates to sales rather than to the number of hours worked.
   - You perform the delivery services under a written contract which states that you will not be treated as an employee for federal tax purposes.
7. Generally, newspaper carriers or distributors under age 18 are not subject to self-employment tax.

A summer work schedule is sometimes a patchwork of odd jobs - which makes for confusion come tax time. Contact us if you have any questions at all about income your child earned this summer season.

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Eight Tips to Determine if Your Gift is Taxable

If you gave money or property to someone as a gift, you may owe federal gift tax. Many gifts are not subject to the gift tax, but there are exceptions. Here are eight tips you can use to figure out whether your gift is taxable.

1. Most gifts are not subject to the gift tax. For example, there is usually no tax if you make a gift to your spouse or to a charity. If you make a gift to someone else, the gift tax usually does not apply until the value of the gifts you give that person exceeds the annual exclusion for the year. For 2012 the annual exclusion is $13,000 (same as 2011).

2. Gift tax returns do not need to be filed unless you give someone, other than your spouse, money or property worth more than the annual exclusion for that year.

3. Generally, the person who receives your gift will not have to pay any federal gift tax because of it. Also, that person will not have to pay income tax on the value of the gift received.

4. Making a gift does not ordinarily affect your federal income tax. You cannot deduct the value of gifts you make (other than deductible charitable contributions).

5. The general rule is that any gift is a taxable gift. However, there are many exceptions to this rule. The following gifts are not taxable gifts:

- Gifts that are do not exceed the annual exclusion for the calendar year,
- Tuition or medical expenses you pay directly to a medical or educational institution for someone,
- Gifts to your spouse,
- Gifts to a political organization for its use, and
- Gifts to charities.

6. You and your spouse can make a gift up to $26,000 to a third party without making a taxable gift. The gift can be considered as made one-half by you and one-half by your spouse. If you split a gift you made, you must file a gift tax return to show that you and your spouse agree to use gift splitting. You must file a Form 709, United States Gift (and Generation-Skipping Transfer) Tax Return, even if half of the split gift is less than the annual exclusion.

7. You must file a gift tax return on Form 709, if any of the following apply:

- You gave gifts to at least one person (other than your spouse) that are more than the annual exclusion for the year.
- You and your spouse are splitting a gift.
- You gave someone (other than your spouse) a gift of a future interest that he or she cannot actually possess, enjoy, or receive income from until some time in the future.
- You gave your spouse an interest in property that will terminate due to a future event.

8. You do not have to file a gift tax return to report gifts to political organizations and gifts made by paying someone's tuition or medical expenses.

Questions about the gift tax? Call us. We have the answers.

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Farm Income and Deductions: 10 Key Points

If you cultivate, operate or manage a farm for profit, either as an owner or a tenant you have farm income--at least in the eyes if the IRS. A farm includes livestock, dairy, poultry, fish, fruit, and truck farms. It also includes plantations, ranches, ranges and orchards. If you manage a farm for profit, here's what you need to know when it comes to your federal income taxes.

1. Crop insurance proceeds. You must include in income any crop insurance proceeds you receive as the result of crop damage. You generally include them in the year you receive them.

2. Sales caused by weather-related condition. If you sell more livestock, including poultry, than you normally would in a year because of weather-related conditions, you may be able to postpone reporting of the gain from selling the additional animals until the next year.

3. Farm income averaging. You may be able to average all or some of your current year's farm income by allocating it to the three prior years. This may lower your current year tax if your current year income from farming is high, and your taxable income from one or more of the three prior years was low. This method does not change your prior year tax, it only uses the prior year information to determine your current year tax.

4. Deductible farm expenses. The ordinary and necessary costs of operating a farm for profit are deductible business expenses. An ordinary expense is an expense that is common and accepted in the farming business. A necessary expense is one that is appropriate for the business.

5. Employees and hired help. You can deduct reasonable wages paid for labor hired to perform your farming operations. This includes full-time and part-time workers. You must withhold Social Security, Medicare and income taxes for employees.

6. Items purchased for resale. You may be able to deduct, in the year of the sale, the cost of items purchased for resale, including livestock and the freight charges for transporting livestock to the farm.

7. Net operating losses. If your deductible expenses from operating your farm are more than your other income for the year, you may have a net operating loss. You can carry that loss over to other years and deduct it. You may get a refund of part or all of the income tax you paid for past years, or you may be able to reduce your tax in future years.

8. Repayment of loans. You cannot deduct the repayment of a loan if the loan proceeds are used for personal expenses. However, if you use the proceeds of the loan for your farming business, you can deduct the interest that you pay on the loan.

9. Fuel and road use. You may be eligible to claim a credit or refund of federal excise taxes on fuel used on a farm for farming purposes.

Give us a call if you need more information about farm income and deductions.

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Failure to File or Pay Penalties: Eight Facts

The number of electronic filing and payment options increases every year, which helps reduce your burden and also improves the timeliness and accuracy of tax returns. When it comes to filing your tax return, however, the law provides that the IRS can assess a penalty if you fail to file, fail to pay or both.

Here are eight important points about the two different penalties you may face if you file or pay late.

1. If you do not file by the deadline, you might face a *failure-to-file* penalty. If you do not pay by the due date, you could face a *failure-to-pay* penalty.

2. The failure-to-file penalty is generally more than the failure-to-pay penalty. So if you cannot pay all the taxes you owe, you should still file your tax return on time and pay as much as you can, then explore other payment options. Call us if you need to set up payment options.

3. The penalty for filing late is usually 5 percent of the unpaid taxes for each month or part of a month that a return is late. This penalty will not exceed 25 percent of your unpaid taxes.

4. If you file your return more than 60 days after the due date or extended due date, the minimum penalty is the smaller of $135 or 100 percent of the unpaid tax.

5. If you do not pay your taxes by the due date, you will generally have to pay a failure-to-pay penalty of 1/2 of 1 percent of your unpaid taxes for each month or part of a month after the due date that the taxes are not paid. This penalty can be as much as 25 percent of your unpaid taxes.

6. If you request an extension of time to file by the tax deadline and you paid at least 90 percent of your actual tax liability by the original due date, you will not face a failure-to-pay penalty if the remaining balance is paid by the extended due date.

7. If both the failure-to-file penalty and the failure-to-pay penalty apply in any month, the 5 percent failure-to-file penalty is reduced by the failure-to-pay penalty. However, if you file your return more than 60 days after the due date or extended due date, the minimum penalty is the smaller of $135 or 100 percent of the unpaid tax.

8. You will not have to pay a failure-to-file or failure-to-pay penalty if you can show that you failed to file or pay on time because of reasonable cause and not because of willful neglect.

If you haven't filed your tax return yet, don't wait any longer. Give us a call today. We're here to help.

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Financial Tips for August 2012

Prepare a Post-Mortem Letter
Review or prepare a post-mortem letter to your spouse spelling out the location of your assets and property (assets of a deceased are often lost because a spouse may not be aware of them or know their location), the names of all your advisors, and any other information your spouse should know to minimize his or her burden in the stressful period after your death.

Get Your Social Security Statement of Benefits
Request a Personal Earnings and Benefit Estimate Statement from the Social Security Administration. This statement summarizes your Social Security earnings history and provides an estimate of the benefits to which you are entitled. It is important to verify that you have been credited for all of your earnings. You can also use this statement in your retirement planning. We can help you with this statement; just give us a call.

Review Your Budget vs Actuals for July
Compare July income and expenditures with your budget. Make adjustments as appropriate to your August expenditures. Make sure you invest your planned savings amount for July.

Estimate Your Tax Liability
Total up your taxable income, capital gains, and deductions through this date. This information can be used to plan your estimated tax payments, and perhaps avoid or minimize any underpayment penalties.

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Tax Due Dates for August 2012

August 10	**Employers** - Social Security, Medicare, and withheld income tax. File Form 941 for the second quarter of 2012. This due date applies only if you deposited the tax for the quarter in full and on time. **Employees Who Work for Tips** - If you received $20 or more in tips during July, report them to your employer. You can use Form 4070.
August 15	**Employers** - Nonpayroll withholding. If the monthly deposit rule applies, deposit the tax for payments in July. **Employers** - Social Security, Medicare, and withheld income tax. If the monthly deposit rule applies, deposit the tax for payments in July.

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