Newsletter

Our regularly updated newsletter provides timely articles to help you achieve your financial goals.

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June 2013

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Net Investment Income Tax: What You Need to Know

Now that the 2012 tax season is over, it's time to focus on tax planning for 2013. One of the most significant tax changes this year is the Net Investment Income Tax (NIIT), which went into effect on January 1, 2013 as a result of health care reform enacted in 2010. Here's what you need to know.

What is the Net Investment Income Tax?

The Net Investment Income Tax is a 3.8% tax on certain net investment income of individuals, estates, and trusts with income above statutory threshold amounts, referred to as modified adjusted gross income (MAGI).

What is Included in Net Investment Income?

In general, investment income includes, but is not limited to: interest, dividends, long and short term capital gains, rental and royalty income, non-qualified annuities, income from businesses involved in trading of financial instruments or commodities, and passive business activities such as rental income or income derived from royalties.

What is Not Included in Net Investment Income?

Wages, unemployment compensation, operating income from a nonpassive business, Social Security Benefits, alimony, tax-exempt interest, self-employment income, Alaska Permanent Fund Dividends, and distributions from certain Qualified Plans are not included in net investment income.

Individuals

Individuals whose modified adjusted gross income exceeds $250,000 (married filing jointly) or $200,000 (single filers) are taxed at a flat rate of 3.8% on investment income. Net Investment Income Tax is paid in addition to other taxes owed and threshold amounts (e.g. $200,000 for single filers) are not indexed for inflation.

Non-resident aliens are not subject to the tax; however, if a non-resident alien is married to a US citizen and is planning to file as a resident alien for the purposes of filing "married filing jointly" tax return, there are special rules. Please consult us if you have any questions.

Because investment income is generally not subject to withholding, taxpayers should be aware that the NIIT might affect tax liability for the 2013 tax year. In addition, it's possible that even lower income taxpayers not meeting the threshold amounts could be subject to the tax if they receive a windfall such as a one-time sale of assets that bumps their MAGI up high enough.

Give us a call if you are expecting a windfall this year. We'll help you come up with a strategy such as an installment sale, minimizing AGI, or figuring out the best timing for sale, that will help you to avoid or minimize taxes when you file your 2013 return next year.

Sale of a Home

The Net Investment Income Tax does not apply to any amount of gain excluded from gross income for regular income tax purposes ($250,000 for single filers and $500,000 for a married couple) on the sale of a principal residence. In other words, only the taxable part of any gain on the sale of a home has the potential to be subject to NIIT, providing the taxpayer's income is over the MAGI threshold amount.

Estates and Trusts

Estates and Trusts are subject to the Net Investment Income Tax if they have undistributed net investment income and also have adjusted gross income over the dollar amount at which the highest tax bracket for an estate or trust begins for such taxable year. In 2013, this threshold amount is $11,950.

Special rules apply for certain unique types of trusts such a Charitable Remainder Trusts and Electing Small Business Trusts, and some trusts, including "Grantor Trusts" and Real Estate Investment Trusts (REIT) are not subject to NIIT at all.

It should be noted that non-qualified dividends generated by investments in a REIT are considered taxable income and taxed at ordinary tax rates. As such, they may be subject to the Net Investment Income Tax.

If you need guidance on the topic of Net Investment Income Tax and estates and trusts, don't hesitate to call us.

Reporting and Paying the Net Investment Income Tax

Individual taxpayers should report (and pay) the tax on Form 1040. Estates and Trusts report (and pay) the tax on Form 1041.

Individuals, estates, and trusts that expect to pay estimated taxes in 2013 should adjust their income tax withholding or estimated payments to account for the tax increase in order to avoid underpayment penalties. For employed individuals, NIIT is not withheld from wages; however, you may request that additional income tax be withheld. Call us if you need assistance with this.

Wondering how the new tax affects you? Give us a call. It's never too early to start tax planning!

Sell Your Home But Keep the Profits

If you're looking to sell your home this year, then it may be time to take a closer look at the exclusion rules and cost basis of your home in order to reduce your taxable gain on the sale of a home.

The IRS home sale exclusion rule now allows an exclusion of a gain up to $250,000 for a single taxpayer or $500,000 for a married couple filing jointly. This exclusion can be used over and over during your lifetime, as long as you meet the following Ownership and Use tests. However, it cannot be used more frequently than every 24 months.

During the 5-year period ending on the date of the sale, you must have:

- Owned the house for at least two years - Ownership Test
- Lived in the house as your main home for at least two years - Use Test
- During the 2-year period ending on the date of the sale, you did not exclude gain from the sale of another home.

Tip: The Ownership and Use periods need not be concurrent. Two years may consist of a full 24 months or 730 days within a 5-year period. Short absences, such as for a summer vacation, count in the period of use. Longer breaks, such as a 1-year sabbatical, do not.

If you own more than one home, you can exclude the gain only on your main home. The IRS uses several factors to determine which home is a principal residence: place of employment, location of family members' main home, mailing address on bills, correspondence, tax returns, driver's license, car registration, voter registration, location of banks you use, and location of recreational clubs and religious organizations you belong to.

Tip: As we mentioned earlier, the exclusion can be used repeatedly, every time you reestablish your primary residence. When you do change homes, let us know your new address so we can ensure the IRS has your current address on file.

Note: Only taxable gain on the sale of your home needs to be reported on your taxes. Further, loss on the sale of your main home cannot be deducted. Ask us for details.

Improvements Increase the Cost Basis

Additionally, when selling your home, consider all improvements made to the home over the years. Improvements will increase the cost basis of the home and thereby reduce the capital gain.

Additions and other improvements that have a useful life of more than one year can be added to the cost basis of your home.

Examples of Improvements

Examples of improvements include: building an addition; finishing a basement; putting in a new fence or swimming pool; paving the driveway; landscaping; or installing new wiring, new plumbing, central air, flooring, insulation, or security system.

Example: The Kellys purchased their primary residence in 2002 for $200,000. They paved the unpaved driveway, added a swimming pool, and made several other home improvements adding up to a total of $75,000. The adjusted cost basis of the house is now $275,000. The house is then sold in 2012 for $550,000. It costs the Kellys $40,000 in commissions, advertising, and legal fees to sell the house.

These selling expenses are subtracted from the sales price to determine the amount realized. The amount realized in this example is $510,000. That amount is then reduced by the adjusted basis (cost plus improvements) to determine the gain. The gain in this case is $235,000. After considering the exclusion, there is no taxable gain on the sale of this primary residence and, therefore, no reporting of the sale on the Kelly's 2012 personal tax return.

Tip: Residential Energy Efficient Property Credit. This tax credit helps individual taxpayers pay for qualified residential alternative energy equipment, such as solar hot water heaters, solar electricity equipment and wind turbines. The credit expires on December 31, 2016 and is 30 percent of the cost of qualified property. There is no cap on the amount of credit available, except for fuel cell property.

Generally, you may include labor costs when figuring the credit and you can carry forward any unused portions of this credit. Qualifying equipment must have been installed on or in connection with your home located in the United States; fuel cell property qualifies only when installed on or in connection with your main home located in the United States.

Not all energy-efficient improvements qualify so be sure you have the manufacturer's tax credit certification statement, which can usually be found on the manufacturer's website or with the product packaging.

Please contact us for more information about residential energy tax credits.

Partial Use of the Exclusion Rules

Even if you do not meet the ownership and use tests, you may be allowed to exclude a portion of the gain realized on the sale of your home if you sold your home because of health reasons, a change in place of employment, or certain unforeseen circumstances. Unforeseen circumstances include, for example, divorce or legal separation, natural or man-made disasters resulting in a casualty to your home, or an involuntary conversion of your home. If one of these situations applies to you, please call us for additional details.

Recordkeeping

Good recordkeeping is essential for determining the adjusted cost basis of your home. Ordinarily, you must keep records for 3 years after the filing due date. However, you should keep records proving your home's cost basis for as long as you own your house.

The records you should keep include:

- Proof of the home's purchase price and purchase expenses
- Receipts and other records for all improvements, additions, and other items that affect the home's adjusted cost basis
- Any worksheets or forms you filed to postpone the gain from the sale of a previous home before May 7, 1997

Questions?

Tax considerations surrounding the sale of a home can be confusing. If you have any questions on taxes related to the sale of your home, give us a call.

Eight Ways Children Lower Your Taxes

Got kids? They may have an impact on your tax situation. Here are eight tax credits and deductions that can help lower your tax burden.

1. Dependents: In most cases, a child can be claimed as a dependent in the year they were born. Be sure to let us know if your family increased this year and we'll take a look at whether you can claim the child as a dependent this year.
2. Child Tax Credit: You may be able to take this credit on your tax return for each of your children under age 17. If you do not benefit from the full amount of the Child Tax Credit, you may be eligible for the Additional Child Tax Credit. The Additional Child Tax Credit is a refundable credit and may give you a refund even if you do not owe any tax.
3. Child and Dependent Care Credit: You may be able to claim this credit if you pay someone to care for your child under age 13 while you work or look for work. Be sure to keep track of your child care expenses so we can claim this credit accurately.
4. Earned Income Tax Credit: The EITC is a benefit for certain people who work and have earned income from wages, self-employment, or farming. EITC reduces the amount of tax you owe and may also give you a refund.
5. Adoption Credit: You may be able to take a tax credit for qualifying expenses paid to adopt a child.
6. Coverdell Education Savings Account: This savings account is used to pay qualified expenses at an eligible educational institution. Contributions are not deductible; however, qualified distributions generally are tax-free.
7. Higher Education Credits: Education tax credits can help offset the costs of education. The American Opportunity and the Lifetime Learning Credit are education credits that reduce your federal income tax dollar for dollar, unlike a deduction, which reduces your taxable income.
8. Student Loan Interest: You may be able to deduct interest you pay on a qualified student loan. The deduction is claimed as an adjustment to income so you do not need to itemize your deductions.

As you can see, having children can make a big impact on your tax profile. If you're a parent, we'll go over your situation with you to make sure you're getting the appropriate credits and deductions.

Starting a Business? Three Things You Must Know

Starting a new business is a very exciting and busy time. There is so much to be done and so little time to do it in. If you expect to have employees, there are a variety of federal and state forms and applications that will need to be completed to get your business up and running. That's where we can help.

Employer Identification Number (EIN)

Securing an Employer Identification Number (also known as a Federal Tax Identification Number) is the first thing that needs to be done, since many other forms require it. EINs are issued by the IRS to employers, sole proprietors, corporations, partnerships, nonprofit associations, trusts, estates, government agencies, certain individuals, and other business entities for tax filing and reporting purposes.

The fastest way to apply for an EIN is online through the IRS website or by telephone. Applying by fax and mail generally takes one to two weeks. Note that as of May 21, 2012, you can only apply for one EIN per day. The previous limit was 5.

State Withholding, Unemployment, and Sales Tax

Once you have your EIN, you need to fill out forms to establish an account with the State for payroll tax withholding, Unemployment Insurance Registration, and sales tax collections (if applicable).

Payroll Record Keeping

Payroll reporting and record keeping can be very time consuming and costly, especially if it isn't handled correctly. Also keep in mind, that almost all employers are required to transmit federal payroll tax deposits electronically. Personnel files should be kept for each employee and include an employee's employment application as well as the following:

Form W-4 is completed by the employee and used to calculate their federal income tax withholding. This form also includes necessary information such as address and social security number.

Form I-9 must be completed by you, the employer, to verify that employees are legally permitted to work in the U.S.

If you need help setting up the paperwork for your business, give us a call. Letting our experts handle this part of your business will allow you to concentrate on running your business.

Start Planning Now for Next Year's Tax Return

This year's tax deadline may have come and gone already but it's never too early to start planning for next year. With that in mind, here are six things you can do now to make next April 15 easier.

1. Adjust your withholding. Why wait another year for a big refund? Now is a good time to review your withholding and make adjustments for next year, especially if you'd prefer more money in each paycheck this year. If you owed at tax time, perhaps you'd like next year's tax payment to be smaller.

Give us a call if you need assistance in adjusting your withholding.

2. Store your return in a safe place. Put your 2012 tax return and supporting documents somewhere secure so you'll know exactly where to find them if you receive an IRS notice and need to refer to your return. If it is easy to find, you can also use it as a helpful guide for next year's return.

3. Organize your recordkeeping. Establish a central location where everyone in your household can put tax-related records all year long. Anything from a shoebox to a file cabinet works. Just be consistent to avoid a scramble for misplaced mileage logs or charity receipts come tax time.

4. Review your paycheck. Make sure your employer is properly withholding and reporting retirement account contributions, health insurance payments, charitable payroll deductions and other items. These payroll adjustments can make a big difference on your bottom line. Fixing an error in your paycheck now gets you back on track before it becomes a huge hassle.

5. Consult a tax professional early. If you are planning to use a tax professional to help you strategize, plan and make financial decisions throughout the year, then contact us now. You'll have more time when you're not up against a deadline or anxious for your refund.

6. Prepare to itemize deductions. If your expenses typically fall just below the amount to make itemizing advantageous, a bit of planning to bundle deductions into 2013 may pay off. An early or extra mortgage payment, pre-deadline property tax payments, planned donations or strategically paid medical bills could equal some tax savings. If you need help with tax planning for 2013 please give us a call. We can help you prepare an approach that works best for you.

Each household's financial circumstances are different so it's important to fully consider your specific situation and goals before making large financial decisions. Feel free to contact us any time you have questions or concerns. We can help you stay abreast of tax law changes throughout the year--not just at tax time.

6 Facts on Tax Refunds and Offsets

Certain financial debts from your past may affect your current federal tax refund. The law allows the use of part or all of your federal tax refund to pay other federal or state debts that you owe.

Here are six facts that you should know about tax refund 'offsets.'

1. A tax refund offset generally means that the U.S. Treasury has reduced your federal tax refund to pay for certain unpaid debts.

2. The Treasury Department's Financial Management Service (FMS) is the agency that issues tax refunds and conducts the Treasury Offset Program.

3. If you have unpaid debts, such as overdue child support, state income tax or student loans, FMS may apply part or all of your tax refund to pay that debt.

4. You will receive a notice from FMS if an offset occurs. The notice will include the original tax refund amount and your offset amount. It will also include the agency receiving the offset payment and that agency's contact information.

5. If you believe that you do not owe the debt or you want to dispute the amount taken from your refund, you should contact the agency that received the offset amount, not the IRS or FMS.

6. If you filed a joint tax return, you may be entitled to part or all of the refund offset. This rule applies if your spouse is solely responsible for the debt.

If you need to request your part of a refund, please contact us. We'll take care of filing Form 8379, Injured Spouse Allocation, for you.

Are Your Social Security Benefits Taxable?

How much, if any, of your Social Security benefits are taxable? It depends on your total income and marital status. Generally, if Social Security benefits are your only income, your benefits are not taxable and you probably do not need to file a federal income tax return.

If you receive income from other sources in addition to Social Security and your modified adjusted gross income is not more than the base amount for your filing status, then your benefits will also not be taxed (see below for more on base amounts).

This quick computation will help you determine whether some of your benefits are taxable:

- First, add one-half of the total Social Security benefit you receive to all your other income, including any tax-exempt interest and other exclusions from income.
- Then, compare this total to the base amount for your filing status.

The 2013 base amounts are:

- $32,000 for married couples filing jointly

- $25,000 for single, head of household, qualifying widow/widower with a dependent child or married individuals filing separately who did not live with their spouses at any time during the year
- $0 for married persons filing separately who lived together during the year

According to the Social Security Administration, less than one-third of all current beneficiaries pay taxes on their benefits.

Call us today if you need help understanding the taxability of your Social Security benefits.

8 Facts to Know if You Receive an IRS Letter

The IRS sends millions of letters and notices to taxpayers for a variety of reasons. Many of these letters and notices can be dealt with simply, without having to call or visit an IRS office. Here are eight things you should know about IRS notices and letters.

1. There are a number of reasons why the IRS might send you a notice. Notices may request payment, notify you of account changes, or request additional information. A notice normally covers a very specific issue about your account or tax return.

2. Each letter and notice offers specific instructions on what action you need to take.

3. If you receive a correction notice, you should review the correspondence and compare it with the information on your return.

4. If you agree with the correction to your account, then usually no reply is necessary unless a payment is due or the notice directs otherwise.

5. If you do not agree with the correction the IRS made, it is important to contact us before responding. We'll help you to prepare a written explanation to send to the IRS of why you disagree and make sure it includes any information and documents the IRS should consider that support your case. You should hear from the IRS within 30 days regarding your correspondence.

6. Most correspondence can be handled without calling or visiting an IRS office. In order to handle any issues that arise more quickly, we ask that that you please have a copy of your tax return, as well as any correspondence from the IRS available when you speak to us.

7. It's important to keep copies of any correspondence with your other tax records.

8. IRS notices and letters are sent by mail. The IRS does not correspond by email about taxpayer accounts or tax returns.

If you have received a letter or notice from the IRS and have questions or concerns don't hesitate to call us.

10 Tips for Perfect Check Printing in QuickBooks

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

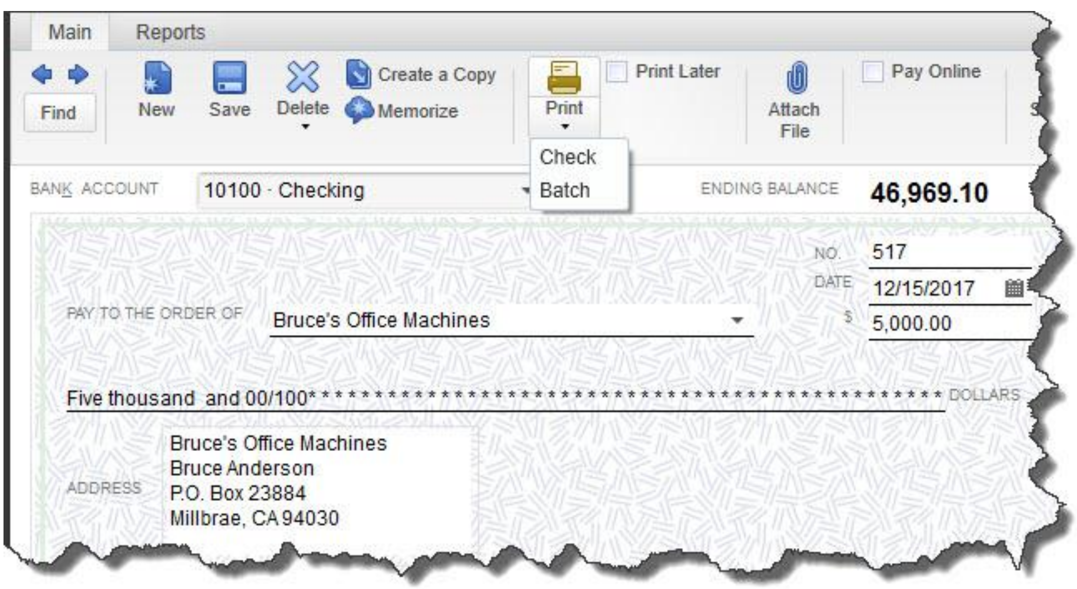

*Figure 1: The **Write Checks** window in QuickBooks 2013.*

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

To minimize frustration, save time and money, and ensure that everything is accurate when your checks are processed at the bank, it's important that you understand how to use the tools that QuickBooks offers appropriately.

If you've been having trouble with check-printing or you're considering attempting it, keep these tips in mind:

1. First, be sure you are creating standard checks, not paychecks. Go to **Banking | Write Checks** or click the **Write Checks** icon on the home page.

2. QuickBooks offers a few options for check creation. Click **Edit | Preferences | Checking | My Preferences**. Here, you can specify a default account for the **Write Checks** function. Click **Company Preferences** for additional options.

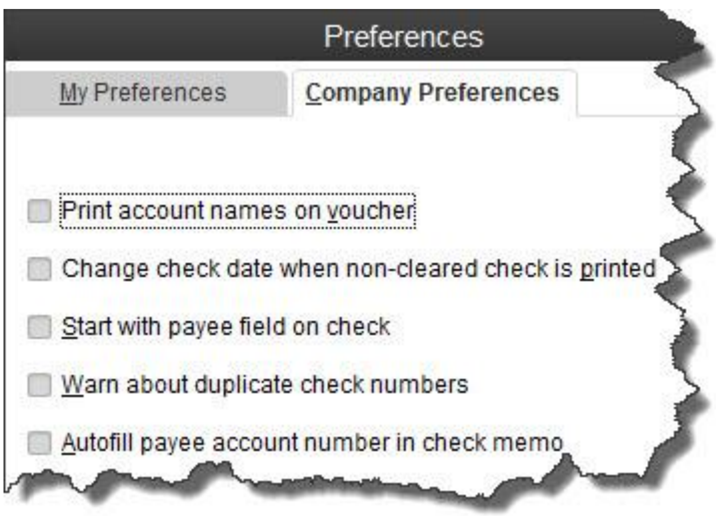

Figure 2: Check the boxes here to activate options.

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

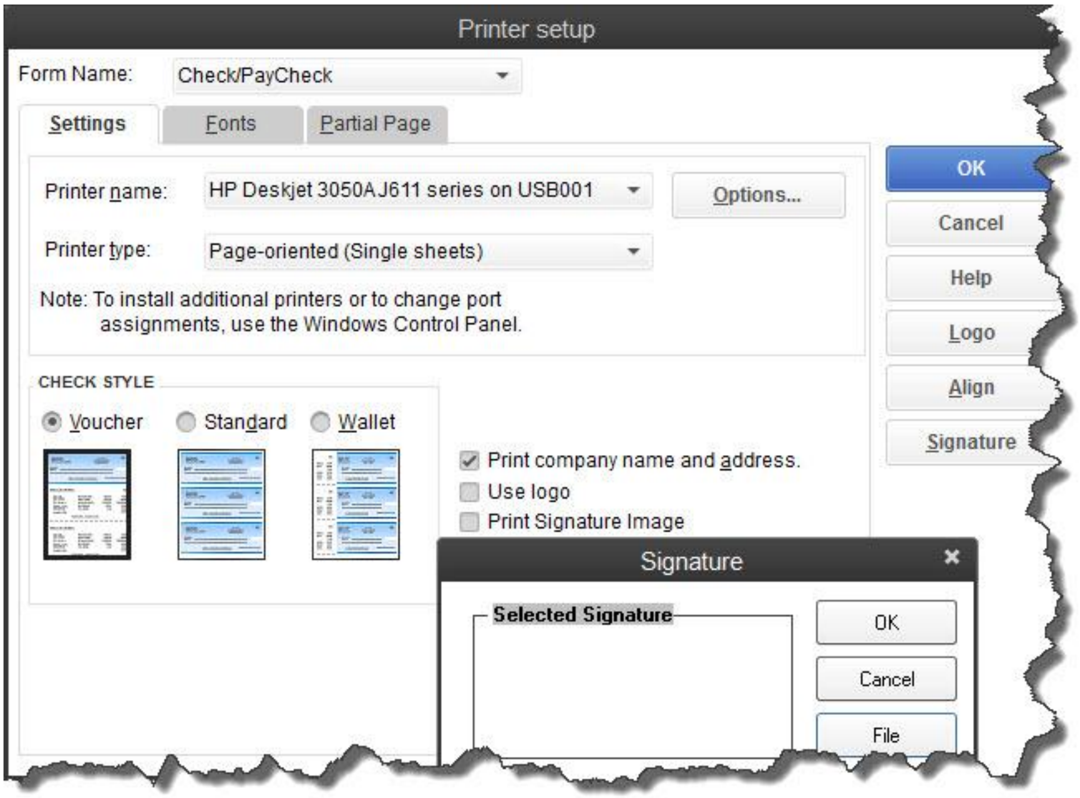

Figure 3: The ***Printer Setup*** *window provides access to your output options.*

4. Be sure that your printer has enough ink or toner before you begin a job.

5. If you print a lot of checks, consider dedicating one printer to that task. But secure your blank checks. Don't leave them in the printer.

6. Does your printer process pages in reverse order, last page first? This can cause problems when you're printing multiple checks. You have several options here. You can:

- Modify your printer's property settings in Windows and/or consult your printer documentation
- Load the paper to accommodate reverse printing or
- Alter the check numbers in QuickBooks. Go to **Lists | Chart of Accounts** and open the correct checkbook register to change them. (This option is the least elegant and most risky, and not something you want to do on a regular basis. We can help you with your printer setup if you can't resolve the problem quickly on your own.)

7. QuickBooks supports batch printing. If you're writing multiple checks that you'll want to print later, click the **Print Later** or **To be printed** link (depending on your version of QuickBooks). When you're ready, you can either select **File | Print Forms | Checks** or click the **Print Checks** link on the home page. Both will open this window:

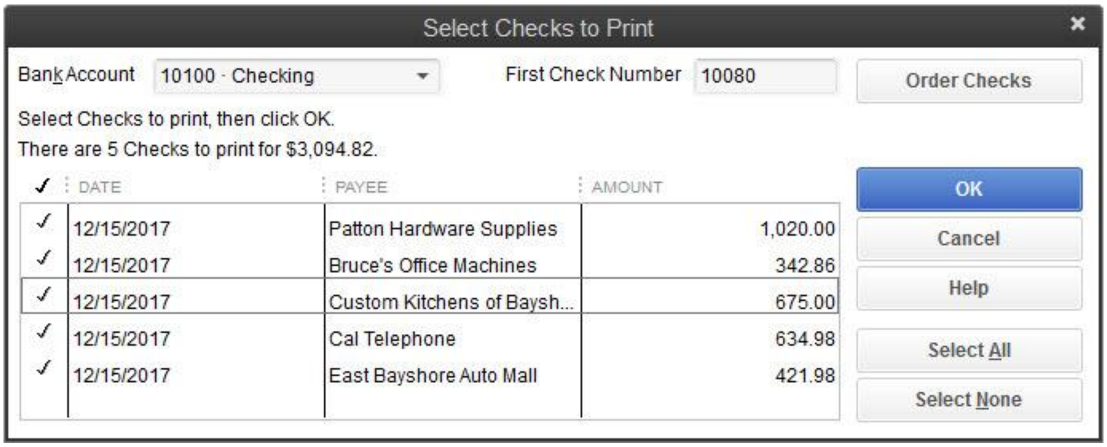

Figure 4: Uncheck any items you don't want printed to remove them from the batch job.

8. Printing a batch of checks and realize that you've set something up wrong? Hit the **Esc** key to halt it.

9. Double-check to make sure that your numbers match before you launch a print job. Compare the number in the **First Check Number** field to the number of the first check queued up in the printer.

10. Ruin a check or an entire page of them? If your accounting protocol allows you to skip check numbers, just start over by changing the **First Check Number** so that it corresponds with the starting number on a fresh batch of check blanks. If not, you'll have to create a check for each one that was ruined, choosing a name and account and an amount of $0.00. Then void the check(s). (Click **Banking | Use Register** and select the account. Highlight the transaction(s), select the edit option and void. Do not delete them.

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

Tax Due Dates for June 2013

June 10	**Employees - who work for tips.** If you received $20 or more in tips during May, report them to your employer. You can use Form 4070.
June 17	**Individuals** - If you are a U.S. citizen or resident alien living and working (or on military duty) outside the United States and Puerto Rico, file Form 1040 and pay any tax, interest, and penalties due. (U.S. citizens living in the U.S. should have paid their taxes on April 15.) If you want additional time to file your return, file Form 4868 to obtain 4 additional months to file. Then file Form 1040 by October 15. However, if you are a participant in a combat zone, you may be able to further extend the filing deadline. **Individuals** - Make a payment of your 2013 estimated tax if you are not paying your income tax for the year through withholding (or will not pay enough tax that way). Use Form 1040-ES. This is the second installment date for estimated tax in 2013. **Corporations** - Deposit the second installment of estimated income tax for 2013. A worksheet, Form 1120-W, is available to help you estimate your tax for the year. **Employers - Nonpayroll withholding.** If the monthly deposit rule applies, deposit the tax for payments in May. **Employers - Social Security, Medicare, and withheld income tax.** If the monthly deposit rule applies, deposit the tax for payments in May.