



BENDER, CICCOTTO & CO.
Certified Public Accountants, LLP

206 New Highway, Amityville, NY 11701
 Tel: (516) 826-6800 • (631) 956-9600 • Fax: (516) 826-1080
 www.bcc.us.com

Client Update

WINTER 2013

In this issue

IRS update	2
Business or hobby? Nine factors help the IRS decide	2
How to ease financial stress after a spouse's death	3
Year-End Tax Moves	3
1099s: A little form with a painful bite	4

tax deadlines

JANUARY 15, 2014 – Due date for the fourth installment of 2013 individual estimated tax.

JANUARY 31 – Employers must furnish 2013 W-2 statements to employees. 1099 information statements must be provided to payees. (1099-B and consolidated statements must be provided by February 18.)

JANUARY 31 – Employers must file 2013 federal unemployment tax returns and pay any tax due.

FEBRUARY 28 – Payers must file information returns (such as 1099s) with the IRS.*

FEBRUARY 28 – Employers must send 2013 W-2 copies to the Social Security Administration.*

MARCH 1 – Farmers and fishermen who did not make 2013 estimated tax payments must file 2013 tax returns and pay taxes in full.

MARCH 15 – Deadline for calendar-year corporations to elect S status for 2014.

MARCH 15 – 2013 calendar-year corporation income tax returns are due. ■

*March 31 if filing electronically.

Individual provisions of health care reform law get underway

Although the employer mandate for providing health insurance coverage to workers under the *Affordable Care Act (ACA)* was postponed for one year – until January 1, 2015 – the rules for individuals remain in place, at least for the foreseeable future. What are your main rights and responsibilities under the ACA? Here's a brief summary.

Essentially, unless you are already covered by an employer's plan, Medicare, or Medicaid, you're required to obtain coverage on your own or pay a penalty. The plan is to have affordable options available through state-operated exchanges. Some low-to-moderate income families may be eligible for various subsidies.

■ Insurance exchanges

The health care exchanges in 14 states, as well as the federal government's default exchange, opened for business on October 1, 2013. Coverage will be available as of January 1, 2014, for an open enrollment period ending on March 31, 2014.

The plans offered under the health care law are divided into four categories with metallic names: platinum, gold, silver, and bronze. Premiums range from the highest for a platinum plan to the lowest for bronze. With a platinum plan, out-of-pocket costs such as co-payments are lower, while these costs are higher for bronze plans.

■ Tax credits

Individuals can apply for subsidies in the form of tax credits and other reductions to offset the cost of insurance purchased on an exchange. (The tax credits are sent to the insurance companies so individuals don't have to pay up-front.) Credits are available to individuals and families with income between 100% and 400% of the federal poverty level. Therefore, the upper threshold in 2013 is \$45,960 for an individual and \$94,200 for a family of four. However, even if your income falls below the threshold, you're not eligible for subsidies if your employer's plan meets the coverage standards.



■ Penalties

Beginning in 2014, failure to obtain coverage results in a penalty equal to the higher of 1% of your annual income or a flat fee of \$95 per person. The fee for uninsured children is \$47.50 per child, up to a maximum of \$285 per family. The IRS has been given the responsibility of enforcing the penalties.

Do you need more information? Visit the one-stop site for applications at healthcare.gov or call 800-318-2596. ■

Your source for information on tax and financial planning opportunities. Call us for details.

Busy IRS delays 2014 tax filing season

The 16-day government shut-down in October created sizable work backlogs at the IRS. The IRS reports that it received 400,000 pieces of correspondence during the closure, and that was in addition to the one million items already being processed prior to the shut-down.

The heavy demand on its services has resulted in the IRS deciding to delay the start of the 2014 filing season. Originally, the start date had been set for January 21, 2014. With the one- to two-week delay just announced by the IRS, the earliest the IRS will accept and process 2013 individual tax returns is January 28, 2014 (or possibly February 4, 2014).

The delay was made necessary, according to the IRS, to allow time to program, test, and validate IRS systems for the 2014 filing season, a job that normally is done during the fall of each year.

There is no delay in the filing deadline for 2013 individual tax returns, however. That deadline is set by law and remains April 15, 2014.

IRS issues ruling on marriage

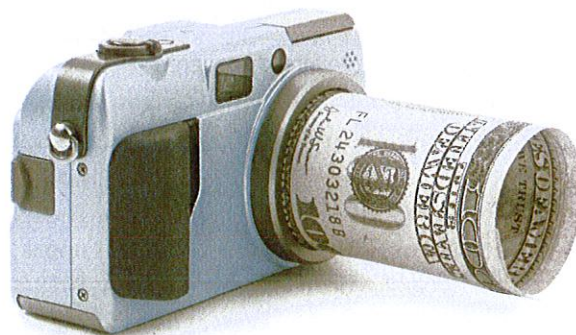
The IRS recently issued the "state of celebration" rule, giving guidance on how same-sex marriages will be treated for federal tax purposes. According to this ruling, the legality of the marriage will be determined by the laws of the state in which the marriage took place. If the "state of celebration" considered the marriage legal, it will be considered legal for federal tax purposes even if the couple's state of residence does not recognize same-sex marriages as legal. ■

Business or hobby? Nine factors help the IRS decide

The dividing line between a business and a hobby may be thin, but it can look like a canyon when you are on one side and your tax deductions are on the other. The gap is a function of differing treatment of expenses.

For example, when you incur ordinary and necessary expenses in the operation of your business, those costs reduce the taxable income of the business. In addition, business losses can generally be used to offset income from other sources, such as wages.

When your activity is considered a hobby, expenses can only be claimed to the extent of income from the activity, and are generally deductible as a miscellaneous itemized deduction on your personal return.



Here are nine ways to help convince the IRS that you have a business rather than a hobby.

- 1. Act like a business.** Keep accurate books, adopt new techniques and adjust your operating methods to improve profitability. Other good moves: advertising, purchasing insurance, and maintaining a bank account used only for the activity.
- 2. Expand your expertise.** The key here is to increase your knowledge of the economic aspects of your business. Seek relevant advice from experts on an ongoing basis.

- 3. Expend time and effort.** Focus your energy on the business to show profit intention. Hiring competent managers also indicates your intention to operate as a business.
- 4. Invest in appreciating assets.** A reasonable expectation that property you purchase will increase in value and help create an overall gain can show profit motive.
- 5. Create a record of success.** Have you run other businesses successfully, whether or not related to the present activity?
- 6. Establish a history of income.** No need to be nervous if your startup loses money the first year or two, or if losses in later years are the result of events that are out of your control, such as natural disasters. The general rule for proving your intention to operate a business is to make a profit in three of the last five years.
- 7. Show a profit.** No set amount of profit establishes business intent. Instead, compare the profit you have the opportunity to earn to the losses you may incur and the amount of your investment.
- 8. Check financing.** How are you financing the business? Do you have substantial income from other sources? Does the activity generate losses that provide tax benefits you might not otherwise enjoy?
- 9. Limit the fun factor.** Liking what you do does not necessarily turn a business into a hobby. However, substantial "recreational" aspects can lend weight to classification of your activity as a hobby.

Remember, no one factor is controlling. Instead, you need a pattern that establishes your intention to make a profit. ■

How to ease financial stress after a spouse's death

The death of a spouse can be a devastating experience, both emotionally and financially. As the survivor, you'll have to make important decisions while you're in what could be the most vulnerable and distracted stage of your life. The suggestions that follow might at least help ease your financial stress.

▶ Don't make major decisions right away. Put off selling your house, moving in with your grown children, giving everything away, liquidating your investments, or buying new financial products.

▶ Get professional help. You'll need an attorney to help interpret and explain the will and/or applicable law and implement the estate settlement; your accountant to provide financial advice and prepare the necessary tax documents; one or more insurance brokers to help with filing and collecting death benefits; and a funeral director, who in addition to the obvious services, can obtain needed copies of the death certificate.

▶ Gather and review any applicable documents, such as the decedent's social security card and statements, insurance policies, loan and lease agreements, your spouse's birth certificate, the death certificate, investment paperwork, mortgage statements and agreements, deeds, retirement plans and related statements, credit cards and credit card statements, employment and/or partnership agreements, divorce agreements, funeral directives and/or contracts, safe deposit box information, and tax returns. (You'll need a dozen or more copies of the death certificate to provide to insurance companies, government agencies, creditors, credit card agencies, banks, and a host of others.)

▶ Determine who must be paid, and when. You'll need to notify your spouse's creditors (including joint creditors) and continue paying for mortgages, car loans, credit cards, utilities, and insurance premiums not specific to your spouse. Notify health insurance companies (including

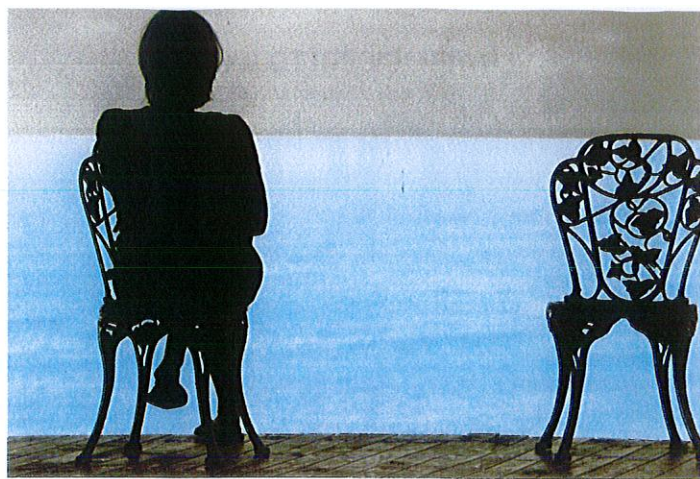
Medicare) that you'll no longer be paying your spouse's premiums, and cancel your spouse's memberships and subscriptions.

▶ Alert the credit card agencies (Experian, Equifax, and TransUnion). Request addition of a "deceased notice" and a "do not issue credit" statement to the decedent's file. Order credit reports, which will provide a complete record of your spouse's open credit cards.

▶ Determine what payments are due to you, such as insurance proceeds, social security or veteran's benefits, and pension payouts. File claims where needed.

▶ Maintain your joint checking account to facilitate the deposit of incoming checks payable to your spouse.

Finally, call us as soon as you can. We're always ready to advise and assist you, before or after life's tragic events. ■



Year-End Tax Moves

There's not much time left for you to make beneficial tax moves for 2013. Consider these possibilities.

• Maximize retirement plan contributions. For 2013, you can put \$17,500 in a 401(k) plan, \$12,000 in a SIMPLE, or \$5,500 in an IRA. If you're 50 or older, you can set aside even more as "catch-up" contributions.

• Decide whether to sell investments to offset gains or losses already taken this year. You can deduct \$3,000 of net losses against ordinary income.

• Estimate your tax liability for 2013, taking the new Medicare tax increases for higher-income taxpayers into account. If you'll be underpaid, adjust your

final quarterly tax payment or your December withholding.

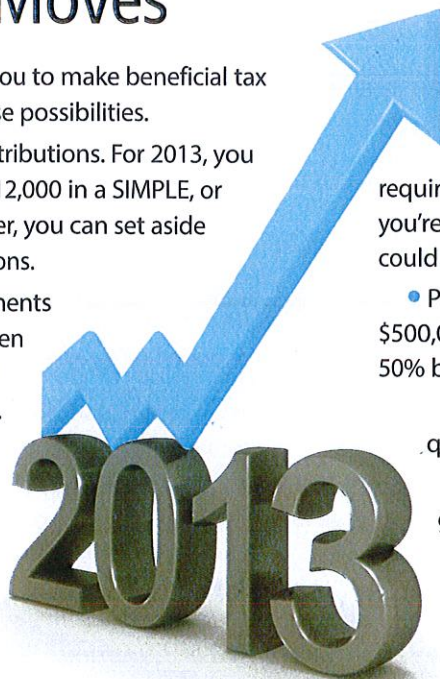
• December 31 is the deadline for taking a 2013 required minimum distribution from your traditional IRA if you're 70½ or older. Miss this requirement and a 50% penalty could apply.

• Purchase needed business equipment to use the first-year \$500,000 expensing option for new and used equipment and 50% bonus depreciation for new equipment.

• Make energy-saving home improvements that could qualify for a lifetime tax credit of up to \$500.

• Finalize annual gifts to use the 2013 exclusion from gift tax on gifts of up to \$14,000 per recipient.

Contact our office for details on these and other year-end tax moves. ■





ADDRESS SERVICE REQUESTED

1099s: A little form with a painful bite

When Congress tried unsuccessfully to expand the Form 1099 filing requirements a couple of years ago, at least one thing was accomplished. It raised awareness of an important IRS business reporting rule. And at \$100 per infraction, the penalty for ignoring this regulation can be painful.

That's right; the IRS can fine you \$100 for each 1099 form that you fail to file, up to a maximum penalty of \$1.5 million.

The most common Form 1099 is the 1099-MISC, which is used to report payments of \$600 or more to vendors who provide services to your business. Examples include payment for repairs, accounting services, consulting fees, and legal advice. Normally if the vendor is incorporated you do not need to send them a 1099-MISC, but there is one important exception. All payments to attorneys must be reported, whether they are incorporated or not.

Timely filing of the Form 1099-MISC is also critical. The form must be filed with the IRS by February 28 (unless you file electronically). But you must provide the vendor a copy of the form by January 31. Electronic filing is optional if you file fewer than 250 forms. If you have 250 or more forms to file, you are required to file electronically. The deadline for electronic filing is March 31.

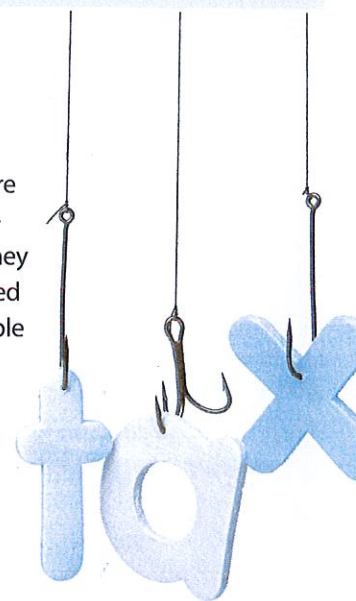
There are a few more twists. If you pay a vendor for parts and services, you must include the total of both of these on your form

as long as the parts or materials were incidental. If materials were the predominate nature of the payment, they are left out. Reporting is also required if you provide non-employees taxable fringe benefits or pay fees to your board of directors.

Looking for an easy solution to these requirements? Pay all your vendors by credit card. You do not have to report payments made by credit or debit card, or by services like PayPal. The bank or third-party payment provider is required to report those transactions.

There are other types of Form 1099 to watch for. A Form 1099-INT is used to report interest payments of \$10 or more to an individual in the course of a trade or business. Form 1099-R is used by investment companies to report distributions from retirement accounts and annuities. And businesses that make loans are required to disclose canceled debt on Form 1099-C if the amount is \$600 or more.

If these reporting rules leave you uncertain of your responsibilities, give our office a call. A little attention paid now might help prevent a painful penalty later. ■



NOTE: This newsletter is issued quarterly to provide you with an informative summary of current business, financial, and tax planning news and opportunities. Do not apply this general information to your specific situation without additional details. Be aware that the tax laws contain varying effective dates and numerous limitations and exceptions that cannot be summarized easily. For details and guidance in applying the tax rules to your individual circumstances, please contact us.