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Tax & Business letter

WINTER
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1099s: A little tax 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.

► 1099-MISC

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.

► Filing deadlines

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.

► More twists

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.

► Credit card payments

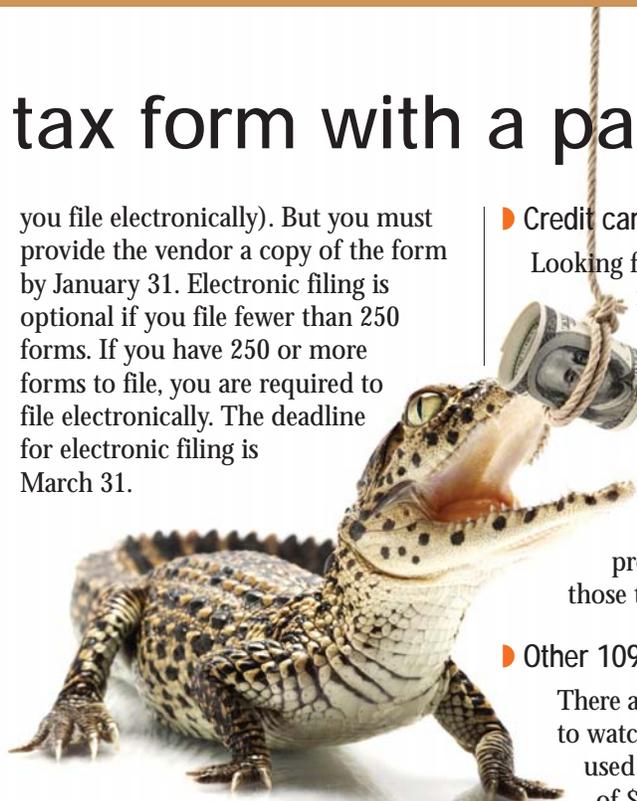
Looking for an easy solution to these requirements? Pay all your vendors by credit card.

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.

► Other 1099s

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. ♦





IRSTAX NOTES

IRS sends notices under Form 1099-K matching program

Form 1099-K is a new information return sent to businesses by “payment settlement entities” reporting the amount of credit card and other electronic receipts that were processed for the business. The IRS also receives a copy of Form 1099-K and cross checks the reported amounts with the business’s total income reported on its tax return. Where the numbers don’t seem to make sense, the IRS sends notices to businesses telling them they “may have underreported gross receipts.” Notices go on to say “This is based on your tax return and Form(s) 1099-K, Payment/Merchant Cards and Third Party Network Transactions that show an unusually high portion of receipts from card payments.”

The IRS has sent thousands of letters labeled “Notification of Possible Income Underreporting” to small business owners. The notification project is ongoing as part of the IRS’s campaign to deal with the “tax gap,” the difference between taxes owed and taxes actually collected.

If you receive a notice, contact us immediately so that we can determine what response is required.

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. ♦



Health care reform law gets underway for individuals

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. ♦

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.

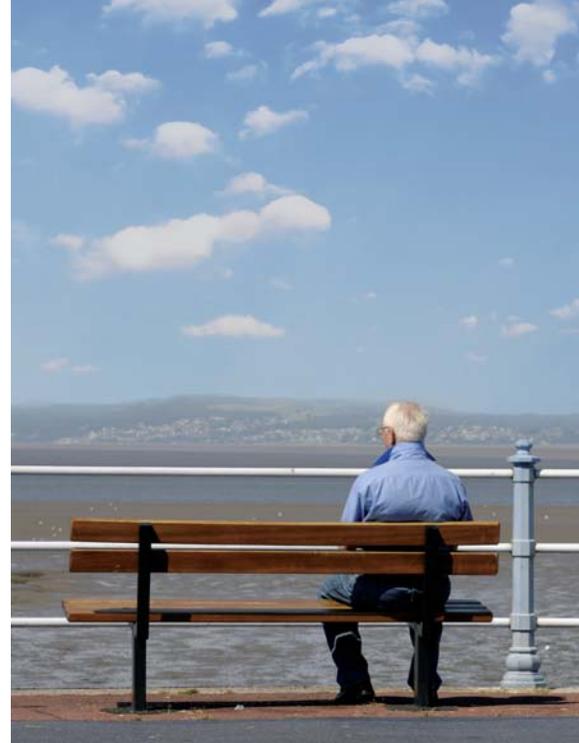
● **Get professional help.** You'll need an attorney to help interpret and explain the will and/or applicable law and implement the estate settlement; your accountant to provide financial advice and prepare the necessary tax documents; one or more insurance brokers to help with filing and collecting 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. ♦

THE Mangold Group

Certified Public Accountants, PC

With over 125 years combined experience as certified public accountants, we have the credentials and expertise to assist individuals and growing businesses in complex accounting and tax matters. We serve a variety of clients, with specializations in aviation, oil and gas, architecture, engineering, construction, and technology. Among our services are the following:

- Tax planning, projection, and preparation
- Business valuations
- Litigation consulting
- Compiled and reviewed financial statements.
- Outsource Accounting
- Family Office Services
- Accounting Software Consulting and custom QuickBooks add-ons.

Money tips for the younger generation

The earlier you start, the easier it will be to get ahead financially. Here are some recommendations for those in their early twenties.

• **Pay yourself first.** Every time you get paid, put something aside in a savings or investment account. As a general rule, save 10% of your income. Even smaller amounts add up over time.

• **Watch your plastic.** Credit cards are an expensive form of debt, and it's easy to lose control of them. Try to pay your entire credit balance every month, even if it's a stretch. If you've been carrying a balance, buy nothing more on credit until the balance is zero.

• **Keep a clean credit record.** If you plan to own a home, buy a car, or start a business, you're going to need squeaky-clean credit. Keep all of your financial obligations current, and never make a financial commitment that you can't keep. If you fall

behind on any obligation, talk to the creditor immediately to make alternative arrangements.

• **Make sure you have adequate medical coverage.** You may not see a doctor even once this year. But if you do need medical care, it could be for something serious and expensive. Anything less than a good major medical policy could ruin you financially.

• **Watch your expenses.** At this point in your career, you may not receive large or frequent pay raises, but you can achieve the same effect by cutting expenses. Shop before you buy. Very similar – and sometimes identical products – are sold at widely varying prices. Wise shopping can be the equivalent of having a good-paying second job.

For assistance with financial strategies suitable for your particular age and situation, give us a call. ♦



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

March 17 – Deadline for calendar-year corporations to elect S status for 2014.

March 17 – 2013 calendar-year corporation income tax returns are due. ♦

*March 31 if filing electronically.

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. ©MC

We appreciate your business. Please call any time we can be of assistance to you in your tax, financial, or business affairs.

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