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TaxScriptions

"A Prescription For Tax Relief"



Volume V Issue II

Featured Articles

2013 Year End Tax Planning
3.8% and .9% Surtaxes
Affordable Care Act
S Corporation Compensation
2013 & 2014 Tax Numbers

Looking to Cut Expenses?

Have you had your credit card merchant fees analyzed yet?

Rosen & Associates, LLP has been able to save our clients thousands of dollars in merchant fees by having them analyzed. Are your rates as low as possible?

For more information email us at info@rosencpagroup.com

Looking to Save Time?

- Streamline your Front Desk
- More time for your Office Manager to concentrate on collections

UPCOMING EVENTS

YANKEE DENTAL CONGRESS

January 29th - February 2, 2014

Please come by and see us at **Booth 815** to say hello and pick up the latest **"See How You Compare"** booklet (and a candy bar).

Mark Rosen, CPA, CFP®, will be speaking about "Building Your Accounting Foundation: Understanding What You Have Built" with Mike Young of Connect Pay, Saturday, Thursday, January 30th, 2014 from 8 am - 10 am.

Comments from the Corner Office

Year end tax planning could be especially productive this year because timely action could utilize tax breaks that will not be around next year unless Congress acts to extend them, which at the present time, looks doubtful. Rules that will expire at the end of this year include 50% bonus first year depreciation for most new machinery, equipment and software, an extraordinarily high \$500,000 expensing limitation and 15 year write-off for qualified leasehold improvements.

Like this time last year, we have again compiled some tax planning items that may help you save on taxes if you act before December 31st. Not all items will apply to your particular situation, but you (or a family member) will likely benefit from many of them.

Please feel free to call us if you have any questions or would like to discuss your tax planning strategies.

Larry

- **Less Staff Complaints** Managing Partner of Rosen & Associates, LLP

With all the new payroll laws changes, a switch to a payroll company to take over the payroll reporting may make sense for your Practice.

For more information please contact your Account Manager.

Important Tax Dates & Deadlines:

December 31, 2013

Individuals:

4th quarter state estimated tax payment due (if not subject to AMT)

January 15, 2014

Individuals:

4th quarter estimated tax payments due for federal and state (if subject to AMT)

January 31, 2014

Businesses:

4th quarter payroll returns due (Forms 940 and 941) W-2s need to be distributed to employees

1099 MISC furnished to recipients

February 17, 2014

Businesses:

Last day for filing W-4 by employees who wish to claim exemption from withholdings

February 28, 2014

Businesses:

File W-2's with Social Security Administration

2013 Year End Tax Planning

Individuals:

- Maximize Retirement!
- Consider selling capital assets in 2013 that will yield capital losses to offset 2013 capital gains. Depending on your AGI in 2013 gains may be subject to the extra **3.8% Surtax on Unearned Income**.
- To reduce or eliminate estimated tax penalties - increase your withholdings from wages or an eligible rollover distribution from a qualified retirement plan
- Possibly convert your traditional IRA into a Roth IRA if doing so is expected to produce better long-term tax results for you and your beneficiaries but be aware that it could push your AGI above the threshold for the 3.8% tax on unearned income
- Take required minimum distributions (RMD) from your IRA or 401(k) plan (or other employer-sponsored retired plan) if you have reached age 70 1/2. **Failure to take a required withdrawal can result in a penalty of 50% of the amount not withdrawn**
- Make annual exclusion gifts before year end to save gift tax. You can give \$14,000 in 2013 and 2014 to an unlimited number of individuals free of gift tax
- Gift appreciated stock to charity

Businesses:

- Purchase and place business equipment and machinery into service before year end to qualify for a **Section 179** deduction which is **\$500,000** for **2013** however it reverts back to **\$25,000** for **2014** (limitations may apply)
- Purchase and place **new** business equipment and machinery into service before 12/31/13 to qualify for 50% bonus first-year depreciation allowance (expires 1/1/14)
- Set up a self-employed retirement plan if you are self-employed and haven't done so yet
- If you are in the market for a heavy SUV (GVW > 6,000 lbs) consider purchasing before 12/31/13, due to a combination of favorable depreciation and expensing rules you may be able to write off most of the cost of the SUV
- Put your children on the payroll
- Consider using a credit card to prepay business expenses that can generate deductions for this year.
- **Work Opportunity Tax Credit (WOTC)** allows employers who hire qualified veterans before 1/1/14 (extended from 1/1/13) to receive a credit from \$2,400 to \$9,600 (depending on a variety of factors) per employee

These are just some of the year-end steps that can be taken to save taxes. Again, by contacting us, we can tailor a particular plan that will

File Annual 1099's with
IRS

work best for you.

March 17, 2014

3.8% Surtax on Unearned Income and .9% Surtax on Earned Income

Businesses:

File Corporate Income Tax
Return (Forms 1120,
1120s or 1120-A)

Under current law, higher-income taxpayers will face a 3.8% surtax on their *investment income and capital gains* under changes made by the Affordable Care Act.

OR

Corporate Extension Due
(Form 7004)

For 2013, there will also be an additional .9% surtax for Medicare on *earned income* for taxpayers with wages of more than \$200,000 for single filers and \$250,000 for joint filers. For these individuals the Medicare tax paid by the employee will increase from 1.45% to 2.35%. There is no additional .9% surtax for employers.

April 15, 2014

Individuals:

File Individual Income Tax
Returns (Forms 1040,
1040A or 1040-EZ)

For the full article please click on the following link: "*3.8 Surtax on Unearned Income and .9% Surtax on Earned Income*"

For more information on the Additional .9% Medicare Tax please click on the following link: "*IRS Q&A for Additional Medicare Tax*"

OR

Individual Extension Due
(Form 4868)

Affordable Care Act (ACA)

For recent developments on the Affordable Care Act please click on the following link: *Affordable Care Act*. As well as the IRS website "*Affordable Care Act (ACA) Tax Provisions*".

First Installment of
Individual Estimated Tax
Due (Form 1040-ES)

Estates and Trusts:

File Fiduciary Tax
Return (Form 1041)



MORR DENTAL SOLUTIONS

The Evolution of Practice Transitions

OR

Fiduciary Extension Due
(Form 7004)

Have you ever asked the question, "How much is my Practice worth?" or "How long will it take to sell my practice?"

Businesses:

File Partnership Income
Tax Return (Form 1065)

Contact Maria G. Melone of MORR Dental Solutions, LLC ("MORR") an affiliate of Rosen & Associates, LLP, to discuss these questions. MORR focuses on providing transition services for individuals, partners and dental groups of all sizes. The seasoned team has years of experience advising dentists, valuing practices, structuring buy-ins/buy-outs, and negotiating contracts between parties.

OR

Partnership Extension Due
(Form 7004)

Please visit Morr Dental Solutions, LLC at the ***Yankee Dental Congress, Booth 817*** or for MORR information contact Maria at (508) 475-3830 or mmelone@morrrds.com. You may also visit the website at www.morrrds.com.

April 30, 2014

Businesses:

1st quarter payroll returns
due (Form 941)

S Corporation Compensation

1st quarter sales tax
returns due

When computing compensation for employees and shareholders, S corporations may run into a variety of issues. The information below may help to clarify some of these concerns.

2013 Auto/Truck Depreciation Limits with 50% Bonus Rules (new vehicles)

Qualified Passenger Autos

<u>Tax Year</u>	<u>Amount</u>
1st Tax Year	\$11,160
2nd Tax Year	\$5,100
3rd Tax Year	\$3,050
Thereafter	\$1,875

Qualified Trucks and Vans

<u>Tax Year</u>	<u>Amount</u>
1st Tax Year	\$11,360
2nd Tax Year	\$5,400
3rd Tax Year	\$3,250
Thereafter	\$1,975

Tips For A Faster Individual Tax Return

Complete the Tax Organizer **before March 1st** and send all of the followings documents:

- Bank & Brokerage 1099s
- Settlement Stmt's for purchased or sold house
- Cost basis & date purchased for securities sold
- Mortgage 1098s
- Real Estate & Personal Property Taxes Paid
- Charitable Donations paid
- Form 1099-HC (MA Residents)

Reasonable Compensation

S corporations must pay reasonable compensation to a shareholder-employee in return for services that the employee provides to the corporation before non-wage distributions may be made to the shareholder-employee. The amount of reasonable compensation will never exceed the amount received by the shareholder either directly or indirectly.

The instructions to the Form 1120S, U.S. Income Tax Return for an S Corporation, state "Distributions and other payments by an S corporation to a corporate officer must be treated as wages to the extent the amounts are reasonable compensation for services rendered to the corporation."

Several court cases support the authority of the IRS to reclassify other forms of payments to a shareholder-employee as a wage expense which are subject to employment taxes.

The key to establishing reasonable compensation is determining what the shareholder-employee did for the S corporation. As such, we need to look to the source of the S corporation's gross receipts.

The three major sources are:

1. Services of shareholder,
2. Services of non-shareholder employees, or
3. Capital and equipment.

If the gross receipts and profits come from items 2 and 3, then that should not be associated with the shareholder-employee's personal services and it is reasonable that the shareholder would receive distributions along with compensations.

On the other hand, if most of the gross receipts and profits are associated with the shareholder's personal services, then most of the profit distribution should be allocated as compensation.

In addition to the shareholder-employee direct generation of gross receipts, the shareholder-employee should also be compensated for administrative work performed for the other income producing employees or assets. For example, a manager may not directly produce gross receipts, but he assists the other employees or assets which are producing the day-to-day gross receipts.

Some factors in determining reasonable compensation:

- Training and experience
- Duties and responsibilities
- Time and effort devoted to the business
- Dividend history
- Payments to non-shareholder employees
- Timing and manner of paying bonuses to key people
- What comparable businesses pay for similar services
- Compensation agreements
- The use of a formula to determine compensation

Frequently Asked Questions?

Additional information can be found at irs.gov

What is the standard business mileage rate for 2013? 56.5 cents per mile

What is the medical care mileage rate for 2013? 24 cents per mile

What is the long-term capital gain rate for 2013? 15% and 20%

Quick Links

Latest News & Events at Rosen & Associates, LLP

IRS

Massachusetts
Department of Revenue

Connecticut Department
of Revenue Services

New Hampshire
Department of Revenue
Administration

Rhode Island Division of
Taxation

Maine Revenue Services

Vermont Department of
Taxes

Academy of Dental CPAs

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2013 & 2014 Tax Numbers

	<u>2013</u>	<u>2014</u>
Annual Def. Contribution Plan Part. Dollar Limit	51,000	52,000
Annual Compensation Limit	255,000	260,000
401(k) Employee Elective Deferral Limit	17,500	17,500
401(k) Catch-Up Contribution Age 50 & Over	5,500	5,500
SIMPLE Plan Employee Elective Deferral Limit	12,000	12,000
SIMPLE Plan Catch-Up Contrib. Age 50 & Over	2,500	2,500
IRA (Roth Traditional) Contribution Limit	5,500	5,500
IRA Catch-Up Contrib. Limit Age 50 & Over	1,000	1,000
* Federal Lifetime Gift Tax Exclusion	5.12M	5.34M
* Federal Lifetime Estate Tax Exclusion	5.0M	5.34M
Maximum Federal Estate Tax Rate	40%	40%
Maximum Federal Gift Tax Rate	40%	40%
Annual Gift Tax Exclusion Per-Person Gifts	14,000	14,000
Section 179 First-Year Depreciation Limits	500,000	25,000
Social Security Taxable Wage Base	113,700	117,000
Standard Deduction (Single)	6,100	6,200
Standard Deduction (Married Filing Jointly)	12,200	12,400

* To be indexed for inflation after 1997

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