



Year-End Tax Tips for Small Business Owners

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With just a few days left, it appears that there will be no earth shattering changes coming out of Washington regarding our tax laws. We are still seeing confusion regarding the Affordable Care Act (see topic #2) and it is likely to continue on into 2014

Small business will see the sunset of some favored tax deductions (i.e. §179 Depreciation) so end-of-year planning is imperative (see topic #1) and gifting remains a viable year-end strategy (see topic #3)

Identity theft is everywhere (topic #4). Think of what would occur if you became the victim. A new concept for many is introduced in our final topic for this month – protecting your digital assets.

During this holiday season, please take the time to open the door for someone, empty your coins into the red kettle outside of the grocery store or just spend a few extra moments in the morning with those you care for and love before going to work. It's easy to do and the recipient of your gesture will be forever grateful.

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With the end of 2013 on the horizon, now may be an ideal time for business owners to review their tax strategies. If you're a business owner, here are just a few points to consider as you get ready to file your return.

Eligible equipment purchases and real estate investments

A number of tax provisions face possible expiration in 2013, unless extended by Congress. For this reason, business owners may want to consider making purchases and/or improvements now rather than putting them off until next year.

- **Internal Revenue Code (IRC) Section 179 expensing limit:** IRC Section 179 allows a small business owner to deduct, or "expense," certain qualified property placed into service during the tax year. If the total cost of the qualifying property placed into service during the year exceeds a certain dollar amount (the "investment ceiling"), the deduction limit will be reduced on a dollar-for-dollar basis. In 2013, the total amount that can be deducted is limited to \$500,000, and the investment ceiling is \$2 million. In 2014, those amounts are scheduled to drop to \$25,000 and \$200,000, respectively.
- **Qualified real property:** Up to \$250,000 of qualified real property, which can include leasehold improvement property, retail improvement property, and restaurant property, may be included as IRC Section 179 property for purposes of the expense deduction above. Special depreciation rules also apply to this property. Both the IRC Section 179 and depreciation provisions expire at the end of 2013, however.
- **50% bonus depreciation:** This provision allows business owners to take a first-year bonus depreciation deduction of 50% of the cost of a qualified item, over and above the

standard first-year depreciation amount. The provision will not apply after 2013.

When it comes to those deductions, it's best to consult a tax advisor to help you determine the best strategy for your business. See IRS Publication 946, How to Depreciate Property, for more information.

Work Opportunity Tax Credit

Another temporary provision is slated to expire at the end of this year, unless renewed by Congress: the Work Opportunity Tax Credit, which allows employers a credit of up to 40% of an eligible new hire's first-year wages (subject to a maximum credit limit). In order to claim the credit, new hires must be qualified and come from specific "targeted groups," including recipients of aid to families with dependent children or the supplemental nutritional aid program; veterans; ex-felons; residents who live in certain communities; vocational rehabilitation referrals; and SSI recipients. For more information, visit the IRS website (www.irs.gov) and review Form 8850 and its associated instructions.

Home office deduction

Finally, a new provision this year could benefit those who work out of their home. According to the U.S. Bureau of Labor Statistics, in 2010 there were 18.3 million home-based businesses (Source: "Home-Based Business Guide," Department of State, Family Liaison Office, November 2010). Yet the IRS recently reported that the number of taxpayers who claimed home office deductions in 2010 was just 3.4 million (Source: IRS news release, January 15, 2013). That may be why in 2013, the IRS launched its simplified home office deduction process. This "safe harbor" is designed to cut time and paperwork associated with taking the deduction. While the eligibility requirements do not change, the method of calculation does. Business owners may now choose to deduct \$5 per square foot of eligible office space, up to a 300-foot (\$1,500) maximum. The IRS has estimated that this safe harbor will save small businesses about 1.6 million hours each year in tax preparation time.

What's in Store for Health-Care Reform in 2014



Increase in small business tax credit

The maximum tax credit available to qualifying small employers (no more than 25 full-time equivalent employees) that offer health insurance to their employees increases to 50% of the qualifying employer's premium costs (35% for tax-exempt employers) on January 1, 2014. This is an increase from the maximum credit of 35% (25% for tax-exempt employers) that began in 2010.

While the Affordable Care Act (ACA) became law in 2010, several of the more substantive provisions of the law don't take effect until 2014. Here's a review of some of the key parts of the ACA that are scheduled to begin in 2014.

Individual mandate

The ACA imposes a shared responsibility mandate, which requires that most U.S. citizens and legal residents of all ages (including children and dependents) have minimum essential health coverage or pay a penalty tax, unless otherwise exempt. The monthly penalty is equal to the greater of a declared dollar amount (\$95 in 2014) or a percentage of the individual's gross income.

Note: The employer's mandate to provide coverage for employees was also scheduled to begin in 2014; however, the requirement will not be enforced until January 2015.

State Exchanges

The ACA requires that each state establish state-based American Health Benefit Exchanges for individuals and Small Business Health Options Program (SHOP) Exchanges for small employers. The Department of Health and Human Services will establish Exchanges in states that do not create the Exchanges. The general purpose of these Exchanges is to provide a single resource in each state for consumers and small businesses to compare health plans, get answers to questions, and enroll in a health plan that is both cost effective and meets their health-care needs.

Exchanges may only offer qualified health plans that cover essential benefits, limit out-of-pocket costs, and provide coverage based on four levels of cost sharing--bronze, silver, gold, and platinum. Also, tax credits and cost-sharing subsidies will be available to U.S. citizens and legal immigrants who buy health insurance through the health Exchanges.

Insurers must provide guaranteed issue and renewability of coverage

All individual and group plans must issue insurance to all applicants regardless of health status, medical condition, or prior medical expenses. Insurers must renew coverage for applicants even if their health status has changed. Grandfathered individual plans are exempt from these requirements. Grandfathered plans are those that were in existence prior to the enactment of the ACA (March 2010) and have not been significantly altered in subsequent years.

In the past, insurers used pre-existing medical condition provisions to deny coverage for care

related to the condition (pre-existing condition policy exclusion), increased the premium to cover the condition, or denied coverage altogether. Beginning January 1, 2014, the ACA prohibits insurers in group markets and individual markets (with the exception of grandfathered individual plans) from imposing pre-existing condition exclusions.

In keeping with the guaranteed availability of coverage, insurers may not charge individuals and small employers higher premiums based on health status or gender. Premiums may vary only based on family size, geography, age, and tobacco use.

Essential health benefits

All nongrandfathered small group and individual health plans must offer a package of essential health benefits from 10 benefit categories. The categories include ambulatory patient services, emergency services, hospitalization, laboratory services, maternity and newborn care, mental health and substance abuse treatment, prescription drugs, rehabilitative services and devices, preventive and wellness services, and pediatric services, including dental and vision.

Other policy provisions

The ACA also imposes several requirements and eliminates other provisions commonly found in insurance policies:

- Group and individual policies (including grandfathered plans) may not impose waiting periods longer than 90 days before coverage becomes effective.
- Annual deductible for small group (fewer than 50 full-time equivalent employees) health plans (excluding grandfathered plans) must not exceed \$2,000 per insured and \$4,000 per family. These amounts are indexed to increase in subsequent years.
- The most you'll pay annually for out-of-pocket expenses (deductibles, coinsurance, and co-pays) for all individual and group health plans (excluding grandfathered plans) cannot exceed the maximum out-of-pocket limits for health savings accounts (\$6,350 for individual/\$12,700 for family in 2014).
- All group health plans and nongrandfathered individual health plans can no longer impose annual or lifetime dollar limits on essential health benefits.

Gift Tax Strategies That Can Benefit Your Family



Now may be a great time to make gifts that take advantage of the current large gift tax applicable exclusion amount, low gift tax rates, depressed property values, and low interest rates.

Be aware, however, that if you make a gift to a person who is two or more generations younger than you, such as a grandchild, generation-skipping transfer (GST) tax may also apply. In general, annual exclusions, qualified transfers, and an exemption equal to the applicable exclusion amount are also available for GST tax purposes and the same 40% tax rate applies.

Today's large gift tax applicable exclusion amount, low gift tax rates, depressed property values, and low interest rates create a favorable environment for making certain gifts.

Federal gift tax basics

Annual exclusion. Each year, you can give a certain amount (\$14,000 in 2013 and 2014) to as many individuals as you like gift tax free.

Qualified transfers exclusion. You can give an unlimited amount on behalf of any individuals for tuition or medical expenses gift tax free. You must pay the amount directly to the educational or medical care provider.

Applicable exclusion amount. Gifts can also be sheltered by the applicable exclusion amount, which can protect gifts of up to \$5,340,000 (in 2014, \$5,250,000 in 2013). The dollar limit applies to all taxable gifts you make during your lifetime and to your estate at your death for federal estate tax purposes.

Basic planning

Generally, the first gifts you should consider making are annual exclusion and qualified transfer gifts. You can make annual exclusion gifts to anyone for any purpose. The annual exclusion is lost in any year in which you do not use it. While you can make unlimited gifts using the exclusion for qualified transfers, the gifts must be for educational and medical purposes.

You and your spouse can split gifts that either of you make. Doing so allows you and your spouse to effectively use each other's annual exclusions and applicable exclusion amount. For example, if you have 2 children, you and your spouse could make annual exclusion gifts totaling \$56,000 to your children (2 spouses x 2 children x \$14,000). If you make gifts of \$56,000 for 10 years, you will have transferred \$560,000 to your children free from gift tax.

Next, consider gifts that are sheltered by the applicable exclusion amount. But, remember that use of the applicable exclusion amount during life reduces the amount available for estate tax purposes at your death.

If you are likely to have a very large taxable estate at your death that could not be sheltered by the applicable exclusion amount, it might even make sense to make gifts that cause you to pay gift tax. For example, let's assume any additional transfer you make would be subject to the current top gift or estate tax rate of 40% and you make a taxable gift of \$1 million to your child on which you pay \$400,000 of gift tax. If you instead retained the \$1,400,000 until death, \$560,000 of estate tax would be due (\$1,400,000 x 40%), and only \$840,000 of the

\$1,400,000 would remain for your child. By making the taxable gift and paying gift taxes that reduced your taxable estate, you reduced taxes by \$160,000 while increasing the amount transferred to your child by the same \$160,000.

Gift considerations

If you have property whose value is depressed, now may be a good time to make a gift of it. The gift tax value of a gift is its fair market value, and a lower value means a smaller gift for gift tax purposes. However, you generally should not make gifts of property that would produce an income tax loss if sold (basis in excess of sales price). The person receiving the property would have a carryover basis and would not be able to claim the loss. In these cases, instead consider selling the property, claiming the loss, and making a gift of the sales proceeds.

Future appreciation on gifted property is removed from your gross estate for federal estate tax purposes. However, while property included in your estate generally receives a basis stepped up (or stepped down) to fair market value when you die, lifetime gifts do not. Therefore, you may wish to balance the gift tax advantage of a gift with carryover basis and income tax on gain if the property is sold against the income tax advantage of a stepped-up basis and estate tax (if any) if you retain the property until your death.

In the current low interest rate environment, you may wish to consider a grantor retained annuity trust (GRAT). In a GRAT, you transfer property to a trust, but retain a right to annuity payments for a term of years. After the trust term ends, the remaining trust property passes to your beneficiaries, such as family members. The value of the gift of a remainder interest is discounted for gift tax purposes to reflect that it will be received in the future. Also, if you survive the trust term, the trust property is not included in your gross estate for estate tax purposes. Any appreciation in the trust property that is greater than the IRS interest rate used to value the gift escapes gift and estate taxation. The lower the IRS interest rate, the more effective this technique generally is.

In the current low interest rate environment, you may also wish to consider a low-interest loan to family members. You are generally required to provide for adequate interest on the loan, or interest will be deemed for gift tax purposes. However, with the current low interest rates, you can provide loans at a very low rate and family members can effectively keep any earnings in excess of the interest they are required to pay you.

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What can I do to protect my username and password information from computer hackers?

At one time, computer hackers were viewed as a few rogue individuals who mainly worked alone. Today, many hackers are part of highly sophisticated networks that carry out well-organized cyber attacks. Unfortunately, these online security breaches can result in your username and password information being compromised.

Whenever you enter your personal information online, you'll want to make sure that you create a strong password to protect that information. Some tips for creating a strong password include:

- Avoid creating simple passwords that have a connection to your personal identity (e.g., date of birth, address) or that can be found in the dictionary
- Create a password that uses a nonsense word/random alphanumeric combination or an arbitrary, easy to remember phrase with mixed-up character types (e.g., upper/lower case, punctuation)
- Don't use the same password for multiple websites

- Use an online tool that allows you to test the strength of a password

If you have trouble keeping track of all of your password information or if you want an extra level of password protection, you may want to use some type of password management software. There are a variety of password managers on the market. Password managers typically work by using high-level encryption methods to store all of your online usernames and passwords on one secure server, using a single master password.

There are a few things you should consider when choosing a password manager. First, if you plan on needing your password information for use on various devices (e.g., tablet, smartphone), you will want to choose a password manager that has mobility features. In addition, some password managers offer added benefits such as web form fillers, which can come in handy if you do a lot of online shopping. Other features to look for include automatic log in and password generator capability.



What will happen to my digital assets if I die or become incapacitated?

In today's digital age, many individuals live at least a part of their life online. Whether you share your life with others through e-mail, Facebook posts, and tweets, or simply have a number of online, password protected accounts, you'll want to make plans for the disposition of all of your digital assets in the event of your death or incapacity.

Unfortunately, the laws governing digital assets are not well settled. Only a small number of states have estate laws that specifically cover digital assets, and those laws are relatively new and untested. As a result, you should consult an estate planning attorney for information on how digital assets are handled in your particular state.

For the most part, websites, blogs, and registered domain names are transferable under standard property and copyright laws. However, certain online accounts (e.g., e-mail, social media accounts) may not be transferrable, depending on the site's terms of service. Terms of service vary widely from site to site. Some sites will allow a person with the appropriate legal authority to access your

accounts upon your death. Others will put your accounts in a "memorial state" or permanently delete your account upon proper notification of your death.

The most important step you can take to protect your digital assets is to include them in your estate plan, just as you would your physical assets. Your first step should be to identify and inventory all of your digital assets. Make a list of where your assets are located and how they are accessed (e.g., username and password). Next, indicate what you wish to happen to your digital assets (e.g., transfer to an heir or terminate) and who will be responsible for carrying out those wishes (e.g., an executor). Be sure to refer to this inventory in your will (but keep it separate since your will eventually becomes public information).

If privacy issues surrounding your digital assets are a real concern, a number of online websites securely store all of your digital asset information and allow you to leave legacy instructions for a designated beneficiary or executor. The costs of these types of services vary, depending upon the services offered.