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Tax Planning Guide



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January 2013

Mark these tax deadlines on your 2013 calendar

It's time to file various tax returns once again. Among the tax deadlines you may be required to meet in the next few months are the following:

- **January 15** – Due date for the fourth quarterly installment of 2012 estimated taxes for individuals unless you file your tax return and pay any taxes due by January 31.
- **January 31** – Employers must furnish 2012 W-2 statements to employees. Payers must furnish payees with Form 1099s for various payments made. (The deadline for providing Form 1099-B and consolidated statements to customers is February 15.)
- **January 31** – Employers must generally file annual federal unemployment tax returns.
- **February 28** – Payers must file information returns, such as Form 1099s, with the IRS. This deadline is extended to April 1 for electronic filing.
- **February 28** – Employers must send Form W-2 copies to the Social Security Administration. This deadline is extended to April 1 for electronic filing.
- **March 1** – Farmers and fishermen who did not make 2012 estimated tax payments must file 2012 tax returns and pay taxes in full.
- **March 15** – 2012 calendar-year corporation income tax returns are due.
- **April 15** – 2012 federal partnership returns are due.
- **April 15** – Individual federal income tax returns for 2012 are due.

Understand “sunk costs” in making business decisions

Emotions add zest to life. They propel us to our feet when our favorite running back scores a touchdown. They warm us at an inspirational concert or movie. But in the realm of business, emotions sometimes hinder good choices. In fact, business owners and managers often let emotions dominate the decision-making process.

This is especially true when choices are based on “sunk costs.” Broadly defined, sunk costs are past expenses that are irrelevant to current decisions. For example, many firms hire consultants who sell and install software. In some cases, a company is still waiting – three or four years into the contract term – for a functional and error-free system. Meanwhile, costs continue to escalate. But are those costs relevant? Managers, especially those who initially procured the software and contractor, may reason that pulling the plug on a failed contract would be “wasting all that money we’ve spent.”

Not true. That money is “sunk”; it’s beside the point. Deciding to continue with a non-performing contract instead of staunching the flow of cash and changing course is irrational. It may be difficult to admit that a mistake was made. It may bruise the ego of the decision maker. But abandoning a failed contract is often the wisest decision. The only relevant costs are those that influence the company’s current and future operations.

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Irrelevant costs

Let’s say your firm hires a new salesman. You spend thousands of dollars sending him to training seminars. You assign mentors who take time from their busy schedules to provide on-the-job coaching and oversight. But despite your best efforts, the new hire isn’t working out. He doesn’t fit your firm’s culture; he doesn’t grasp the company’s goals and procedures; he doesn’t generate adequate revenues for the business.

As a manager, what should you do? At some point, you may need to terminate that employee and start over with someone else. But what about all that time and money you spent training and mentoring the new salesman? Those costs are irrelevant; they’re “sunk.” You can’t get them back. So the best decision – as of today – may involve cutting your losses and starting anew.

Other examples of sunk costs may be found in the areas of product research, advertising, inventory, equipment, investments, and other types of business expenses. In each of these areas, companies spend money that can’t be recovered, dollars that become irrelevant for current decision making. Throwing good money after bad won’t salvage a poor business investment – or a poor business decision.

Use adjusted tax numbers in your 2013 planning

- The IRS and the Social Security Administration have published some inflation-adjusted numbers for 2013. Use these numbers as you begin your tax and financial planning for 2013.
- Social security taxable wage limit for 2013 will be \$113,700. Retirees under full retirement age can earn up to \$15,120 without losing benefits.
- The threshold for unearned income a child can earn in 2013 without having the kiddie tax apply is \$2,000.
- The amount that can be given each year without paying gift tax is \$14,000 (\$28,000 for joint gifts).
- The amount that can be set aside in a health savings account is limited to \$3,250 for individuals and \$6,450 for families. Those 55 or older can contribute an additional \$1,000.
- The maximum salary deferral for a 401(k) increases in 2013 to \$17,500. The catch-up limit for those 50 or older remains unchanged at \$5,500.
- The maximum IRA contribution limit increases to \$5,500; the limit for those 50 or older is \$6,500.
- The maximum salary deferral for SIMPLEs increases in 2013 to \$12,000. The catch-up limit for those 50 or older remains unchanged at \$2,500.

Contact our office if you have questions or wish to discuss early 2013 tax planning



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