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Tax Planning Guide

October 2013

Tax filing reminders

October 1 – Generally, the deadline for businesses to adopt a SIMPLE retirement plan for 2013.

October 15 – Filing deadline for 2012 individual tax returns on automatic six-month extension of the April 15 deadline.

October 15 – If you converted a regular IRA to a Roth in 2012 and now want to switch back to a regular IRA, you have until October 15, 2013, to do so without penalty.

Manage your business with a few key numbers
Regardless of the type of business you're running – whether it's selling electronics, making furniture, or servicing automobiles – monitoring a few key financial indicators is often all that's needed to keep your company growing and prosperous. On the other hand, neglecting a firm's vital signs can lead to management by crisis and corrective action that's too little, too late.

A prudent business owner won't wait until the end of the year (or even the end of the quarter) to learn that revenues are declining, inventories are shrinking, or payroll expenses are spiraling out of control. Although annual financial statements provide historical perspective and a wealth of data for long-term planning, correcting current problems is a matter of timely insight and informed analysis. You want to know whether your business is losing money or growing – now, not later.

A company's key financial indicators often fall into one or more of the following categories:

Orders and returns. Are you selling more units over time? To find out, look at your sales figures by units. Tracking revenues alone may present a false picture. After all, revenues may be growing because prices have increased. If unit sales are declining, you might be losing market share. Are customers returning more and more of your products? Are complaints increasing? If so, it may be time to examine your quality control process or return policy.

Breakeven point. If you need more cash this month to cover fixed and variable costs, are you generating enough revenue to break even? If you're dipping into reserves to cover revenue shortfalls, adjustments may be required. Expenses may need to be slashed, a new advertising campaign launched, or a new and cheaper supplier procured.

Liquidity. Knowing the availability of cash is vital to every business. That's why reconciling the firm's bank statements shouldn't be an afterthought. Every month your accountant or bookkeeper should ensure that your general ledger agrees with the bank's records of deposits and withdrawals. If a company is "bleeding cash," the bank statements should tell the story.

Inventory. Controlling the stuff that's weighing down your retail shelves or accumulating in your warehouse is often a key to profitability. Buying too many items may lead to excessive storage costs; buying too little may lead to burgeoning backorders and lost sales.

Payroll. Staff size should be commensurate with revenues. Medium-sized firms, especially, may find that labor expenses grow too rapidly. A decline in orders may signal a need to reduce payroll costs.
By carefully analyzing your firm's operations, you'll be able to identify the indicators that provide the clearest view of your company's ongoing profitability.
Over time your business's key numbers may change. The secret is to know your company, identify changing conditions, and adapt. A brief but timely report that presents the numbers that really matter will help to keep your firm on the right track.

What you need to know about estate and gift taxes
Income tax, payroll tax, capital gains tax – the fiscal-cliff law passed in January changed many areas of the Internal Revenue Code, including one you might not have focused on lately: estate and gift taxes. Here's what you need to know.
What's the current estate and gift tax exclusion? The exclusion is the amount you can transfer during your lifetime and via your will before estate or gift tax is due. It consists of two items.The basic exclusion is $5 million, and is adjusted for inflation annually. For 2013, the basic exclusion after inflation adjustments is $5,250,000.

The second part of the applicable exclusion benefits married couples. When you're married, your total exclusion can also include the unused portion of your deceased spouse's basic exclusion. Executors make this "portability" election by filing an estate tax return, even if an estate is not taxable and might not otherwise need to file. Your personal basic exclusion plus the power to take advantage of portability means you and your spouse can transfer up to $10.5 million to your heirs, free of estate and gift tax.

Can you still make tax-free annual gifts? Yes. During 2013, you can give to as many people as you choose up to $14,000, gift-tax free. If you're married, you and your spouse can combine your individual $14,000 annual exclusions and give up to $28,000 gift-tax free this year.As long as your gifts remain under the annual exclusion amount, they have no impact on your $5.25 million exclusion.

You can also make unlimited payments for unreimbursed medical expenses and tuition, gift-tax-free, when you pay the fees directly to the medical care provider or qualified school. These payments are not considered gifts and do not reduce your applicable exclusion, even if the people who benefit are unrelated to you.

Gifts between spouses are also excluded from gift tax, though an annual limit applies when your spouse is not a U.S. citizen.If your total assets are less than $5.25 million, do you still need an estate plan? Yes, and here's why: Your estate plan encompasses your will, beneficiary designations, asset titling, trusts, life insurance, powers of attorney, guardianship issues, and end-of-life health care directives. These documents and decisions affect the settlement of your estate as well as the financial interests of your heirs and should be reviewed with your attorney and accountant.In addition, state tax law can vary from federal rules. An estate plan helps ensure that your family receives the maximum benefit from available credits, deductions, exemptions, and exclusions. Take time to review your plan under the current rules.

This newsletter provides business, financial, and tax information to clients and friends of our firm. This general information should not be acted upon without first determining its application to your specific situation. For further details on any article, please contact us.

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