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Certified Public Accountants
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COMMITTED TO YOUR SUCCESS

Fall 2013

YEAR-END TAX PLANNING

As we approach year-end, it's again time to focus on last-minute moves you can make to save taxes—both on your 2013 return and in future years. To get you started, we've included a few money-saving ideas here that you may want to put in action before the end of the year. Contact us if you have questions about which ideas may be appropriate for you or if you want to discuss other tax-saving strategies.

If you own your own business and have plans to buy a business computer, software, office furniture, equipment or other tangible business property, you might consider doing so before year-end to take advantage of the temporarily increased Section 179 deduction and the temporary 50% bonus depreciation. For 2013, the maximum Section 179 deduction is $500,000. This means a business can often claim first-year write-offs for the entire cost of new and used equipment and software additions. In addition to the bumped-up Section 179 deduction, you can also claim first-year bonus depreciation equal to 50% of the cost (reduced by the Section 179 deduction claimed) of most new (not used) equipment and software placed in service during 2013. Unless Congress takes further action, the Section 179 deduction will drop to about $25,000 in 2014 and the 50% first-year bonus depreciation break will expire at year-end.

For 2013, the standard deduction is $12,200 for married taxpayers filing joint returns. For single taxpayers, the amount is $6,100. Currently, it looks like these amounts will be about the same for 2014. If your total itemized deductions each year are normally close to these amounts, you may be able to leverage the benefit of your deductions by bunching deductions in every other year. This allows you to time your itemized deductions so they are high in one year and low in the next. For instance, you might consider moving charitable donations you normally would make in early 2014 to the end of 2013. If you're temporarily short on cash, charge the contribution to a credit card—it is deductible in the year charged, not when payment is made on the card. You can also accelerate payments of your real estate taxes or state income taxes otherwise due in early 2014. But, watch out for the Alternative Minimum Tax (AMT), as these taxes are not deductible for AMT purposes.

Charitable contributions are only deductible if you have proper documentation. For cash contributions of less than $250, this means you must have either a bank record that supports the donation (such as a cancelled check or credit card receipt) or a written statement from the charity that meets tax-law requirements. For cash donations of $250 or more, a bank record is not enough. You must obtain (by the time your tax return is filed), a charity-provided statement that shows

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CALL US TODAY to set up a year-end tax planning meeting! 253-852-8500

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the amount of the donation and lists any significant goods or services received in return for the donation (other than intangible religious benefits) or specifically states that you received no goods or services from the charity.

If you're age 70½ or older, you can arrange to transfer up to $100,000 of otherwise taxable IRA money to a charity. Such a transfer is federal-income-tax-free to you, but you don't get to claim a charitable deduction on your Form 1040. However, the tax-free treatment equates to a 100% write-off, and you don't have to itemize your deductions to get it. Be careful—to qualify for this special tax break, the funds must be transferred directly from your IRA to the charity. Also, this favorable provision will expire at the end of this year unless Congress extends it. So, this could be your last chance.

Many tax breaks are only available to taxpayers with adjusted gross income (AGI) below certain levels. Some common AGI-based tax breaks include the child tax credit (phase-out begins at $110,000 for married couples and $75,000 for heads-of-households), the $25,000 rental real estate passive loss allowance (phase-out range of $100,000-$150,000 for most taxpayers), and the exclusion of social security benefits ($32,000 threshold for married filers; $25,000 for other filers). In addition, for 2013, taxpayers with AGI over $300,000 for married filers, $250,000 for singles, and $275,000 for heads-of-households begin losing part of their personal exemptions and itemized deductions. Accordingly, strategies that lower your income or increase certain deductions might not only reduce your taxable income, but also help increase some of your other tax deductions and credits.

Finally, watch out for the AMT in all of your planning. What may be a great move for regular tax purposes may create or increase an AMT problem.

Ideas for the office

Maximize contributions to 401(k) plans. If you have a 401(k) plan at work, it's just about time to tell your company how much you want to set aside on a tax-free basis for next year. Contribute as much as you can stand, especially if your employer makes matching contributions. You give up "free money" when you fail to participate to the max for the match.

Take advantage of Flexible Spending Accounts (FSAs). If your company has a healthcare and/or dependent care FSA, before year-end you must specify how much of your 2014 salary to convert into tax-free contributions to the plan. You can then take tax-free withdrawals next year to reimburse yourself for out-of-pocket medical and dental expenses and qualifying dependent care costs. Watch out, though, FSAs are "use-it-or-lose-it" accounts -- you don't want to set aside more than what you'll likely have in qualifying expenses for the year.

Married couples who both have access to FSAs will also need to decide whose FSA to use. If one spouse's salary is likely to be higher than what's known as the FICA wage limit (which is $113,700 for this year and will likely be somewhat higher next year) and the other spouse's will be less, the one with the smaller salary should fund as much of the couple's FSA needs as possible. The reason is the 6.2% social security tax levy for 2014 is set to stop at the FICA wage limit (and doesn't apply at all to money put into an FSA). Thus, for example, if one spouse earns $120,000 and the other $40,000 and they want to collectively set aside $5,000 in their FSAs, they can save $310 (6.2% of $5,000) by having the full amount taken from the lower-paid spouse's salary versus having 100% taken from the other one's wages. Of course, either way, the couple will also save approximately $1,400 in income and Medicare taxes because of the FSAs.

If you currently have a healthcare FSA, make sure you drain it by incurring eligible expenses before the deadline for this year. Otherwise, you'll lose the remaining balance. It's not that hard to drum some things up: new glasses or contacts, dental work you've been putting off, or prescriptions that can be filled early.

Adjust your federal income tax withholding. As stated earlier, higher-income individuals will likely see their taxes go up this year. This makes it more important than ever to do the calculations to see where you stand before the end of the year. If it looks like you are going to owe income taxes for 2013, consider bumping up the federal income taxes withheld from your paychecks now through the end of the year. When you file your return, you will still have to pay any taxes due less the amount paid in. However, as long as your total tax payments (estimated payments plus withholdings) equal at least 90% of your 2013 liability or, if smaller, 100% of your 2012 liability (110% if your 2012 adjusted gross income exceeded $150,000; $75,000 for married individuals who filed separate returns), penalties will be minimized, if not eliminated.

Don't overlook estate planning

For 2013, the unified federal gift and estate tax exemption is a historically generous $5.25 million, and the federal estate tax rate is a historically reasonable 40%. Even if you already have an estate plan, it may need updating to reflect the current estate and gift tax rules. Also, you may need to make some changes for reasons that have nothing to do with taxes.

Through careful planning, it's possible your 2013 tax liability can still be significantly reduced, but don't delay. The longer you wait, the less likely it is that you'll be able to achieve a meaningful reduction. The ideas discussed in this letter are a good way to get you started with year-end planning, but they're no substitute for personalized professional assistance. Please don't hesitate to call us with questions or for additional strategies on reducing your tax bill. We'd be glad to set up a planning meeting or assist you in any way we can.

Thank you for your referrals!

We appreciate the confidence you have in our services to recommend us to other individuals and businesses.

IMPORTANCE OF ANNUAL MEETINGS

As you are probably aware, one of the requirements for maintaining a corporation's existence (and the liability protection that it affords) is that the shareholders and Board of Directors must meet at least annually. Although most people view this requirement as a necessary evil, it doesn't have to be a waste of time. For example, in addition to being a first step in making sure the corporation is respected as a separate legal entity, an annual meeting can be used as an important tool to support your company's tax positions.

Besides the election of officers and directors, other actions that should be considered at the annual meeting include the directors approving the accrual of any bonuses and retirement plan contributions, and ratifying key actions taken by corporate officers during the year. The directors should also specifically approve any loans to shareholders to lessen the opportunity for the IRS to reclass the loans as taxable dividends. In addition, if the corporation is accumulating a significant amount of earnings, the minutes of the meeting should generally spell out the reasons for the accumulation to help prevent an IRS attempt to assess the accumulated earnings tax.

These are just a few examples of why well-documented annual meetings can be an important part of a corporation's tax records. We would be happy to be involved in your company's annual meeting and to assist in making sure tax-effective minutes of the meeting are prepared. When scheduled shortly before the corporation's year-end, many companies consider the annual meeting as an opportune time for their accountant and attorney to plan together for the wrap up of the year. Please feel free to call us as the time for your annual meeting draws near.

DEDUCTIONS FOR HEAVY SUV'S, VANS AND TRUCKS

As you have probably heard, businesses can claim substantial deductions for heavy (over 6,000 pounds loaded gross vehicle weight) SUVs, trucks, and vans used primarily (over 50% of the time) in the business. For a heavy SUV, the business can deduct up to $25,000 of the SUV's cost in the year it is purchased. Also, the rules that limit the amount of annual depreciation allowed on passenger automobiles do not apply to these heavy SUVs. This means that, for new vehicles placed in service in 2013, 50% of the remaining cost of the heavy SUV can be written off as bonus depreciation in 2013, with the balance written off over five years.

All this can add up to a substantial first-year deduction. For example, the maximum first-year depreciation deduction for a new $65,000 heavy SUV placed in service during 2013 and used 100% for business will generally be $49,000. The maximum first-year depreciation deduction for a new $65,000 passenger auto with gross vehicle weight of 6,000 pounds or less placed in service during 2013 and used 100% for business will only be $11,160 ($11,360 for a light truck or van).

Under tax law, the term heavy SUV means an SUV, truck or van that has a gross vehicle weight rating—the manufacturer's maximum weight rating when loaded to capacity—above 6,000 and less than 14,001 pounds. However, a vehicle that otherwise meets this definition is not classified as a heavy SUV (and, thus qualifies for even more favorable rules) if any of the following apply:

- It is equipped with a cargo area of at least six feet in interior length. The cargo area cannot be readily accessible directly from the passenger compartment, but it can be either open or enclosed by a cab. Many pickups with full-size cargo beds will qualify for this exception, but "quad cabs" and "extended cabs" with shorter cargo beds may not qualify.
- It can seat more than nine passengers behind the driver's seat (such as hotel shuttle vans).
- It has an integral enclosure that fully encloses the driver's compartment and load carrying device, does not have seating behind the driver's seat, and has no body section protruding more than 30 inches ahead of the leading edge of the windshield (such as delivery vans).

For these heavy non-SUVs, the full expensing deduction ($500,000 for

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DEDUCTIONS FOR HEAVY SUV'S VANS AND TRUCKS

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2013) may be available. This means that businesses will often be able to write off the full cost of the vehicle in the year it is purchased.

Unless Congress takes action, bonus depreciation won't be available after 2013. Furthermore, the $500,000 full expensing deduction will drop to $25,000 after 2013. So, if you are on the fence about buying a heavy vehicle (SUV or non-SUV) this year or next, it may make sense to do it sooner rather than later.

To claim these deductions, you must establish through contemporaneous records (such as a mileage log) that you use the vehicle over 50% of the time for business. If your business usage later falls below 51%, a portion of the deductions previously claimed will need to be recaptured and reported as ordinary income in that year.

As you can see, the deductions for purchasing a heavy SUV (or non-SUV) for use primarily in your business can be substantial. Attached is a list of vehicles (SUVs and non-SUVs) qualifying for larger deductions. If you would like more details, please do not hesitate to call.

Vehicles with GVWRs above 6,000 Pounds					
Audi	Audi Q7	**GMC**	Acadia Savana Sierra Yukon	**Mercedes**	G Class GL Class M Class
BMW	X5 M X6 M	**Honda**	Pilot Ridgeline	**Nissan**	Armada NV Titan
Buick	Enclave	**Infiniti**	QX80	**Porsche**	Cayenne
Cadillac	Escalade	**Jeep**	Grand Cherokee	**Ram**	Ram Cargo Van Ram 1500, 2500, 3500 Promaster 1500, 2500, 2500
Chevrolet	Express Van Silverado Suburban Tahoe Traverse	**Land Rover**	LR4 Range Rover	**Toyota**	4Runner Land Cruiser Sequoia Tundra
Dodge	Durango	**Lexus**	GX460 LX570	**Volkswagen**	Touareg
Ford	Explorer E150, E250 & E350 Super Duty F150, F250, F350 & F450	**Lincoln**	Navigator	**Volvo**	XC90

INQUIRING MINDS WANT TO KNOW... HAVE YOU IMPLEMENTED A WHISTLEBLOWER POLICY?

By Jessica Kinney, CPA, CFE, Manager

A whistleblower policy encourages staff and volunteers to come forward with credible information on illegal practices or violations of adopted policies of the organization and specifies that the organization will protect the individual from retaliation, and identifies those staff or board members or outside parties to whom such information can be reported.

The keys to implementing an effective whistleblower program include the following:

- Anonymity -- the program should be operated by an independent third party with trained interviewers that is available 24/7, 365 days a year.
- Protocols -- for distribution of each type of complaint to appropriate individuals.
- Training -- fraud/ethics awareness training for all employees.
- Strong tone at the top -- management should acknowledge and promote the program.
- Communication -- written policies and procedures that are distributed to all employees.

Shannon & Associates has partnered with Red Flag Reporting to offer an independent hotline which helps directly satisfy this need. For information on implementing a whistleblower program in your organization, contact Jessica Kinney, CPA, CFE at jkinney@shannon-cpas.com or 253-852-8500.

DO YOU KNOW WHERE YOUR INTANGIBLES ARE?

by David Volkert, Senior Accountant

Recent Washington Tax Determination 12-0191 highlights a potential Business and Occupation tax pitfall relating to selling intangible property.

The taxpayer in question receives individual fishing quota (IFQ) shares for the sablefish and halibut fisheries off the coast of Alaska. The taxpayer has been selling these shares to other fishing companies rather than catching the fish themselves and did not pay any B&O tax on the sales. They believed that as the IFQ shares were fishing rights in the state of Alaska, the sales were not subject to Washington State taxation. Under audit, the Washington Department of Revenue assessed the service and other B&O tax rate on these sales with penalties and interest.

This is where the Latin phrase "mobilia sequuntur personam" comes in. Roughly translating to movable goods follow the person, it's an old common law legal term which in present day is often used with intangibles. The fundamental idea being that the intangible property, which has no physical location, must reside in the same location as its owner.

The appeals division ruled that as the IFQ shares are a right (an intangible) to harvest a certain number of fish, not the fish themselves, the Department was correct in sourcing the revenue to Washington as the seller was a Washington State resident.

This case in particular dealt with the issue of sourcing the revenue prior to 2010's change to economic nexus and apportioning certain types of revenue. Under the 2010 revision, the sale of IFQs could be sourced to Alaska if the taxpayer qualified for apportioning its revenue by meeting one of the following criteria for a calendar year:

- $50,000 of payroll in Alaska
- $50,000 of property in Alaska
- $250,000 of gross income sourced in Alaska
- Have at least 25% of the total property, payroll or sales in Alaska

So if the taxpayer had $200,000 of gross receipts sourced to Alaska and $800,000 of gross receipts sourced to Washington, they would not be able to apportion any of the income to Alaska and would pay B&O tax on the full $1,000,000 as the Alaska sales are neither greater than $250,000 or 25% of the total gross receipts.

Will this affect you?

If you're licensing an intangible to out-of-state customers, you'll want to consider Washington's apportionment rules in determining if the sale is subject to Washington State taxation. It could make for a sizable audit adjustment.

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