BottomLine

Just a quick chat from your accounting firm

FredrickZink & Associates
A professional corporation. | CPAs

Winter 2013

2013 – A Year In Review

When we Googled (that's an official verb now...if you don't believe us...Google it) "*2013 Year in Review*" – we found that most of what appeared was negative remembrances of the year gone by. From the courtroom dramas of Paula Deen, Aaron Hernandez (NE Patriots), George Zimmerman and the seemingly all-important Jodi Arias to the tragedies of the Boston Marthon and Syrian Civil War, and of course the politics of the Obama Care/Affordable Care Act and our Congress in general.

We don't think that's a good way to look at 2013. We think, and maybe it's because we have the great fortune of living in a place like Durango, Colorado, that the year in review should focus on all the good we hear about. And maybe more importantly, the good that happens in silence and in private with humility and grace.

So here's a couple we liked that we found on Google: The world got a new Pope — Mario Jorge Bergoglio — Pope Francis — and seems to like him so far. And a Royal baby boy was born to Prince William and Kate, the Duchess of Cambridge. His name is His Royal highness Prince George Alexander Louis of Cambridge.

Here's some local good news:
We've seen favorable economic conditions rise like a new construction project from the prior quiet. And new constructions projects literally are being completed from downtown to along the river to Three Springs. We've experienced the blue and white of winter, the growth of spring, the vastness of summer and the color of fall all in one year in this amazing place we call home.

We have had a successful year in business with fantastic clients and exciting challenges and opportunities. We have enjoyed another year with family, friends — young and old.

Apparently Kris Kristofferson said after a visit to Durango: "If you're lucky enough to live in Durango, you're lucky enough." So when you look at your year in review....let's pick the good things to reflect on, and hope for many more in 2014. HAPPY New Year!

Chuck Fredrick, CPA

Sidny Zink, CPA

FredrickZink & Associates, is pleased to announce The Accounting Formula!

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How Do You Spell Relief? Congress Spells It ATRA.

2013 TAX DEVELOPMENTS IMPACTING INDIVIDUALS

On January 1, 2013, Congress passed the ***"American Tax Relief Act ("ATRA") Of 2012."*** This major tax legislation permanently retains the Bush-era tax rates for lower and moderate income individuals, while also permanently raising the highest tax rates on regular income, dividends, and capital gains for individuals with higher incomes; establishes a permanent lifetime gift and estate tax exemption amount of $5 million as adjusted for inflation ($5.25 million for 2013) and sets a top estate and gift tax rate of 40%; and locks in alternative minimum tax (AMT) relief with no sunset dates. In addition, the legislation retroactively extended (or made permanent) ***a long list of tax breaks*** for both individuals and businesses that had recently expired. Our reference to ***"permanent"*** means that the provision ***has no sunset date*** after ATRA (Congress could always change these provisions with future legislation).

• **Highest "Ordinary" Income Tax Rate For Individuals Increased To 39.6%.** Although ATRA permanently continues the Bush-era 10% to 35% income tax brackets, it added an additional 39.6% tax bracket for higher income individuals. ***$450,000*** for married couples ***filing joint returns*** ($225,000 if married filing separate returns); ***$400,000*** for ***single filers***; and ***$425,000*** for ***heads of households***.

• **Highest "Income Tax" Rate For Estates And Trusts Increased To 39.6%.** ***Beginning in 2013***, ATRA permanently increases the highest income tax rate for income taxed to a trust or estate from 35% to 39.6%. For 2013, the 39.6% rate applies to trust or estate taxable income that ***exceeds $11,950***. **TAX TIP:** The income threshold for taxing an individual at 39.6% (e.g., $400,000 if single) is substantially higher than the income level for taxing a trust or estate at 39.6% (i.e., $11,950 for 2013). Consequently, ATRA has created an additional tax incentive for distributing trust or estate income to an individual beneficiary where the beneficiary's income is taxed in a lower tax bracket.

• **Highest Long-Term Capital Gain And Qualified Dividend Rates Increased To 20%.** ATRA permanently retains the maximum long-term capital gain and qualified dividend rates at 15% for lower and moderate income individuals. ATRA also permanently retains the zero percent tax rate for long-term capital gains and qualified dividends where the capital gain or dividend income would otherwise (if ordinary income) be taxed in the 15% or 10% tax brackets. However, ***beginning in 2013***, for long-term capital gains or qualified dividends that would otherwise be taxed in the 39.6% bracket, ATRA increases the rate to 20%. Trust And Estates. For long-term capital gains and/or qualified dividends that would otherwise be taxed in the 39.6% bracket of a trust or estate (i.e., for 2013, where taxable income exceeds $11,950), ATRA permanently increases the rate to 20%. **TAX TIP:** The retention of the zero percent rate for long-term capital gains and qualified dividends is particularly important to lower-income retirees who rely largely on investment portfolios that generate dividends and long-term capital gains.

Personal Exemption And Itemized Deduction Phase-Outs Reinstated.
During most of the past two decades, higher-income individuals were subject to an income phase-out provision that reduced their ***personal exemptions*** and ***itemized deductions*** as their income exceeded certain thresholds. All individuals were given a three-year reprieve from these phase-outs from ***2010 through 2012***. Under ATRA, ***beginning in 2013***, these phase-out provisions are permanently reinstated for individuals with ***adjusted gross incomes*** exceeding the following threshold amounts: ***$300,000*** for married couples ***filing joint returns*** ($150,000 if married filing separately); ***$250,000*** for ***single filers***; and ***$275,000*** for ***heads of households***. **TAX TIP:** The phase-out provisions ***do***

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THE AFFORDABLE CARE ACT

Last summer, the United States Supreme Court upheld the constitutionality of the ***"Affordable Care Act"*** (ACA) removing most of the ***"constitutional"*** issues surrounding health care reform. In addition to changing the rules for the health care industry, ACA contains several critically-important ***"tax provisions"*** that are designed to serve as the ***"enforcement mechanisms"*** for ACA's health insurance mandates. More specifically, ***beginning in 2014***, these ACA "tax provisions" generally: ***1)*** require individuals to maintain qualified health insurance coverage, or pay an excise tax with their individual income tax returns (the ***"Individual Mandate"***); ***2)*** allow certain low-and-middle income individuals a refundable income tax credit that will also be reported on an individual's income tax return (the ***"Premium Assistance Credit"***) to help pay for health insurance premiums; and ***3)*** require employers that employ at least 50 employees to offer qualified health care coverage to employees or pay an excise tax ***if at least one full-time employee receives*** the premium assistance credit (the ***"Employer Mandate"***) (Postponed until 2015).

Exciting news for Health Flexible Spending Accounts!

The Treasury Department and the IRS have announced that they are modifying the "use it or lose it" rule for health flexible spending accounts. This modification allows an employer to amend its health FSA plan document to allow plan participants to carry over up to $500 of their unused health FSA balances at the end of one plan year to the following plan year. However a health FSA cannot have both a carryover allowance and a grace period: it can have one or the other or neither.
With these modifications an employer now has effectively three separate options.

1. The employer may amend its plan to introduce the carry-forward of up to $500
2. The employer may use the Code Sec. 125 grace period rule which states a participant may use the balance remaining from the previous year (including amounts remaining in a health FSA) to pay qualified expenses incurred during the period of up to 2 months and 15 days immediately following the end of the plan year
3. The employer may choose neither of the above options.

YEAR END CHECKLIST FOR SMALL BUSINESSES

- ❑ Update vendor files. Do you have a W-9 on file for every vendor?
- ❑ Compile a list of your company's accomplishments for the year and share with your employees.
- ❑ Create goals and a plan for 2014.
- ❑ Perform website maintenance. Do links work? Is information up-to-date?
- ❑ Reconcile ALL balance sheet accounts.
- ❑ Update your fixed assets file(s). Did you buy or sell any assets? What was the date, price, asset description (make, model, year, serial #), etc.
- ❑ Purge old files. Review your document retention policy.
- ❑ Annual meeting (Corporations and LLCs)
- ❑ Prepare and mail payroll forms (W-2s, W-3, 940, and 941)
- ❑ Prepare and mail all required 1099's and Form 1096.
- ❑ Review your tax organizer, compile the requested information, and send it to your accountant!

C.P.A.s

Company Personnel Announcements

Queen of the Pumpkin Patch!
Anna Kaufman was selected as the winner of our pumpkin decorating contest. Congratulations Anna! Special thanks to the staff or judges from Harris Water Engineering for their impartiality.

Congratulations Michelle!
At FredrickZink & Associates, CPAs, we have a lot to be thankful for. We are especially thankful for our staff. We are honored to work with so many smart and talented individuals, and proudly think of them as family.

One outstanding member of our family is Michelle Sainio, and we are excited to announce the addition of more initials after her name: CGMA.

Many who know Michelle may think that CGMA stands for: ***Caring, Generous, Mentor***, ***Authentic*** or ***Capable, Great, Mind-Blowing, Adept*** or ***Courageous, Gutsy, Mighty, Astonishing.***

While all of the above are really descriptive of Michelle, the business world now recognizes her as a ***Chartered Global Management Accountant***.
For more information about the CGMA, visit www.cgma.org.

2013 TAX DEVELOPMENTS *Continued from page 2*

not apply to the following itemized deductions: medical expenses, investment interest, gambling losses, casualty losses, and theft losses.

Selected Tax Breaks Scheduled To Expire After 2013

ATRA ***retroactively*** extended ***through 2013*** the following popular tax breaks for individual taxpayers: ***1)*** School Teachers' Deduction (Up to $250) for Certain School Supplies; ***2)*** Election to Deduct State and Local Sales Tax; ***3)*** Deduction (Up to $4,000) for Qualified Higher Education Expenses; ***4)*** Expanded Deduction and Carryover Limits for Charitable Contributions of Qualified Conservation Easements; ***5)*** Deduction for Mortgage Insurance Premiums as Qualified Residence Interest; ***6)*** Tax-Free Treatment of Qualifying Transfers from IRAs of Individuals Over Age 70 ½ Directly to Charities; ***7)*** Income Exclusion for Discharge of Qualified Principal Residence Indebtedness; and ***8)*** 10% Credit (with Lifetime Cap of $500) for Qualified Energy-Efficient Home Improvements. In addition, ATRA extended the up to $2,500 American Opportunity Education Credit through 2017.

THE NEW .9% ADDITIONAL MEDICARE TAX AND THE 3.8% NET INVESTMENT INCOME TAX

Starting in 2013, the ***Affordable Care Act*** (ACA) imposes a ***new .9% Additional Medicare Tax*** on the wages and self-employment income of higher-income individuals, as well as a new ***3.8% Net Investment Income Tax (3.8% NIIT)*** on their ***net investment income.*** These taxes are ***in addition*** to the tax rate increases under ATRA (discussed above).

IRS ISSUES RULING ADDRESSING SAME SEX MARRIAGES FOR TAX PURPOSES

Last June, in a landmark decision (Windsor), the U.S. Supreme Court held that ***Section 3 of the Defense of Marriage Act (DOMA)***, which ***required same sex spouses to be treated as unmarried*** for purposes of federal law, was ***unconstitutional.*** The Court applied its ruling to "lawful marriages," essentially leaving it to the IRS to define "lawful marriages" for Federal tax purposes. In response to the Windsor decision, the IRS recently ruled that: ***1)*** it will r***ecognize as married for Federal tax purposes*** same-sex couples who were married in a state, the District of Columbia, a U.S. territory, or a foreign country that authorizes "same-sex" marriages, ***regardless of the couple's current domicile*** (i.e., "state of celebration" rule), but ***2)*** it will ***not recognize as married for Federal tax purposes*** same-sex or opposite-sex couples who have entered into a registered domestic partnership, civil union, or other similar formal relationship recognized under state law ***"that is not denominated as a marriage under the laws of that state."*** Under this ruling, legally-married same sex couples will be treated as married for all Federal tax purposes, including for income, gift and estate tax purposes.

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Walkin' In A Winter Wonderland.