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Note these December tax deadlines

- **December 16** – Due date for calendar-year corporations to pay the last installment of 2013 estimated income tax.
- **December 31** – Deadline to complete 2013 tax-free gifts of up to \$14,000 per recipient.
- **December 31** – Deadline for paying expenses you want to be able to deduct on your 2013 income tax return.
- **December 31** – Deadline for taking 2013 required minimum distributions (RMDs).

Time is running out for making tax-smart gifts and donations in 2013

You've worked hard to accumulate and protect your wealth this year. Now might be the time to consider tax-savvy ways to give some of it away.

To begin with, you might consider using the annual gift tax exclusion to give money to your family and friends in a tax-favored manner. Up to \$14,000 can be given to any number of individuals per year without tapping into your lifetime federal estate tax exemption. The current lifetime exemption is a lofty \$5,250,000, but making \$14,000 gifts each year could help lower your taxes if your estate is eventually valued above the exemption amount.

Gifts of other types of assets, such as real estate, jewelry, and artwork, can also score a deduction this year. Be aware that if the gift is valued over \$5,000, a qualified appraisal will be required. And no matter the type of gift, if its value is \$250 or more, a tax receipt from the charity is required before you can write it off.

Giving away your resources in a thoughtful and tax-smart way can be as difficult as accumulating them in the first place. For help in making these important and sensitive decisions, contact our office.

Business or hobby? Nine factors help the IRS decide

The dividing line between a business and a hobby may be thin, but it can look like a canyon when you are on one side and your tax deductions are on the other. The gap is a function of differing treatment of expenses. For example, when you incur ordinary and necessary expenses in the operation of your business, those costs reduce the taxable income of the business. In addition, business losses can generally be used to offset income from other sources, such as wages.

When your activity is considered a hobby, expenses can only be claimed to the extent of income from the activity, and are generally deductible as a miscellaneous itemized deduction on your personal return.

Here are nine ways to help convince the IRS that you have a business rather than a hobby.

1. Act like a business. Keep accurate books, adopt new techniques, and adjust your operating methods to improve profitability. Other good moves: advertising, purchasing insurance, and maintaining a bank account used only for the activity.
2. Expand your expertise. The key here is to increase your knowledge of the economic aspects of your business. Seek relevant advice from experts on an ongoing basis.
3. Expend time and effort. Focus your energy on the business to show profit intention. Hiring competent managers also indicates your intention to operate as a business.
4. Invest in appreciating assets. A reasonable expectation that property you purchase will increase in value and help create an overall gain can show profit motive.
5. Create a record of success. Have you run other businesses successfully, whether or not related to the present activity?
6. Establish a history of income. No need to be nervous if your startup loses money the first year or two, or if losses in later years are the result of events that are out of your control, such as natural disasters. The general rule for proving your intention to operate a business is to make a profit in three of the last five years.
7. Show a profit. No set amount of profit establishes business intent. Instead, compare the profit you have the opportunity to earn to the losses you may incur and the amount of your investment.
8. Check financing. How are you financing the business? Do you have substantial income from other sources? Does the activity generate losses that provide tax benefits you might not otherwise enjoy?
9. Limit the fun factor. Liking what you do does not necessarily turn a business into a hobby. However, substantial “recreational” aspects can lend weight to classification of your activity as a hobby.

Remember, no one factor is controlling. Instead, you need a pattern that establishes your intention to make a profit.

Happy Holidays

Thank you for the opportunity to serve you this past year. Your business is appreciated, and your referrals are welcome. Please mention our name to friends and business associates who may need our services.

Warmest wishes for a happy holiday season and a prosperous 2014.

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.