



S. J. Meyer & Associates, Inc., CPAs
370 Huls Drive, Clayton, Ohio 45315
937-832-5209
www.sjmeyer.com

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March 1 filing extended for farmers and fishermen

The IRS had to delay the start of this year's tax filing season until it completed programming changes made necessary by the late passage of the *American Taxpayer Relief Act of 2012* (signed into law on January 2, 2013).

Normally, farmers and fishermen are not required to make quarterly estimated tax payments if they file their tax return and pay taxes due by March 1 of the following year. The filing delay created by the new law meant that several tax forms needed by these taxpayers would not be ready on time.

As a result, the IRS has announced an extension of the March 1 filing deadline for farmers and fishermen to April 15. The filing extension will apply to all farmers and fishermen, not just to those who use late-released IRS forms. To qualify as a farmer or fisherman for 2012, at least two-thirds of the taxpayer's gross income for 2011 or 2012 must have come from farming or fishing.

IRS offers a simplified home-office deduction

The IRS is reducing the recordkeeping required for the home-office deduction, effective for 2013. Taxpayers who qualify may use a new optional deduction calculated at \$5 a square foot for up to 300 square feet of an area in a home that is used regularly and exclusively for business. The deduction is capped at \$1,500 a year.

Taxpayers opting for the simplified deduction cannot depreciate a portion of the home as they can under the other method. However, business expenses not related to the home, such as advertising, supplies, and employee wages are still fully deductible. This simplified option is available starting with the 2013 tax return which will be filed in 2014.

Consider a buy/sell agreement for your business

Every business should give serious consideration to how the company would deal with the death, disability, or departure of one of the owners. Like a will, a buy/sell agreement spells out how assets and other business interests will be distributed should an owner quit, become disabled, or die.

Without such an agreement, complications arising from ownership succession may capsize an otherwise thriving company. The remaining owners might be forced to share management and profits with unskilled or contentious outsiders. They may be embroiled in legal disputes over business assets and liabilities. A firm's internal squabbles may spill over to customer service, resulting in lost sales. If the firm's ownership seems doubtful or its future uncertain, creditors might accelerate collection efforts, bringing unwanted pressure on company resources.

The possible death of an owner isn't the only reason to prepare a buy/sell agreement. Sometimes an owner voluntarily decides to leave a company. By providing a mechanism for assessing a firm's value

and ensuring that all parties are treated equitably, a carefully crafted buy/sell agreement will facilitate that kind of transition as well. At a minimum, a buy/sell agreement should cover the following:

- **Triggering events.** What happens if an owner dies, becomes disabled, or leaves the company? What happens if he or she files for divorce or is caught skimming profits? The buy/sell agreement should spell out the company's response to such events, including how assets will be transferred, stock ownership controlled, and voting rights secured by the remaining owners.

- **Valuation.** The agreement should lay out how the business will be valued should a triggering event occur. For example, it might include a specific price for an owner's interest or specify a formula for determining the company's value. It might even name a specific firm to conduct the valuation. If the triggering event is the death of an owner, the buy/sell agreement might also guarantee a specific lump sum to be paid to the deceased owner's estate.

- **Buyout method.** If one owner leaves the firm, becomes disabled, or dies, the buy/sell agreement should contain provisions specifying how remaining owners will buy out the interest of that partner. (In many cases, owners use life or disability insurance proceeds to fund a buyout.)

To ensure that the buy/sell agreement remains relevant and up to date, owners should review it periodically and revise it as needed. For assistance, contact us and your attorney.

Prior-year health care reform law changes 2013 tax rules

The 2010 health care reform legislation included several provisions that go into effect this year. Among them is the increase in Medicare taxes for taxpayers with incomes above certain levels. Here are some of the changes that could affect you.

- **Medical expense itemized deduction.** The 7.5% income threshold for deducting unreimbursed medical expenses increases to 10% for taxpayers under age 65. Those 65 and older may continue to use the 7.5% threshold through the year 2016.

- **FSA contributions.** The limit on contributions to health care flexible spending accounts (FSAs) is lowered to \$2,500.

- **Medicare tax on earned income.** The payroll Medicare tax will increase from 1.45% of wages to 2.35% on amounts above \$200,000 earned by individuals and above \$250,000 earned by married couples filing joint returns. The tax increase will also apply to self-employment income exceeding the threshold amounts.

Employers are required to withhold the additional tax from wages exceeding \$200,000, regardless of the individual's filing status. They are not required to inform the employee when they begin the additional withholding, nor are they required to match the additional withholding.

- **Medicare tax on unearned income.** There is a new 3.8% Medicare tax on unearned income for single taxpayers with adjusted gross income over \$200,000 and married couples with income over \$250,000. The tax will apply to the lesser of (a) net investment income, or (b) the amount by which modified adjusted gross income exceeds the \$200,000/\$250,000 thresholds. The tax may require adjustments to the estimated taxes paid by an individual, but it does not have to be withheld from wages.

Examples of unearned income include interest, dividends, capital gains, royalties, and rental income. Social security benefits, alimony, tax-exempt interest, and distributions from most retirement plans are examples of unearned income not subject to this new tax.

Tax filing reminders for March

- March 15 – 2012 calendar-year corporation income tax returns are due.
- March 15 – Deadline for calendar-year corporations to elect S status for 2013.