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A tax, business, and financial planning newsletter for our clients and friends

Making Higher Education Costs Less Taxing

If you pay tuition and fees for yourself, your spouse or your dependents, you may qualify for the American Opportunity Credit and the Lifetime Learning Credit to help pay for these expenses. Here are some facts you should know about these valuable tax credits.

The American Opportunity Credit

- This credit is worth up to \$2,500 per eligible student and is available for the first four years of higher education at an eligible college, university or vocational school.
- The credit lowers your taxes and is partially refundable. You may qualify for a refund of up to \$1,000, even if you owe no tax.
- To be eligible for this tax break a student must be working toward a degree, certificate or other recognized credential.
- A student is required to be enrolled at least half-time for at least one academic period that began during the year.
- Expenses such as tuition, fees, books and other required course

materials qualify for the credit. Other expenses such as room and board, will not qualify.

The Lifetime Learning Credit

- This credit is worth up to \$2,000 per tax return year. The yearly limit applies regardless of how many students are eligible for the credit.



- This credit is nonrefundable, which means the amount you can claim is limited to the amount of tax you owe.
- The credit is available for all years of higher education, including courses to improve or acquire job skills.

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VOLUME 36 / NUMBER 4

MARCH - APRIL
2014 ISSUE

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Late S Corporation election can now be cured by obtaining automatic relief when the election is not made by the March 15 deadline. A late S corporation election can generally be cured if the company had intended to be an S corporation, has consistently reported its income in compliance with S corporation rules, and has not been notified by the IRS that there exists a problem with the election.

When paying a tax bill, indicate specifically what tax you are paying. Include the information on the check you are remitting. **Pitfall:** If you do not indicate for which tax the payment is for the IRS can apply it to any tax liability, which could cause you to incur penalties on a tax you thought was paid.

Loophole: Perpetually tax-deferred gain. Capital gains tax on appreciated properties, such as investment or business real estate, can be deferred by swapping one property for a replacement in a "like-kind exchange" instead of selling the property for cash. Taxable gain is deferred until the replacement property is sold – but that property also can be swapped in a tax-deferred exchange, and so on, indefinitely. In the meantime, tax-free cash can be obtained from the appreciating properties by borrowing against them.



Claiming the Home Office Deduction

One of the benefits of an office in your home is being able to claim a tax deduction for your home office expenses. The IRS has certain requirements that must be met before you claim these deductions. You need to consider these facts before you decide if you are eligible to claim office expenses for your home.

According to the IRS, you must use a portion of your home exclusively and regularly for business purposes. Also, the portion of your home that you use to conduct legitimate business purposes must also be:

- used as your location for business, or
- place where you meet with patients, clients or customers in the normal course of your business day, or
- a separate structure not attached to your home. **Examples:** A workshop, garage, shed, studio, or barn.

The exclusive use requirement does not need to be met for certain other uses, including storing inventory or product samples, or use as a daycare facility.

If you are eligible to claim the home office deduction on your tax return, you may also be eligible to deduct a percentage of your real estate taxes, mortgage interest, utilities, insurance, repairs, maintenance, depreciation (if you own), or your rent payments if you are not an owner. The percentage deduction is generally that amount of your home expenses you use for business purposes.

There are certain limitations if your gross income from your business is less than your total business expenses.

If you are an employee who spends time working at home, you have to meet the same standards as a business owner. In addition, the home office space must also be for the convenience of your employer.

A System to Lower Manufacturing Costs

Here's a proven method to reduce production costs.

1. Make a list of every item you purchase that is used in the finished product.
2. Multiply the cost of each item by the quantity of the item that is used in the end product. This will give you the total cost of the item per finished product.
3. Make a new list of the purchased items in the descending order of their total cost per finished product.

Chances are that the first few items on your descending cost list will account for as much as 80% of the total purchase cost per finished product. For maximum cost reduction, concentrate your efforts on finding lower-priced substitutes for these purchased items.

Use the same approach to identify labor costs for each stage of the manufacturing process. Reducing these labor costs will give you a total cost-cutting system.

How to Retrieve Tax Information From the IRS

If you find yourself in need of missing tax information the IRS can offer you several methods to obtain those misplaced tax documents.

Tax return Transcript. Transcripts from your last tax return as originally filed and from the past three years are available at no cost to you. The transcripts include most everything on your return but does not show any changes made after you had filed it.

Tax Account Transcript. All adjustments and changes either made by you or the IRS are reflected on the transcripts. Once the IRS has processed your most recent tax return for the current tax year along with the

past three tax year, you can obtain your tax account transcript for free. The transcript will show general data, such as, marital status, type of return filed, total income, adjusted gross income, taxable income, and tax.

At no charge, you can obtain both transcript types described above by phone or by mail. Simply call the IRS toll free number at 800-908-9946 or mail IRS Form 4506T-EZ for the tax return transcript and Form 4506T for the tax account transcript.

To obtain an actual copy of current or any of your last six years tax returns complete IRS Form 4506. The IRS does charge a nominal fee for each copy.

Smarter Selling

The 80/20 talk principle. In conventional selling, the salesperson usually does 80% of the talking, while the prospect does 20%. Successful marketers have discovered that it's much more effective when the customer does 80% of the talking and the salesperson 20%. This lets prospects explain their needs and problems while salespeople listen and then direct their remarks to satisfying prospects' needs.

Improve customer loyalty. Show that you appreciate a customer's business by sending a personal note of thanks after you make a sale. If a customer refers you to a new account, do the same thing. This simple strategy can go a long way toward enhancing your image and creating future business.

Overcoming price objections. If you can't make a sale because a prospect says your prices are too high, you can often overcome this objection without reducing prices. Price resistance is usually caused by a prospect's failure to see that your product is a better value than competitive products. Instead of lowering your price, show the prospect why your product is superior and is a better value by pointing out extra features and benefits.



Smarter Advertising

Better ways to budget advertising

- Do not use a percentage of projected sales. Instead, ask all your key personnel to contribute to the process. Since the purpose of advertising is to create sales, get their collective opinion about the amount needed to reach a specific sales level.
- Establish a budget by allocating an advertising unit amount. The unit may be weight, type of product, or even type of customer. If you have reliable information about your market, use it to establish a unit budget.
- Don't base your ad budget on your competitor's expenditures. Since there's no way you can know how much your competi-

tor will spend, it's much better to focus on what your advertising should do for you.

Tips for the yellow pages

Use two half-page ads instead of one full-page ad. Present a different part of your business in each half-page ad to make it easier for customers to find a specific product or service.

If you run a full-page ad the extra cost for color ink may not be necessary because there are no competing ads on the page.

Research shows that a half-page ad is about two-thirds as effective as a full-page ad. If the cost of two half-page ads is about the same as a full page ad, you'll get more for your money from two half-page ads.

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Making Higher Education Costs Less Taxing (continued)

- You can claim the costs of tuition and fees for enrollment or attendance, including the amounts you were required to pay for course-related books, supplies and equipment.

You will not be eligible for either of these credits if someone else claims you as a dependent on their tax return. Both credits may be reduced or eliminated depending upon the amount of your income. **Caution:** You cannot claim both credits for the same student in the same year and you cannot claim both credits for the same expense.

Management Tips

Preventing Promotion Blues

When employees feel that they can't move up in a company, the result is often a lack of motivation and a decline in productivity. Among the most effective ways to prevent this:

Use educational and training programs to boost employee enthusiasm.

Plan work so that employees aren't burdened with repetitive tasks.

Improve job satisfaction with *constructive* performance appraisals.

Make it very clear that not getting regular promotions doesn't mean that an employee is doing poor work.



Missing Your W-2. Here's What To Do

You should receive a W-2 statement, Wage and Tax Statement, from your employer by January 31, 2014.

If you lost or have not received your W-2 statement, simply follow any of these steps:

1. Contact your employer and request a replacement. It may have been mailed and returned because of an incorrect address.
2. Call the Internal Revenue Service at 800-829-1040 for assistance if it's past February 14. When calling, be ready to offer the following information:
 - Your name, address and Social Security number.

- Your employer's name, address, and telephone number.
- An estimate of your gross wages, federal and state income tax withholdings. The estimate should be based on your final earnings for the year.
3. Complete IRS Form 4506-T and you will receive a free transcript of your W-2 as reported by your employer. To obtain the form call 800-829-1040.
4. As a substitute for the W-2 statement request Form 4852 from the IRS. Complete the form and you can estimate your wages based on your final paystub.

Tax Tip

Gifting to others has never been better.

For 2014 an individual can make yearly tax free gifts of up to \$14,000 per year to any number of donees. **Added benefit:** During the course of your life an individual may also gift an additional \$5,340,000 free of any gift taxes.

