CRAFT, NOBLE & COMPANY

Welcome to Craft, Noble and Company's e-news update. Now that the fiscal year is nearing an end, here's the most current news. If you would prefer to receive a print copy of each quarterly e-newsletter, please call our office to place that request.

Be sure to like our new Facebook page for more up-to-date news and information.

Likewise, if you know a friend or colleague who might be interested in receiving this e-newsletter, just click the "Forward to a Friend" button. Privacy and confidentiality is a hallmark of our business, so you can be assured your name or address will not be shared with anyone.

Major Tax Deadlines for October

October 1- The deadline for self-employed individuals and small businesses to establish a SIMPLE retirement plan for 2014.

October 15- The deadline for filing your 2013 individual tax return on automatic extension of the April 15 filing deadline.

Payroll Tax Deposits- Employers must make their deposits for the Form 941 payroll taxes (federal income tax withheld and the employee and employers share of the social security taxes). These deposits should be made either monthly or semiweekly depending on your deposit schedule. Exceptions apply if you owe $100,000 or more on any day during the deposit period, if you owe $2,500 or less for the calendar quarter, or if you estimated annual liability is $1,000 or less.

> **Monthly deposits**- These deposits are required to be paid within a calendar month by the fifteenth of the following month.
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> **Semiweekly deposits**- These deposits are required to be paid on Wednesdays or Fridays, depending on when wages are paid.

For any questions you may have on these deadlines, contact our office.

What's New: IRS publishes HSA Contribution Limits for 2015

The IRS recently announced the inflation-adjusted contribution limits for health savings accounts (HSAs) for 2015. HSAs allow taxpayers with high-deductible health insurance premiums to set aside pretax dollars that can be withdrawn tax-free to pay unreimbursed medical expenses.

The contribution limits for 2015 are as follows: individuals can contribute $3,350 and families have a limit of $6,650. A catch-up contribution of an additional $1,000 is permitted for individuals over the age of 55.

Things to Consider when Refinancing your Home Mortgage

When market interest rates dip, it may be a good time to consider refinancing your existing home loan. However, simply comparing interest rates is not enough. Here are some other factors to consider before you refinance:

Compare apples to apples: Always request a good-faith estimate from any lender. This report should disclose all the fees and closing costs, such as points, credit report fees, inspection fees, private mortgage insurance, and appraisal fees. Use this information to evaluate competing loan proposals.

Calculate your breakeven period: This is the length of time it takes you to recover the costs a lender typically charges to refinance your mortgage. To do this, divide your closing costs by your monthly savings (your current loan payment minus your new loan payment). If you plan on selling your home in the near future, refinancing may not save you money because it usually takes several years to recover your closing costs through a lower monthly payment.

Read the loan agreement: Before you pay off your existing mortgage, check your loan for an early payment penalty clause. In addition, make sure you read and understand the terms of your new loan. For example, watch for restrictions against renting out your property without your lender's consent.

Evaluate the risks of debt consolidation: When you refinance, it may be tempting to consolidate high-interest personal debts into a single lower-interest home loan. Securing a consolidation loan with your home may turn your interest into a tax deduction, but be aware of the risks as well. If you can't make the payments, you could lose your home.

Taxes and Disability Issues: An Overview

Do you live with a disability, or care for someone who does? If so, you may have disability-specific tax questions about income, deductions, and credits. Here's an overview:

Income: In general, all income is taxable on your federal tax return, unless specifically excluded. For instance, income you earn for services is typically taxable, even if you are disabled. Part of your social security disability benefits may also be taxable, depending on your total income (including tax-exempt interest). However, supplemental security income is not taxable.

Other nontaxable disability payments include VA benefits, workers' compensation when work-related and received under a workers' compensation act, and wage-loss benefits from no-fault car insurance policies.

Deductions and Credits: You already know you can deduct medical expenses related to your disability, subject to the 10%-of-adjusted-gross-income limitation (7.5% for those 65 or older).

But what about impairment-related work expenses? These are out-of-pocket costs you incur so you can work, such as attendant care, and you claim them as an employee business deduction. This is an itemized deduction, not subject to the 2% of adjusted gross income limit. When you're self-employed, impairment-related work expenses are deductible on your "Schedule C, Profit or Loss From Business."

If you work and must pay for disabled spouse or dependent care, you may qualify for a federal income tax credit of up to 35% of your expenses.

Depending on your disability and income, other exclusions and tax benefits may be available. Please let us know if you would like more information.

IRS warns again about phone scams

Another strong warning from the IRS is alerting taxpayers to phone scams that have already resulted in 90,000 complaints and the theft of millions of dollars.

Here's how the typical scam works: The caller claims to be from the IRS and, using hostile and abusive language, demands immediate payment of taxes by a prepaid debit card or wire transfer.

The IRS reminds taxpayers it will never contact you by phone about owed taxes; the first contact will be by mail. It will never ask for credit, debit, or prepaid card information in a phone call, and it will never request immediate payment over the phone.

C or S Corporation: Review the Option with Tax Changes in Mind

Changes to the federal income tax code can prompt you to review the legal structure of your business. Last year's increase in the top tax rate for individuals is one such change, since corporate rates remain the same. At the most basic level, businesses are taxed as either stand-alone or pass-through entities, and a significant difference between corporate and individual tax rates is reason for a new assessment.

If you're debating between operating as a C corporation or an S corporation, here are three tax aspects to consider.

- **Income Taxes:** A difference you're probably aware of between the two types of corporations is the way earnings are taxed. C corporations are stand-alone entities and pay federal income tax at the corporate level, based on business earnings. If the corporation has a loss, the loss offsets business income in past or future years. S corporation earnings and losses are passed through to you, as a shareholder. Earnings are taxed on your individual income tax return at your personal tax rate. This is true even if you receive no cash from the business. Losses can offset other income, assuming you participate in corporate business on a regular and substantial basis.

- **Ownership:** Tax rules limit the number and type of shareholders who can own an interest in your S corporation. For example, an S corporation can have no more than 100 shareholders, and they must all be U.S. citizens or residents. In addition, your S corporation can issue only one class of stock, meaning all shareholders have the same liquidation and distribution rights. When you form a C corporation, foreign owners can hold stock in your business. You can also issue stock with different ownership privileges, such as preferred stock, which grants priority in receiving corporate dividends.

- **Dividends and Distributions:** In general, when corporate income is distributed to you as a shareholder, the distribution is a dividend. Whether your corporation is formed as a C corporation or an S corporation, the business gets no deduction.

However, as a C corporation shareholder, you're required to include income distributions on your personal tax return. In effect, distributions are taxed twice, once on the corporate return and once on your return.

When you own stock in an S corporation, distributions can be considered a return of the money you invested in the business. The distinction means you may not owe income tax, assuming you have basis in the corporation.

Many tax and nontax reasons will affect your choice of the best type of structure for your business. Please contact our office with any questions you may have.

What's Happening at Craft, Noble & Company

Craft, Noble & Company would also like to introduce you to our newest employee, Jesse Gilbert. Jesse joined Craft Noble in September. He graduated from the University of Kentucky with a Masters of Science degree in Accounting. Jesse is a 2001 graduate of Madison Central High School.

Jesse has passed all four sections of the CPA exam and will be receiving his certification next year.

Jesse and his wife, Rachel, reside in Berea.