



CRAFT, NOBLE & COMPANY

Welcome to Craft, Noble and Company's e-news update. We hope your summer is stress-free. would like to thank everyone for this business during tax season as we hope that we served you well. Please let us know if you feel we can improve in any aspect.

Here's the most current news for you to look over while the April showers end and the May flowers bloom. 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 follow us on social media for regular updates on changes in tax law, accounting concepts, firm news, and some fun. We are on Facebook, Twitter, and LinkedIn so be sure to check us out and stay connected even outside of tax season.

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.

## Upcoming Tax Deadlines

**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.

**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.

## How do Your Itemized Deductions Stack Up?

The IRS released it's preliminary data from 2015 returns, how do your itemized deductions look compared to the national average of people in your Adjusted Gross Income range? If you have questions on your itemized deductions give us a call!

Adjusted Gross Income	Taxable Income	Interest Expense	Taxes Paid Deduction	Charity	Medical Expenses Deducted	Total Itemized Deductions
Under \$15,000	\$2,568	\$6,397	\$3,667	\$1,533	\$9,210	\$15,624
\$15,000-\$29,999	9,340	6,571	5,497	2,483	8,646	17,826
\$30,000-\$49,999	21,741	6,357	4,026	2,812	8,761	16,026
\$50,000-\$99,999	48,362	7,382	6,323	3,244	9,426	19,050
\$100,000-\$199,999	102,480	8,905	11,052	4,155	11,305	25,300
\$200,000-\$249,999	177,355	11,370	17,711	5,779	17,624	35,369
\$250,000 & above	599,755	16,580	51,906	21,769	37,031	81,394

# What's New in Taxes: Tax-free Income!

Yes, that's correct, there are some forms of income you receive that may be tax-free. Here is a list of ten common sources of tax-free income.

1. **Gifts.** Gifts you receive are not taxable income to you. In fact, they are not subject to gift tax to the person giving the gift as long as the gifts received in one year from one person do not exceed \$14,000.
2. **Rental income.** If you rent your home or vacation cottage for up to 14 days, that rental income does not need to be reported. Homeowners often can earn some tax-free income by renting out a home while a large sporting event (Superbowl or a golf event such as the Masters) is in town.
3. **Child's income.** Up to the standard deduction amount (\$6,350 in 2017) in earned income (wages) and \$1,050 in unearned income (interest) for children is not taxed. Excess earnings above these amounts could be taxed and \$2,100 in unearned income is taxed at the parent's higher tax rate.
4. **Inheritance.** In most states, beneficiaries typically do not pay tax on the value of what they inherit. When inherited property is sold by the beneficiary, however, there may be a capital gains tax obligation.
5. **Roth IRA earnings.** As long as you meet this retirement account type's rules, earnings in a Roth IRA are not taxed.
6. **Life insurance received.** The full value of life insurance received is not taxable income. However, the proceeds may be taxable within the estate of the deceased policy holder.
7. **Child support revenue.** Income you receive as child support is not deemed to be taxable income. On the other hand alimony received is taxable income.
8. **Home sales gains.** Up to \$250,000 (\$500,000 for married filing jointly) in gains on the sale of a qualified principal residence is not taxable.
9. **Scholarships/fellowships.** Money received to cover tuition, fees, and books for degree candidates is not generally taxable.
10. **Refunds.** Federal refunds (technically you've already accounted for this income) and most state refunds for non-itemizers are also tax-free.

This is by no means a complete list of tax-free income, but it's nice to know that some areas of tax law still benefit taxpayers.

## Sending your Kids to a Summer Day Camp?

Sending your school-age child to a summer day camp qualifies for the dependent care credit. Whether the camp is for sports, computers, math, or theater you can get a tax break. The costs of summer school and tutoring programs do not qualify as they are for education and not care. Other rules include that child must be under the age of 13 and go to the camp to allow the parents to work.

## Contribute to an IRA for a Child Working a Summer Job

If you have a child or grandchild working this summer consider contributing to a Roth IRA for them. You can contribute up to \$5,500 or their total earnings (whichever is lower). The contributions will grow tax-free and can provide a nice nest egg in the future. The contributions can be pulled out free of tax at any time and up to \$10,000 of earnings can be taken out to purchase their first home tax-free.

# Should you hire your kids this Summer?

Hiring your children to work in your business can be a win-win situation for everyone. Your kids will earn money, gain real-life experience in the workplace, and learn what you do every day. And, you will reap a few tax benefits in the process. Before you decide if hiring your child is the right thing for your business, learn if it can work for you.

Generally, if your child is doing a legitimate job and the pay is reasonable for the work, his or her salary can be a tax-deductible business expense. Your child's income can be tax-free to them up to the standard deduction amount for a single taxpayer (\$6,350 in 2017).

Wages earned in excess of this amount is typically taxed at your child's rate, which is likely lower than your rate.

The following guidelines will help you determine if the arrangement will work in your situation:

- Make sure your child works a real job that he or she can reasonably handle, no matter how basic or simple. Consider tasks like office filing, packing orders, or customer service.
- Treat your child like any other employee. Expect regular hours and appropriate behavior. If you are lenient with your child, you risk upsetting other employees.
- To avoid questions from the IRS, make sure the pay is reasonable for the duties performed. It is not a bad idea to prepare a written job description for your files. Include a W-2 at year-end.
- Record hours worked just as you would for any employee. Pay your child using the normal payroll system and procedures your other employees use.
- Hiring your children works best if you are a sole proprietor. It has additional tax benefits not available if your business is organized as a C corporation or an S corporation.

If you have questions, give us a call. Together we can determine if hiring your child is the right course of action for your business and your family.

## 4 tips to landing your dream home in a seller's market

Here are some suggestions to landing your dream home in our current real estate market.

- **Be nimble, be flexible.** Try to investigate new listings quickly -- within hours of their first posting, if possible. If you're interested in a house but an inspection finds a few flaws, you may have to be flexible about accepting a house with a few quirks or in need of some repairs.
- **Make a strong offer.** A seller's market isn't a time to lowball your first offer on a house you want. If you've prepared and set your expectations below your minimum price range, you should be able to make a strong offer to ensure you are among the most attractive bidders. You shouldn't wildly overpay, but making a strategic offer above the listing price may sweeten the deal enough to close quickly.
- **Earnest money.** You may consider offering a meaningful earnest money component to your offer to show you are serious. Just understand that this money is put at risk if you later change your mind.
- **Few strings.** Try to make your offer as simple as possible. The more contingencies, the more room for someone else to sneak in and snap up your target home. Flexible move-in dates may make your offer more attractive to the seller. Having to sell your home before buying theirs may create a snag versus another offer.

Good luck on your search. There are many resources available to you to navigate the home-buying waters. Spend some time finding the resources that work best for you and your situation.

## How much do you need to retire?

Most Americans simply don't save enough for retirement. Nearly half (45 percent) of working-age households don't have any retirement assets, according to the National Institute on Retirement Security. Of those working-age households close to retirement (age 55 and older), nearly two-thirds have less than one-year's worth of their annual salary in retirement savings.

So how much do you actually need to retire comfortably? There are many variables to consider, including retirement age, available pensions, and investment return assumptions. Mutual fund broker, Fidelity, estimates you need enough savings to replace roughly 85 percent of your pre-retirement income. Many experts estimate you will have to save between 8 and 12 times your pre-retirement annual income to reach this goal.

But the amount needed depends on when you plan to retire. For example, Fidelity estimates a person planning on retiring at age 65 will need to save 12 times their pre-retirement income. By delaying retirement by just five years, to age 70, your savings estimate lowers to eight times your annual income.

This may be why an increasing number of Americans plan on delaying retirement or working during retirement. A majority (51%) of workers surveyed in 2016 by the Transamerica Center for Retirement Studies said they plan on working during retirement.

**Some ideas to consider now.** These are sobering realities, but there are actions you can take to put you in a better position during your golden years.

- Contribute as much as possible every year to your employer-provided retirement plans. With a 401(k) pre-tax retirement plan, for instance, up to \$18,000 can be contributed each year, or \$24,000 if you are age 50 or older.
- Contribute as much as possible to a Traditional or Roth IRA every year, up to the \$5,500 maximum, or \$6,500 if you are age 50 or older.
- If available, contribute as much as possible to a health savings account (HSA), which can be used to offset medical expenses, up to \$3,400 a year, or \$4,400 if you are age 55 or older.

If you'd like to review your tax-advantaged retirement strategy, call to schedule an appointment.

## Is your business waving a red flag at the IRS?

The chance the IRS will target your business for a federal tax audit is usually low. However, if your tax return for your business includes certain red flags, you boost your odds of being audited. Here are a few of the most common audit triggers that are likely to grab the attention of the IRS.

- **Continuous losses.** If you report a net loss on a Schedule C in more than two out of the last five years, the IRS may consider your business a hobby. If deemed a hobby, you can deduct expenses only up to the amount of your hobby's total income. Enjoy rebuilding cars? Great. But if you never turn a profit, don't expect the IRS to consider it more than a hobby.
- **Questionable travel and entertainment expenses.** This is an area that is frequently abused, so IRS auditors tend to examine travel and entertainment costs with greater scrutiny. If you claim expenses for lavish parties, hunting trips to Alaska, or taking your buddies to the ball game, be sure you can thoroughly document a legitimate business purpose.
- **Failure to report income.** If you own a business that transacts mostly in cash, such as a convenience store, nail salon, or small restaurant, the IRS will be on the lookout for unreported revenue. No business operates for long without

sufficient revenue to cover its expenses. If the IRS suspects that revenue is under-reported, you could face thousands of dollars in taxes, fees, and penalties.

- **Round numbers.** It happens: Sometimes your sales figures actually are big round numbers, but if the math on your business tax return can be computed in your head without benefit of a calculator, IRS auditors may be skeptical. Report actual amounts. Don't fudge.

Above all, maintain appropriate documentation to support any business deduction claimed on your tax return. You'll be glad you did if you ever face an audit.

## What's New in Taxes: Tax tips for those getting married

If you are planning to get married, or know someone taking the matrimonial plunge, here are some important tax tips every couple should know before they walk down the aisle.

- **Notify Social Security.** Notify the Social Security Administration (SSA) of any name changes by filling out Form SS-5. The IRS matches names with the SSA and may reject your joint tax return if the names don't match what the SSA has on file.
- **Address change notification.** If either of you are moving, update your address with your employer as well as the Postal Service. You will also need to update the IRS with your new address using Form 8822.
- **Review your benefits.** Getting married allows you to make midyear changes to employer benefit plans. Take the time to review health, dental, auto, and home insurance plans and update your coverage. If both of you have employer health plans, you need to decide whether it makes sense for each of you to keep your plans or whether it's better for one to join the other's plan as a spouse.
- **Update your withholdings.** You will need to recalculate your payroll withholdings and file new W-4s reflecting your new status. If both of you work, your combined income could put you in a higher tax bracket. This can result in reduced and phased-out benefits. This phenomenon is known as the "marriage penalty."
- **Update beneficiaries and other legal documents.** Review your legal documents to make sure the names and addresses reflect your new marital status. This includes bank accounts, credit cards, property titles, insurance policies, and living wills. Even more importantly, review and update beneficiaries on each of your retirement savings accounts and pensions.
- **Understand the tax impact of your residence.** If you are selling one or two residences, review how capital gains tax laws apply to your situation. This is especially important if one of you has been in your home for only a short time or if either home has appreciated in value. This should be done as soon as possible prior to getting married to maximize your tax benefits.
- **Sit down with an expert.** It is natural for newlyweds to focus their attention on the big day. Because of this, reviewing your tax situation often is an afterthought. Do not make this mistake. A simple tax and financial planning session prior to the big day can save on future headaches and avoid potentially expensive tax mistakes.

If you'd like a review of how marriage will affect your tax and financial situation, call 505-897-7382 at your earliest opportunity.

## Business or a Hobby? - The IRS is interested

When you incorrectly claim your favorite hobby as a small business, it's like waving a red flag that says "Audit me!" to the IRS. However, there are tax benefits if you can correctly categorize your activity as a small business.

Why does hobby versus business matter?

Chiefly, you're allowed to reduce your taxable income by the amount of your qualified small business expenses, even if your business activity results in a loss. On the other hand, you cannot deduct losses from hobby activities. Any hobby expenses are treated as miscellaneous itemized deductions and don't count against taxable income until they (and other miscellaneous expenses) surpass 2 percent of your adjusted gross income.

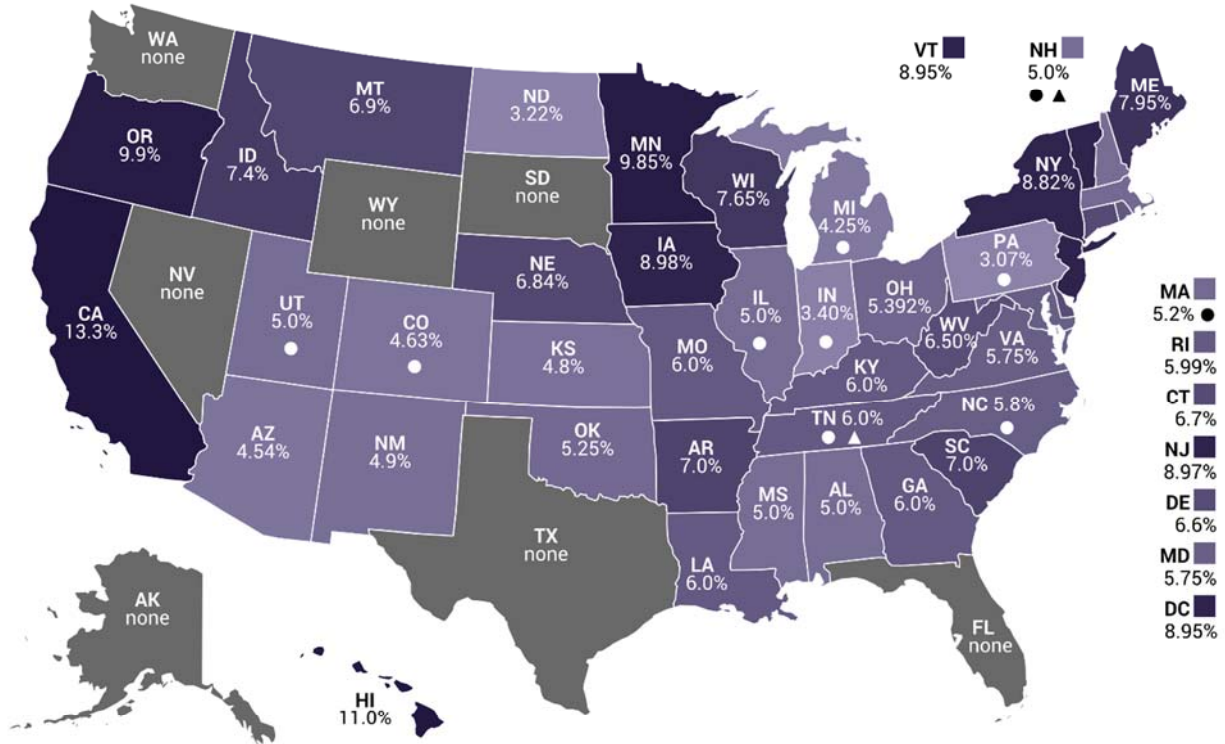
Here are some tips to determine whether you can define your activity as a business.

- **Profit Motive.**
  - o Business: You have a reasonable expectation of making a profit.
  - o Hobby: You may sell occasionally, but making money is not your main goal.
  
- **Effort and income**
  - o Business: You invest significant personal time and effort. You depend on the resulting income.
  - o Hobby: It's something you do in your free time; you make the bulk of your money elsewhere.
  
- **Reasonable expenses**
  - o Business: Your expenses are ordinary and necessary to run your business.
  - o Hobby: Your expenses are driven by your personal preferences and not strictly necessary.
  
- **Background**
  - o Business: You have a track record in this industry, and/or a history of making profits.
  - o Hobby: You don't have professional training in the field and have rarely or never turned a profit.
  
- **Customers**
  - o Business: You have multiple customers or professional clients.
  - o Hobby: You have a few customers, mainly relatives and friends.
  
- **Professionalism**
  - o Business: You keep professional records, including a separate checkbook and balance sheet; you have business cards, stationery, and a branded business website.
  - o Hobby: You don't keep strict professional records of your activities; you don't have a formal business website or business cards.

Should you need a review of your situation please call us at 859-623-4027.

**We hope you enjoy what's left of the summer!**

# Top State Income Tax Rates



**Note:** Map shows top marginal rates: the maximum statutory rate in each state. It represents the statutory tax rate on the last dollar of income earned for the highest income individuals in that state. It is not an effective marginal tax rate, which would include the effects of phase-outs of various tax preferences. Local income taxes are not included. Data as of Jan. 1, 2014. Published Mar. 25, 2014.

**Source:** State forms and instructions; *Facts & Figures 2014: How Does Your State Compare?*

Top Marginal Income Tax Rate



Lower Rate Higher Rate

- State has a flat income tax structure
- ▲ State only taxes interest and dividends income, not wages

[taxfoundation.org/maps](http://taxfoundation.org/maps)