

HONECK ·
O'TOOLE

...where people count

revenews

Ideas to help small businesses and individuals maximize income while minimizing taxes.

3rd Quarter 2015

TAXES, SCHMAXES: THE TOP 9 TAXES THAT MAY AFFECT YOU

As our team reflected on the most recent tax-return season, we realized that a number of our clients were confused about the effect of various income taxes on their 2014 individual returns. In some cases, the interconnection of these taxes created an unexpected "taxes due" result on their returns.

For instance, one of our clients was juggling income taxes from a full-time job as well as self-employment taxes from freelance work on the side, and she switched from Head of Household to Single filing status due to a change in her family. That last activity caused a major increase in her taxes due... and now she's working with us to minimize that extra burden in 2015.

She's not alone. That's why we're providing a back-to-basics reminder of the top 9 taxes that exist now. Let's look at each one and then consider how you can develop a smart strategy to minimize the collective impact from them.

1. Ordinary income tax

Your wages, salary, bonuses and other work income is taxed each year, as well as interest income, lottery winnings and even unemployment compensation. Basically any income is taxable income, and you need to report all income you receive.

2. Capital gains and qualified dividends income tax

- Short-term capital gains apply to gains resulting from the sale of assets held for one year or less, and are taxed at ordinary federal income tax rates based on an individual's tax bracket.
- Long-term capital gains rates apply to gains resulting from the sale of assets (stocks, etc.) held for more than one year. The federal tax rate is determined by the type of asset as well as the marginal ordinary income tax rate, with maximum limits. For example, for common financial investments (i.e., stocks), the maximum rate on long-term gains is as follows:

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"NO SURPRISES" TAX-PLANNING HELP FOR 2015

With the many different taxes that exist now for individual taxpayers, we've been seeing the interrelationships of these various taxes confuse and affect our clients. And, we try to help all clients reduce the tax burden from all these various taxes. This issue of ReveNEWS provides a reminder on the many types of income taxes so you can understand some of the complexities and minimize your burden.

Avoid surprises with year-end planning!

Not sure how all these taxes affect you? Let's review your situation and help you make adjustments now for the best results.

Contact us for an appointment: 207-774-0882
or info@honeckotoole.com.

Your Honeck O'Toole Team

Reminder: Important Tax Date

September 15: Extended corporation, partnership and trust returns are due

(You may receive a call or email reminder about this date from us.)



- Individuals in the top income tax bracket are subject to a 20% capital gains rate. (The top income bracket applies when all income sources combined exceed \$464,851 if married and \$413,201 if single.)
- Individuals in the 25-35% brackets are subject to a 15% long-term capital gains rate. (This middle bracket applies when all income sources combined range from \$74,901- \$464,850 if married and \$37,401- \$413,200 if single.)
- Individuals in the 10% and 15% brackets have a 0% capital gains rate. (This lowest bracket applies to the income up to \$74,900 if married and \$37,450 if single.)

Gains from other types of investments (real estate, business or collectible assets) are taxed at different rates.

- Qualified dividends (i.e., from a stock that pays dividends to individual investors and meets certain timing and corporate residency requirements) are taxed at the taxpayer's applicable capital gains tax rate.

3. Self-employment and Social Security / Medicare tax

The self-employment tax generally applies to individuals who have self-employed income (profit) from a trade or business as a sole proprietorship or as a partnership. As an example, the IRS website explains, "For self-employment income earned in 2013 and 2014, the self-employment tax rate is 15.3%. The rate consists of two parts: 12.4% for Social Security (old-age, survivors, and disability insurance) and 2.9% for Medicare (hospital insurance)." The Social Security tax applies to income up to \$118,500. However, Medicare tax is not capped and applies to all earned income.

4. Additional Medicare tax

If your earned income level exceeds \$200,000 you may also be liable for a 0.9% tax on wages and self-employment income. This additional Medicare tax will be withheld from wages and salaries over \$200,000 for single taxpayers and \$250,000 for married taxpayers filing jointly.

5. Net Investment Income tax

- A 3.8% tax applies to "net investment income," which generally includes interest, dividends, royalties, nonqualified annuities, rents (and other passive activity income), capital gains from the sale of property (other than that used in an active trade or business) that is a passive activity or in the business of trading financial instruments or commodities. A hefty payout from any of these investments will trigger a tax liability if it pushes your adjusted gross income above \$250,000 if married and \$200,000 if single.

- This does not include distributions from IRAs or qualified retirement plans, qualified annuity payouts or income from tax-exempt municipal bonds, among other items.

6. Alternative minimum tax

This federal tax was established to ensure that wealthy Americans couldn't use unusually large tax deductions and business expense subsidies to avoid paying income taxes. If you're subject to the AMT, you may face stricter limits on itemized deductions, use of tax credits and tax-exempt interest.

7. Estate taxes

If the total value of your assets when you die is more than the allowed exemption of \$5,430,000, you may have to pay a federal estate tax rate of up to 40%. Only your surviving spouse who is a U.S. citizen can inherit your assets to avoid the estate tax.

8. Gift taxes

Gifts totaling \$14,000 to a single beneficiary in a single year are considered tax-free. Gifts above that amount may be included in the taxpayer's estate and gift tax exemption (within certain limits) rather than being subject to immediate tax.

9. Property taxes, including Maine rental sales tax

If you own real estate, you can expect to pay property taxes each year. In addition, if you own property in Maine and you rent that property for 15 days or more in a year, you're required to collect and remit Maine sales tax at a rate of 8%, which will increase to 9% on January 1, 2016.

How to make sense of it all

Is your head spinning yet? We wouldn't be surprised.

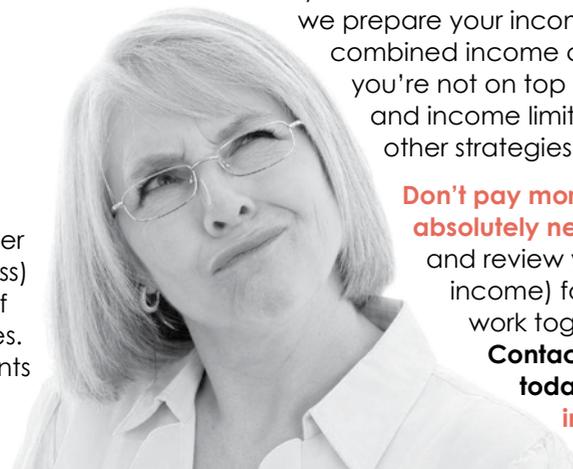
Many of these various taxes can come into play when we prepare your income tax return each year. Your combined income can cause a major pain if you're not on top of the tax-bracket thresholds and income limits as well as deductions and other strategies to minimize taxes.

Don't pay more than in taxes than absolutely necessary! Let's sit down and review your income (and projected income) for 2015 now, so we can work together on a smart plan.

Contact us for an appointment

today: 207-774-0882 or

info@honeckotoole.com.



CLIENT PROFILES

LORI DORR

The Sock Shack

If you're looking for unique, inexpensive gifts for family and friends, consider socks! But not just plain socks. Socks with sharks on them, or stars or elephants or musical notes. That's just a sample representation of the variety of socks you can find in The Sock Shack boutique at 564 Congress Street in Portland, Maine. This fun shop offers you hundreds of fabulous socks for the whole family, plus patterned tights and warm leggings for women and other great gifts. The Sock Shack moved to 564 Congress Street in mid-July, 2015 to join other specialty shops such as the Queen of Hats.



Owner Lori Dorr previously had a shoe store in Portland called Terra Firma. She then took a break from retail and worked in a law firm, but "the sock thing" was always on her mind. She started The Sock Shack in October 2014 in the Time and Temperature building... and since the move, her business has doubled. She and her husband Bob Wirtz have been clients of Honeck O'Toole since 1987 – Bob owns Enterprise Records (vinyl only) which is still going strong.

The Sock Shack website is coming soon, but in the meantime join the Facebook page to see what's in store and join in the fun! www.facebook.com/sockshackmaine

DAVID NICKLAS IS EASING INTO RETIREMENT



Back in February 2013, we announced the merger of David Nicklas's accounting practice with our firm, which brought David, his colleague Julie Sengelmann and their clients to our team. When David became associated with Honeck O'Toole, it was with the plan that he'd be able to transition his clients into our active, full service, high quality firm while keeping in contact with them during the process. This transition has worked well for everyone involved.

In the spring of 2016, David will embark on another chapter in his life as he plans to retire. For the near future, he'll be with our firm occasionally while he takes as much time as possible out of the office, although meetings by appointment are always possible. After the holidays he'll be in the office during the busy January to April 2016 tax return period.

Clients who have been associated with David will be in good hands! Our team is dedicated to making your transition as smooth and pleasant as possible for all your accounting needs. Please contact us if you have any questions: [207-774-0882](tel:207-774-0882) or info@honeckotoole.com.

We welcome your questions about taxes, financial planning, college planning, making the most of QuickBooks, or anything else related to your financial goals.

Call for Assistance Anytime!



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FRAUD ALERT:

Protect Yourself from the Latest Schemes

Watch out for marketing schemes and other types of fraud designed to rob you of your money!

Here's a quick look at some of the latest predators and how you can avoid them.

- **Multi-level marketing (MLM) vs. pyramid schemes:** Working from home is very appealing... and one way to do that is through MLM, or network marketing. Companies such as Avon use MLM to sell goods or services through distributors or independent representatives. In contrast, illegal pyramid operations pay representatives for simply introducing other distributors. If you're interested in a company, be sure to examine its annual sales, commissions and training program as well as Better Business Bureau reports.
- **Fraud "recovery:"** If you've been the victim of a data breach or other issue, you may be contacted by so-called fraud recovery services promising to assist you, typically offering to bring you justice and refund

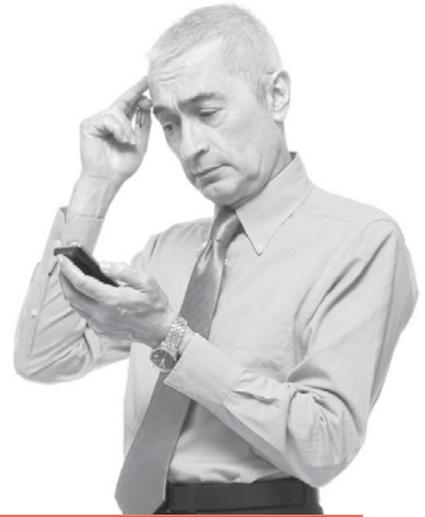
you if they can't help you recover your original loss. Anytime someone charges an upfront fee, it's a scam. Other signs are unsolicited communications from a company you don't know, or a caller who refuses to provide a name or callback number.

- **Telemarketers violating the Federal Trade Commission (FTC) Telemarketing Sales Rule:** Part of this rule established the National Do Not Call Registry, which stops most calls. However, political organizations, charities and survey organizations are still permitted to call. BUT, they can only call between 8 a.m. and 9 p.m., they must identify the seller or organization they represent and other rules. Anything else is fraud and should be reported to the FTC at 1-888-382-1222.

- **Job listing scams:** If you're looking for a job, you may be prompted to apply for a listing online or on a mobile app. You may even receive an email requesting an interview with you. Great, right? Not so fast. Fake job listings are often used to scam job hunters and take their cash or personal information for identity theft. Be extremely cautious of any company requesting personal information via the web, especially prior to an interview. Be sure to confirm a company's legitimacy before proceeding.
- **Sweetheart schemes:** These are schemes in which fraudsters prey on individuals using dating websites. The predators set up fake dating accounts and contact the target expressing an interest in a relationship, developing a rapport and trust over time while gathering personal information from the victim.

Eventually the predator explains that he or she needs cash to visit the victim or to help a family member, and asks the victim to deposit money into an account. This is especially difficult to spot because the predator is skilled at appearing trustworthy. Never give out money to someone you meet online!

Be careful out there, so you can keep all your money safe. 🚫

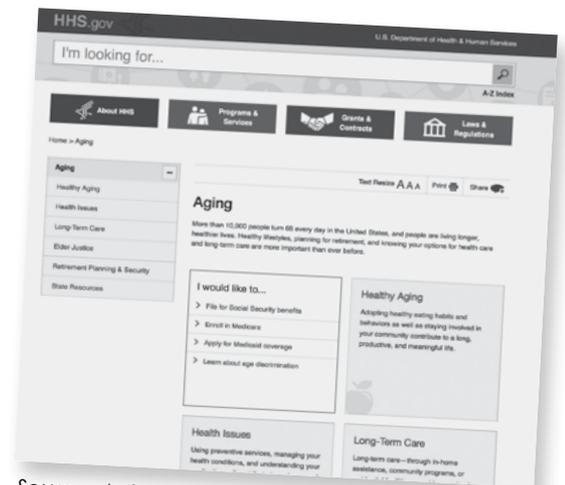


AGING.GOV: New Resources for Boomers, Seniors and Beyond

A recent White House Conference on Aging brought together many new government initiatives to address the U.S. challenge of caring for aging Baby Boomers, with 20% of the country's population predicted to be over 65 by 2030.

One of the initiatives is a new website, Aging.gov, which is designed to centralize long-term care resources and information. As the site grows, you'll eventually be able to find a wide range of articles about everything from Medicare enrollment tips to healthy eating ideas. Right now you can check out information on retirement planning and security, veterans' care, state-by-state links of caregivers and other senior support providers, and much more.

Visit [Aging.gov](https://www.aging.gov) for complete details. 🚫



DISCLAIMER

Any accounting, business, or tax advice contained in this communication is not intended as a thorough, in-depth analysis of specific issues, nor a substitute for a formal opinion, nor is it sufficient to avoid tax-related penalties. If desired, Honeck O'Toole would be pleased to perform the requisite research and provide you with a detailed written analysis. Such an engagement may be the subject of a separate engagement letter that would define the scope and limits of the desired consultation services.

