



HONECK ·
O'TOOLE

...where people count

2nd Quarter 2017

YOUR NEXT HOME IN SOUTHERN MAINE: RENT OR BUY?

There's no question that the Southern Maine real estate market is sizzling hot these days, with no signs of slowing down. Home sale prices are higher than they've been in years... and rental rates are through the roof as well.

If you're looking for a new home and you're weighing the decision to rent or buy... we'd like to help you consider the pros and cons of each.

Renting

People from around the country have discovered that Southern Maine is an exceptional place to live for a number of reasons, so there's growing competition for housing as more and more people move here.

This is great news if you're a landlord. A higher demand is fostering higher rental rates and even a boom in temporary rentals via Airbnb, HomeAway, and other options. Watch out for local ordinances as many towns are limiting rentals like Airbnb.

But if you're looking for a place to rent, the growing popularity can be a definite "con." It's tough to find an affordable solution unless you're willing to live outside the Greater Portland area... and even outside surrounding towns north, south, and west... because landlords are commanding high rental fees in Freeport, Brunswick, Scarborough, Westbrook and beyond.

On the other hand, if you want flexibility and a low-maintenance lifestyle, renting certainly has its "pros." You won't be hit with sudden repair expenses, you're not locked in for years, and you're not burdened with coming up with a hefty mortgage down payment. You'll have a fairly fixed housing expense, and it's easier to get away without worrying about home maintenance.

Many home owners are opting to rent for these reasons. They want the flexibility of a rental lifestyle, even if they're missing out on the potential equity of owning a home.

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revenue news

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

Thanks very much
for your tax-return business!

We appreciate you choosing our team to prepare your 2016 tax returns. Our team devoted early February through April 18 to get as many returns filed as possible. It took over 8,500 staff hours in 10 short weeks to get all the work done.

Thank you for putting your trust and faith in us, and for referring us to your friends and colleagues.

Your Honeck O'Toole Team

FRIDAY *Summer Hours* AT HONECK O'TOOLE

Since everyone worked extra hard this past tax season, we're rewarding their efforts with "Summer Fridays." This means two things:

- Fridays are "business casual" after Memorial Day until Labor Day. And,
- In July, August and for Labor Day weekend, we'll be closing the office on Fridays. Of course, clients come first! So, if those Fridays are the only time you can meet with us, we'll be here. Just let us know.

Many thanks for kindly working with us around our summer Friday schedule.

Buying

Ah, there's nothing like having your own home if you can swing it. You can decorate and renovate it any way you desire ... the American Dream.

Plus, if you "buy right," you can build equity in your home over time as you pay down your mortgage loan and as prices rise, as they have for the past several years. (No guarantees, of course!) And, each year you can likely deduct your mortgage interest and real estate taxes.

Now for the cons. Our strong market has made it difficult to buy a house, and lower-priced homes are quickly snapped up by cash buyers or stiff competition from others wanting a piece of Southern Maine.

Another con is the down payment for a mortgage loan. A recent USA Today article noted that a median-priced home in the U.S. is \$192,500, which means buyers need to come up with \$38,500 to put 20% down. That's a huge chunk of change.

You can find mortgage loan options that don't require 20% down... but even at 5% down... you'll need \$9,625 PLUS additional funds for inspections, closing costs (averaging 2% of the purchase price), and moving expenses. You'll also be making a 15- or 30-year loan commitment, which can have a large interest cost over time.

Comparing the overall costs over time

To help you look at the total picture of renting versus buying over the long term,

try the free calculator at BankRate.com:

www.bankrate.com/calculators/mortgages/rent-or-buy-home.aspx.

Answer a few multiple-choice questions and the calculator will return a recommendation based on your own current savings, general debt ratio, and more.

If you'd like to run the numbers with us to help you make your decision, call us at **207-774-0882** or email us at info@honeckotoole.com.



NOTE: Questions about your resident status and Maine taxes? Call us at **207-774-0882** or email us at info@honeckotoole.com.

SALES TAX RULES FOR EBAY, ETSY AND CRAIGSLIST SALES:

If you enjoy selling items on eBay, Etsy, Craigslist and other online platforms, be sure that you're aware of your income tax requirements. There are different rules about reporting income from these types of sales. It all depends on whether you're selling items as a hobby or as quick one-offs (such as selling unwanted furniture from your attic) versus establishing a business to regularly sell crafts, collectibles, etc. online at a profit.

You definitely want to know the difference because if you're running an online business, you need to follow business tax requirements.

How can you tell the difference? The IRS offers specific guidelines in an online Fact Sheet titled, "**Business or Hobby? Answer Has Implications for Deductions.**"

Mainly, the IRS defines a business as an activity "**engaged in for profit,**" which means you can deduct ordinary and necessary expenses required to run a business. If it's a hobby, you're limited in the types of deductions you can take.

If you're engaging in a business on eBay, Etsy, Craigslist, etc.... you'll answer yes to the following questions (paraphrased from that article).

- Have you made a profit during at least three of the last five years from this activity... or is there an intent to make a profit?
- Do you depend on these sales for income?
- Are you planning to take all eligible deductions for expenses related to this activity (as applicable)?
- Do you expect to claim any losses from this activity against other income?

We recommend reading the entire IRS Fact Sheet... and if you have further questions, contact us to discuss your situation. Call us at **207-774-0882** or email us at info@honeckotoole.com.



YES, YOU MAY HAVE TO PAY: Maine Income Tax Rules for Non-Residents

We have a number of clients “from away,” meaning they don’t live in Maine as their primary residence. However, many of these clients come back to Maine during certain times of the year to live. It’s not just summer residents (although that’s the majority), but we also see non-residents flocking to Maine for other extended periods — skiers in the winter, for instance.

The point is, if you live in Maine for any part of the year, you may have to pay Maine state income taxes as a part-year resident or non-resident. It all comes down to two things: 1.) your “domicile” and resident status, and 2.) whether or not you earn income from a Maine employer during your time in Maine.

Domicile, Non-resident and Part-year Resident Defined

Let’s start by defining the term domicile. The IRS defines a taxpayer’s domicile as “the place an individual establishes as his or her permanent home... to which he or she intends to return after any period of absence. No change of domicile results from moving to a new location if the intent is to remain only for a limited time, even if it is for a relatively long duration.”

If your primary home is in another state, your car is registered there, you’re registered to vote there, you pay real estate taxes there, etc. — that’s your domicile and you’re a **Maine non-resident**. It’s possible that you may also own a permanent “abode” in Maine (such as a seasonal cottage), but if you live in it for **fewer than 183 days...** you’re still a non-resident.

This means you’re not required to file Maine income tax form 1040ME **UNLESS** you earn an income from a Maine employer while you’re living in Maine. This is a cut-and-dry situation for people who come to work in Maine for the summer. They definitely pay taxes here. So do people earning salaries, wages, distributions from partnerships, corporations, trusts, estates, sales of tangible property, or lottery winnings (any income that’s from a Maine source!).

It’s a little less obvious in other cases. For example, if a freelance writer comes to Maine for the summer (more than 12 days total in that taxable year) and earns more than \$3,000 of gross income from a Maine source (client, etc.) in that year... the writer must file Maine income tax form 1040ME accordingly.

If your domicile is not in Maine, but you own permanent Maine property (such as a cottage) and spend **more than 183 days a year** in that property, you’re a **Maine part-year resident**. You’re required to file Maine income tax form 1040ME with Schedule NR or NRH to reflect any income you earned during the time you were in Maine that taxable year.

Now, if you’re a Maine part-year resident, you work for a Maine employer during your time in Maine, but you also work outside of the state during this time, you’ll pay an “apportioned amount” based on the ratio of time in Maine vs. elsewhere.

Yes, *it can be complicated, but we can help!* If you have any questions about your Maine resident status and tax-filing requirements, **call us for assistance at 207-774-0882 or email us at info@honeckotoole.com**. 📞

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.



DRIVER’S LICENSE REQUIRED FOR FILING STATE TAX RETURNS

Over the past few years, the IRS and most state tax departments have faced a growing problem of identity theft and fraudulent tax returns. In a measure to stop this and provide more protection to taxpayers, many states have adopted a new procedure to confirm taxpayer identity.

Now, many states request or even require that taxpayers provide their driver’s license number in addition to their name and Social Security number. The reasoning is, a thief could have a taxpayer’s name and Social Security number, but is less likely to also have the driver’s license number. Maine could possibly join the ranks of states adding this requirement... we’ll keep you posted. 📞



CLIENT PROFILES

CHRISTOPHER CAMPBELL

Maine Cap 'n Stem

The mushroom business is... well... mushrooming for the owners of Maine Cap 'n Stem in Gardiner. Christopher Campbell, a Portland-area architect, co-started the business with friend Erik Lomen in 2013 after finding a market for the wild mushrooms he and his wife would discover while foraging along Maine's hiking trails. He said, "Erik started selling the mushrooms to local restaurants and it began to snowball. We thought, what if we grew strains of mushrooms we could sell year-round?"

Their specialized niche is in cultivating the mycelium of different mushroom varieties (similar to seedlings) by adding certain nutrients to spawn-inoculated sawdust to get them going. Then, they sell these "starts" to professional fruiting farms that then grow the full mushrooms and bring them to market. The end customers are supermarkets such as Whole Foods, and finer restaurants across the country.

Christopher said, "There's a growing appreciation of different mushrooms, not just for flavorful recipes (Shiitakes on meats, Lion's Mane with morning eggs, Oysters in soups) but also among those interested in natural remedies and health support. The popular varieties change over time. Suddenly Shiitake mushrooms are all the rage. Then something else. Right now, Lion's Mane is big."

He added, "The numbers just keep climbing. Restaurants keep climbing. We just happened to be one of the early adopters in Maine as this industry has taken off. And we feel very fortunate." Christopher noted that the business is happy to offer tours if you're interested in learning about the mushroom industry. You can also visit their website to learn more: www.capnstem.com.



ROB O'BRIAN

North Atlantic Inflatables

When Rob and Bridget O'Brian took over North Atlantic Inflatables in April of 2014, it was a unique, growing business — the first to bring reliable, safe, high-quality inflatable boats to the US market at reasonable prices. It was a perfect fit for the O'Brians, combining Rob's background as a Naval Architect and a retail business owner, with his family's love of Maine.

Rob said, "While our first year was a transitional year, sales have increased 20-25% each year to date, as we've broadened our reach beyond a single retail facility in Portland." They started a dealership network in Harpswell, Maine; Cape Cod, Massachusetts; and soon to be launched in Long Island, NY. In addition, their boats are sold through Hamilton Marine in Maine and Jamestown Distributors in Rhode Island.

Each North Atlantic Inflatables boat is manufactured exclusively by the company based on their proprietary specifications. The biggest sellers are hard-bottom inflatables primarily made of light, rugged aluminum. Rob told us, "They're a cost-effective dingy solution because they can handle Maine's rocky coast. Pleasure boaters and island communities use our boats to easily hop from mooring to land. Now we're looking ahead to push into larger, center console inflatables for those who'd like to use our boats as their primary watercraft. Last year we delivered a 21-footer, and we're delivering a 20-footer this year." Their showroom and primary retail location is located at 400 Commercial Street in Portland, and you can learn all about them at www.NorthAtlanticInflatables.com.



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

Call for Assistance Anytime!



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