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

3rd Quarter 2014

TAX THINGS TO KNOW

This issue of ReveNEWS focuses on a variety of tax items and other financial matters we've been watching over the summer.

Some of these items are questions some of our clients have about certain tax categories, and other items are simply reminders about recent changes that may affect you.

Before plunging deep into the busy autumn season, we encourage you to review this issue and see if you have any questions about your finances.

Let's begin with Maine tax matters.

- Renting Your Maine Vacation Home

  Since Maine is truly Vacationland, we have a number of clients who rent their second (vacation) home as a vacation property for guests from away. This is quite common with Maine's many seasonal lake houses, beach houses and mountain cabin getaways.

  If you're among those who rented out a vacation property anywhere, that rental income may be taxed depending on how many days it's rented and your level of personal use.

  If you used the property personally, including use by friends and family, more than the greater of 14 days, or 10% of the total rental days, it is considered a personal dwelling unit. As such, if you rent your property for fewer than 15 days during the calendar year, it's not treated as rental property when it comes to filing taxes. This could be an advantage for you for several reasons.

  The main reason is — the rental income you receive isn't included in your income for tax purposes, even if it's several thousand dollars. But you must have used the property personally (including friends and family) for this to apply. If you have a lake house you rent out that is hours away and you never use it, it would not be considered a personal dwelling unit.

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Is it Time to Update Your Financial Picture?

Hard to believe, but early autumn is upon us and we're well into the second half of 2014. You may want to take a look back at the first half of the year and see what's happened so far regarding your income, taxes and possible life-changes that may affect your annual tax return.

For instance, if you bought a house (a few of our clients did!), started looking at colleges for your high-school student, changed careers, or started a business this year — we can look over your situation and discuss strategies and potential opportunities to reduce your tax burden, plan for cash needs or just the best way to manage a change.

Plus, this issue includes a number of tax law reminders and changes. Why not come in and see what we can do to make the best plan for you? Contact us to book 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 due

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

CLIENTS IN THE NEWS…

E. Scot Fuller

THE CHADWICK BED & BREAKFAST

After being a school teacher for eight years, Scot Fuller decided to follow a different path. He offered inn-sitting services, temporarily taking care of bed-and-breakfast inns so the owners could take a break. Then, in August of 2010, the owner of The Chadwick Bed and Breakfast, located at 140 Chadwick Street in Portland, contacted Scot about helping with property management. Shortly after that, the owner decided he didn't want to own The Chadwick any longer, and Scot took over the business as of January 1, 2011.

Scot is a true hands-on business owner, doing everything from preparing breakfast and helping to get rooms ready, to doing guest check-in, concierge services, online marketing and more. At this "perfect Portland getaway" built in 1891, the tastefully appointed and updated rooms — each with a private bathroom — offer "the new standard in bed and breakfast luxury." Guests are served a five-star gourmet breakfast each morning, alternating between sweet and savory dishes (their signature breakfast is Maine Lobster Eggs Benedict with Lemon Scallion Hollandaise). The location is perfect for visitors eager to walk to nearby restaurants, galleries, shops and other venues.

Scot told us, *"Each year, we've grown; we've been able to go from 62% occupancy for the year to 84% occupancy. And, for three years in a row, we've ranked #2 on Trip Advisor's list of Portland's Best B&Bs (out of 11 in Portland), which is exciting because The Chadwick is the smallest B&B in all of Portland."* Visit **www.thechadwick.com** for more information.

CLIENT PROFILES

Brian and Jennifer Brenerman

SHAY'S GRILL PUB

Situated in the hub of downtown Portland at 18 Monument Square, Shay's Grill Pub is a cozy, convivial neighborhood restaurant with a terrific selection of local microbrews. Brian Brenerman has owned Shay's since 2006, and he told us, *"We're busy year round thanks to the wide variety of regular clientele that come in, from twenty-somethings to lawyers and many others."* The grill pub always has 8 tap lines with frequently changing beers to support local breweries… and it's known for its hamburgers although their extensive menu has something for everyone. (We found unique offerings such as Mediterranean Nachos and Shay's Steak Bomb.)

When Brian bought Shay's from the previous owner, he didn't need to make many changes and he's happy that the neighborhood has been steadily "up and coming." He said, *"Now I'm getting surrounded by other restaurants, which brings more people to the area and that's good for all of us. Business has been going well, with a 10% increase every year since 2008."* Originally from Massachusetts, Brian bought Shay's when he was 28. His wife, Jennifer, started working there three years ago. He noted, *"I've lived in a lot of places and I feel mostly at home here."* We imagine you'll feel right at home in Shay's intimate setting (48–seat capacity). Check it out at **www.shaysgrillpub.com**.

Call for Assistance Anytime!

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

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TAX THINGS TO KNOW… *CONTINUED*

If you rent your property for more than 14 days during the calendar year, you must include the rent you receive as income. However, you can deduct part of the property's operating expenses (utilities, insurance, etc.) and depreciation, subject to the following rules.

You'll need to allocate your expenses between the personal use days and the rental use days. If the expenses exceed the rental income you received, you may be able to claim a rental loss. It all depends on how many days you and your relatives use the property for personal use... and even nonrelatives (such as friends) if you don't charge them the market-rate rent.

If you and others use the property personally for more than 14 days or 10% of the rental days in which you received income, you can't claim a rental loss. You can still use deductions to offset the rental income on your tax return, but you can't go beyond the income to create a loss. The loss may carry forward to be utilized in years with net income.

Don't forget about Maine state sales tax on rental properties!

The State of Maine imposes an 8% tax on rentals, which you are required to charge and remit. If you collect less than $2,000 of sales tax on the rentals you may remit the tax with your Maine individual tax return. If you collect more than $2,000 of sales tax you must register with the state and file a sales and use tax return.

- Maine Tax Deductions for Charitable Contributions

A new Maine law is phasing out a limitation on charitable contributions deductions. For tax years 2014 and 2015, the total itemized deductions cap is $27,500, which includes charitable contributions. In 2016, the cap remains at $27,500 but an additional $18,000 in charitable contributions deductions is allowed. In 2017, the cap remains at $27,500 plus unlimited charitable contributions deductions.

- Maine Tax Deductions for Medical and Dental Expenses

The Maine State Legislature passed the following law effective May 1, 2014 and applicable to 2014 tax returns:

The $27,500 limitation on Maine total itemized deductions from an individual's adjusted gross income does not apply to medical and dental expenses included in an individual's total itemized deductions on their Federal return.

What does this mean? Simply this. Individuals have a $27,500 cap on annual total itemized deductions. Medical and dental deductions are not included in this cap. They have no limitation and can be reported on the Maine return in addition to the $27,500 cap.

ESTATE PLANNING AND TAXES: IT'S ALL ABOUT TRUSTS

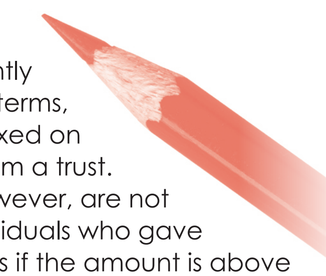
These days, many of our clients use trusts as a smart tax and estate planning solution. Trusts can be used to "control" how assets are managed. Some of the reasons people use them are:

- **Trusts help heirs avoid lengthy probate in the event of someone passing away.** An estate can sit in probate for several months if it's complicated, at least six months for even the basic estate. This can be time consuming and expensive especially when there is property or assets located in states other than Maine, as each state would require probate. Rather than the will separately identifying each asset and to whom it will go, a trust dictates exactly how the assets in the estate will be managed so they do not pass individually through probate.
- **Trusts help maintain the privacy of the deceased and their heirs.** When a will is filed, it becomes public record. And if a famous person dies, that record becomes "news" for everyone to see. In contrast, revocable trusts remain private, so nobody, including friends, neighbors or ex-spouses, will see information from those documents. This is a popular reason why people choose trusts.
- **Trusts can provide lifetime benefits to a surviving spouse and children.** In a time when blended families and second marriages are common, trusts can ensure that children from a former marriage will receive a deceased person's assets if he or she wishes. They are also useful if the surviving spouse during life is to receive income or assets from the trust prior to going to the children.
- **Trusts can provide for children and adults with special needs.** If a family member is receiving government benefits for a disability, a gift or inheritance might cause the government benefits to be reduced or discontinued. However, assets may instead be provided via a trust, allowing the disabled person to have access to other assets and to continue receiving government assistance.

Now that you know why trusts make sense for many people, it's important to know that trusts can also be tricky due to various guidelines and provisions that need to be followed. We've prepared more Trust Returns Form 1041 than ever before, and we receive a wide range of questions about trusts. These three facts may help you.

1. **Be cautious when naming a child as the trustee.** If all families got along perfectly, it would be a no-brainer to name the oldest child as the trustee. But – we all know that's not the case. Therefore, consider carefully the family dynamic when choosing a trustee. And be sure to include a right to compensation for the trustee to manage the trust.
2. **Consider using a professional, impartial trustee.** When there's a large estate with sizeable assets, managing a trust can be confusing. A professional trustee not only has greater objectivity than a family member would, he/she will also be able to manage the complex issues related to trust regulations.
3. **Plan for a (limited) power of removal.** You may not be aware of this, but trust beneficiaries may remove a trustee if that person is not honoring the trust and acting under the "good will" of the trust. When drafting a trust, include a clause that allows beneficiaries to remove power from the trustee within limits such as once every three to five years.
4. **As with any legal document, be sure to read the "boiler plate" standard language to ensure that unintended consequences aren't created. (As illustrated in recent headlines regarding a former basketball team owner being deemed mentally incompetent by an estranged spouse who took over managing the trusts and its assets, including the basketball team.)**

A final note about gifts versus trusts.



Income from a trust is taxed differently than a gift. Depending on the trust terms, the recipient may or may not be taxed on money or assets he/she receives from a trust. Gifts received by the individual, however, are not taxable to the recipient. Those individuals who gave the financial gifts must pay gift taxes if the amount is above a specific annual limit. The gift amount excluded annually from taxes is $14,000. And, if the gift giver is married, the gift could be split between spouses to avoid exceeding the cap, meaning the married couple could give one individual up to $28,000 annually without any gift tax consequences. Form 709 should be used to report split gifts exceeding $28,000 or individual gifts exceeding $14,000 annually to any one recipient.

For a gift to qualify for the annual exclusion, it must be a gift of what is called a "present interest." It can't be postponed to the future the way a trust can.

BONUS! Rather than lending or giving money directly to friends and relatives which would be deemed a gift, you can pay certain expenses directly to avoid taxable gifts. If you pay medical costs or tuition for another individual directly to the provider (i.e. the school or doctor) it is not considered a gift or subject to annual limitations.

If you'd like help in establishing or revisiting a trust to make sure it's set up in the most advantageous way, please contact us.

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