

HONECK ·  
O'TOOLE

...where people count

# renews

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

3rd Quarter 2019

## TO AVOID UNNECESSARY TAXES, CHECK FIRST BEFORE SELLING ASSETS

Each year, we receive quite a few questions about taxes on the sale of assets, such as property (personal and business), stocks, collectibles, etc. There are a few considerations that can affect any taxes you may owe on the sale of an asset. We'll explain some of them here. While the following information may help you as a general overview — it's important to know exactly where you stand.

**We strongly encourage you to call us before selling an asset if you have any questions. It may save you a bundle in taxes!**



Let's look at an example.

The tax basis for any gain on the sale of business property (that includes rental property) is reduced by depreciation claimed. For example, if you buy a property for \$400,000 and later sell it for \$600,000, you may think you have a \$200,000 gain. But if you claimed \$100,000 in depreciation over the years you owned it... the gain is \$300,000 because you reduce the basis by the depreciation taken.

**Here's how that generally works (a simplified explanation).**

- **Basis:** To figure out whether there's a loss or gain from a property sale, you'll need to know its basis. This is usually what it originally cost, but if it was a gift, inheritance, etc. you'll need to figure it a different way. We can help.
- **Adjusted basis:** If you improved the property, you'll add to the basis the cost of the improvements. On the other hand, the basis is reduced by depreciation you report annually as an ordinary deduction.
- **Gain realized:** When you sell the property, the gain (or loss) realized is the difference between the sale price (less selling expenses like commissions) and the adjusted basis of the property. This will often be different from the cash realized if there is debt attached to the property that must be repaid at the sale date.

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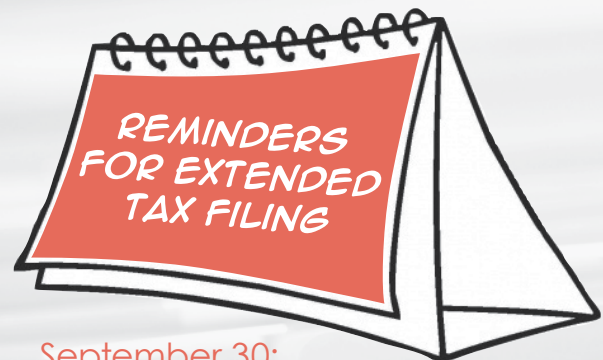
## PERFECT TIME TO ASSESS YOUR 2019 TAXES

Before the final quarter of 2019 is upon us, this is an excellent time to check on your finances and taxes for the year. Why do a check now? Because you'll have time to make any necessary adjustments that may save taxes when April 2020 rolls around.

If you bought property, sold property, got a raise, had an income increase, had a child, changed your marital status, started a business, sold stock, retired this year... experienced any life changes at all, we're here to help you look at how this affects your financial picture.

**Contact us for an appointment: 207-774-0882 or [info@honeckotoole.com](mailto:info@honeckotoole.com).**

*Your Honeck O'Toole Team*



### September 30:

Extended due for calendar year Trusts and calendar year Estates

### October 15:

Extended due date for Individual Tax Returns & calendar year C Corporations

**Got a letter from the IRS? Don't panic!** These days, the IRS staff is usually quite helpful and will work with you to set up a solution if you owe taxes. We can also help if you're not sure what to do next.

## AVOID UNNECESSARY TAXES, *continued*

To show you what we mean, here's an example from the IRS.

You bought a building for your business at the cost of \$70,000. Then you made improvements to the building at the cost of \$20,000, and deducted depreciation totaling \$10,000 over the years.

Later, you sell the building for \$100,000 plus property having a fair market value of \$20,000. At the closing, real estate taxes are prorated and \$17,000, the remaining balance of the mortgage, is paid from proceeds. The expenses to close the sale were realtor commissions of \$7,200, title work costing \$2,000 and your half of the transfer tax of \$250.

Your actual gain is \$30,550. The chart shows you the breakdown to arrive at this amount. You will also notice on the chart, if you pay off a mortgage at the closing, the amount paid does not affect the determination of the gain. It does affect how much you receive in your pocket.

Sale Proceeds:	
Cash Received	\$ 100,000.00
Property Received	\$ 20,000.00
Selling Expenses	
Realtor Comission (6%)	\$ (7,200.00)
Transfer Tax	\$ (250.00)
Title Work	\$ (2,000.00)
<b>Net Sale Proceeds</b>	<b>\$ 110,550.00</b>
Adjusted Basis of Building:	
Purchase Price of Building	\$ 70,000.00
Improvements to Building	\$ 20,000.00
Depreciation Taken	\$ (10,000.00)
<b>Total Adjusted Basis:</b>	<b>\$ 80,000.00</b>
<b>Total Gain on Property</b>	<b>\$ 30,550.00</b>
Allocation of Gain	
Depreciation Recapture (Sec. 1250 Subject to 25% ta	\$ 10,000.00
Remaining Gain (Subject to Capital Gains Rate)	\$ 20,550.00
<b>Total:</b>	<b>\$ 30,550.00</b>
Actual Proceeds Received:	
Net Sale Proceeds	\$ 110,550.00
Mortgage Balance Paid Off	\$ (17,000.00)
Pro-rate Real Estate Taxes	\$ (3,000.00)
<b>Total Amount Received</b>	<b>\$ 90,550.00</b>

We're here to help you look at all the figures involved in your specific asset basis, adjusted basis, amount realized, and deductions to determine exactly what you'll owe (or not owe) next April.

**Contact us to discuss your situation:**  
**207-774-0882 or [info@honeckotoole.com](mailto:info@honeckotoole.com)**

Keep in mind that this scenario is related to an asset held for more than a year (considered a long-term gain). Gains and losses from investments held for less than one year are short-term, which have different tax implications.

### What about selling other types of assets?


It can be complicated to know exactly how an asset sale will be taxed. Again, we encourage you to talk with us before deciding to sell anything that isn't held with an investment broker.

According to the IRS, gains on the sale of other assets are broken into three groups:

(1) the 28% group, consisting of: capital gains and losses from collectibles (including works of art, rugs, antiques, metals, gems, stamps, coins, and alcoholic beverages) held for more than one year;

(2) the 25% group, consisting of "unrecaptured section 1250 gain" — that is, gain on the sale of depreciable real property that's attributable to the depreciation of that property (there are no losses in this group); and

(3) the 20%/15%/0% group, consisting of long-term capital gains and losses that aren't in the 28% or 25% group — that is, most gains and losses from assets held for more than one year.


This is a very simple overview of what you'll need to consider so you're prepared to deal with the tax implications of an asset sale. 

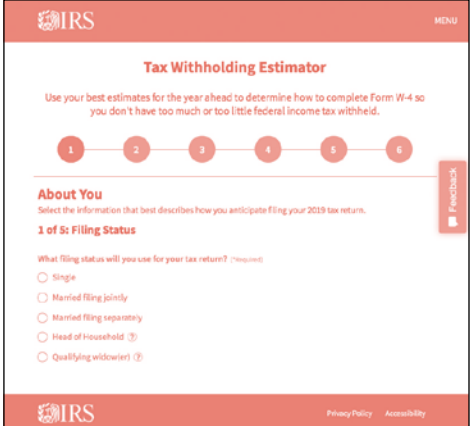
## NOW IT'S EASIER TO CHECK YOUR WITHHOLDING

When's the last time you checked the Federal Tax withholding amount you have on record with your employer? Your current amount may not be the best for you. Changes in your marital status, dependent status, or job can affect what the "right amount" is.

An adjustment may benefit you in several ways. If you adjust your withholding amount now, you may avoid tax "surprises" (payments and potential penalties) next April.

We encourage you to use the new IRS Tax Withholding Estimator to easily calculate the right withholding amount. Then, ask your company's payroll administrator to adjust your withholding so it will be correct for the rest of 2019.

Here's the link to the new estimator: [www.irs.gov/individuals/tax-withholding-estimator](http://www.irs.gov/individuals/tax-withholding-estimator). **If you still have questions, you can always call us for assistance:**  
**207-774-0882 **





## MEET NEW STAFF MEMBER BEN CHASE

We're pleased to introduce you to accountant Ben Chase, who recently joined our team. Ben was born in Massachusetts and attended college at the University of Massachusetts Lowell and Wichita State University for accounting. Prior to joining Honeck O'Toole, he worked with The Better Business Bureau, Wolters Kluwer, the IRS and other CPA firms. After returning from Kansas, he met a lady in Portland and he's now a stepdad to two boys age 7 and 10. He enjoys football, do-it-yourself projects, hiking, camping and strategy games.

Regarding his work with his clients, he said, "My father was a musician who worked with my grandfather operating an HVAC business for the local church and school. I have a great appreciation for entrepreneurs and artists; they are essential in building our communities. I am determined to help them succeed and grateful for the opportunity to play my part." **Welcome, Ben!**

## WHAT'S THE DISASTER PLAN FOR YOUR ONLINE/DIGITAL BUSINESS?

Imagine that you know a solo coaching-business owner providing live classes, recorded videos, online eBooks, exercises, and membership materials behind a website log-in. Clients have paid thousands of dollars for online access to these materials, which the coach promised to make available "for the client's lifetime."

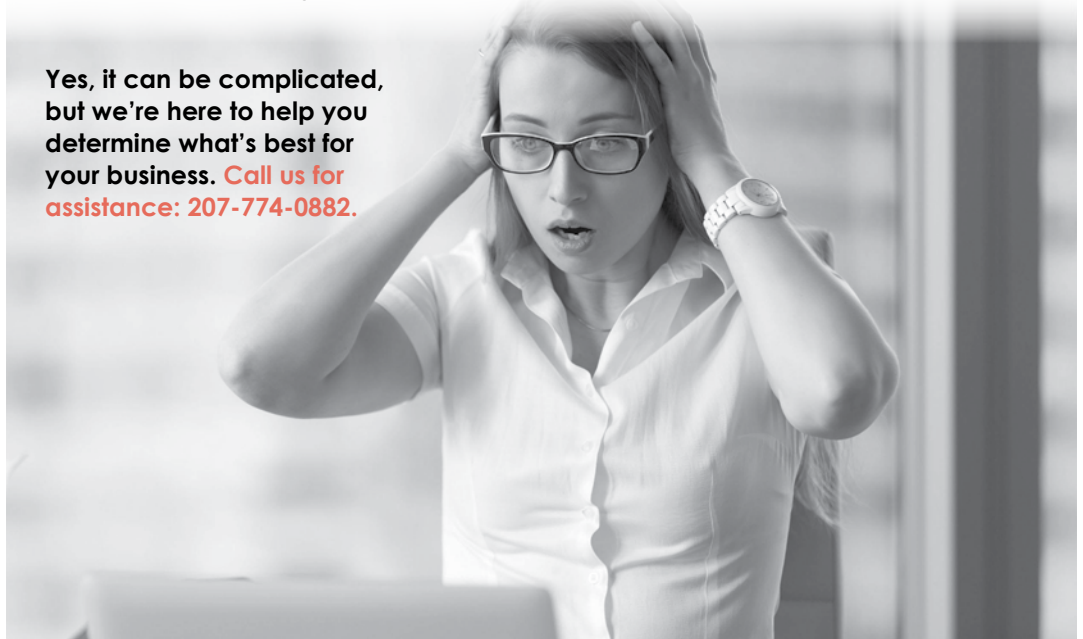
And then, the business owner passes away. What happens next? If there's no disaster plan, the website might be taken down, leaving clients stuck without access to the content they had purchased. Plus, the business owner's heirs may lose all the value of the business (as part of the owner's estate).

We've heard of this sad situation where an online business owner suddenly passes, becomes disabled, or incurs another disaster of some type... and the digital assets are left hanging (and in some cases, inaccessible).

**You can avoid this situation with a clear plan on how to deal with a sudden disaster.**

- Create a document that spells out the exact terms of your business, including the official terms-of-service agreements made with clients/customers where they can access what they purchased. Also include the website's access information: the host, domain, login information, and so forth. And, if other digital assets are held by you (photos, videos, etc.), provide access information in this document. It's possible that the business can be sold or managed by the heirs, but only if these details are available.
- Using this document, determine under state law how the business assets should be dealt with in the event of a disaster. For instance, where do the member fees go (bank account)? Create an official document with instructions (such as a will, trust, power of attorney). Ideally, you'll also provide us with this document so we're aware and can help the heirs.
- Identify someone in your circle to be a back-up for you (a colleague, family member, or professional) to follow the instructions on your behalf and avoid closing the business or facing potential liabilities. 🚨

**Yes, it can be complicated, but we're here to help you determine what's best for your business. Call us for assistance: 207-774-0882.**



**DISCLAIMER:** Any accounting, business, or tax advice contained in this communication are 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.



## JANET O'TOOLE SET TO RETIRE IN 2020

After more than 35 years at Honeck O'Toole, as well as several at a prior firm, Janet O'Toole is ready to make plans for the next phase of her life. She'll continue working through next tax season (April 2020) and looks forward to meeting, communicating, and working with her clients as always. Then, she'll be wrapping up and helping in the transition in May with the goal to retire as of June 1, 2020.

### We asked her about this big change in her life.

#### What prompted you to decide to retire in 2020?

"I'd say it was a combination of factors: my age, my number of years in accounting, and knowing that I can phase out of the business with a great staff stepping in. I'm comfortable stepping away at this point because of the spectacular staff we have. The timing is right."

#### What do you look forward to the most when you think about retirement?

"Having more time to do all kinds of different things. I don't have specific goals at the moment, but my friends have opinions! It's amusing. For instance, I figure skate, and everyone at the rink thinks I'll be there much more often. We'll see. I do love to ski, and I look

forward to enjoying the ski season without being pulled away for tax season. I'll also continue to spend time in Florida as I have for many years, but I'm not moving away from Maine.

Mainly, it will be nice to not have to work 40+ hours a week. I look forward to having time to figure out what I DO want to do next."

#### What will you miss the most?

"This will be a big change. I'll certainly miss the daily interactions with staff and regular conversations with clients. Accounting hasn't been boring! It's been very interesting to hear about what our different clients do in their businesses and personal lives. It's kind of a trade-off with less interaction, but less work as well."

#### Based on your vast experience, what advice do you have for anyone starting out in accounting, tax work or even running a business?

"Treat everyone — clients, staff, and competitors — with respect and kindness. Listen to people and assist whenever you can. Make sure you enjoy what you do and to have some fun while doing it."

#### When you think about Honeck O'Toole, what makes you the proudest?

"We've been here since 1983, and we've kept to our core values — helping people all along the way. There have certainly been ups and downs in the Portland business community. I can remember when we



Janet O'Toole

had to tighten our belts, and then times of exciting growth. I am amazed to remember starting out with Jane Honeck and just a handful of clients. The practice has grown, and I am very proud of what it has become and that it will continue. We have continued to strive to meet our motto — Honeck and O'Toole... where people count."

It's not time to say goodbye just yet... Janet will be here until June. In the meantime, she encourages you to contact her if you have any questions or thoughts regarding this news. 📞



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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