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Tax Tips and Highlights for 2013-14

Payroll Tax Issues

In November 2013, you should receive "Your Year 2014 Federal Tax Deposit Requirements" from the IRS, your annual Unemployment Compensation Tax Rate Notice for 2014, and notification from the state if you are required to file unemployment forms and taxes electronically. These notices should be forwarded to your payroll preparer, and a copy to us.

Although the Federal minimum wage is \$7.25, certain states increase their minimum wage even more, i.e. Florida minimum wage will increase from \$7.79 to \$7.93 January 1, 2014 for hourly employees and tipped employees increase from \$4.77 to \$4.91, even though the Federal minimum wage for tipped employees is \$2.13 per hour.

The taxable wage base for Social Security in 2013 was \$113,700 and will increase to \$117,000 for 2014, making the maximum social security tax \$7,254.00 (6.2% for both Employer and Employee). Medicare wages are taxed at 1.45% with no limit. Wages paid to a son or daughter under the age of 18 are exempt from social security and FUTA taxes. **Bonus checks** are considered earned income and are subject to payroll taxes, as well as **per diem** expense reimbursements. The IRS requires employers to track expense reimbursements in excess of federal per diem rates.

IRS maintains a zero tolerance for incorrect W-2s and 1099s. A \$50 penalty per incorrect form could be assessed against employers whose forms have mismatched names and social security numbers. You can verify up to five names and numbers by calling the SSA at 1-800-772-6270 or visiting their website at www.ssa.gov/employer for larger groups.

Employee versus Independent Contractor

Under common-law rules, an individual generally is an employee if the company he works for has the right to control and direct him regarding the job he is to do and how he is to do it. Otherwise, he is an independent contractor. Any individual independent contractor receiving compensation of \$600 or more for the year must be issued a 1099-MISC. In addition, ALL attorneys who received ANY amount of payment must be issued a 1099-MISC. Corporate tax returns now have a Y/N question to answer whether or not they were required and filed. A penalty of \$250 per form is assessed, if not filed.

Decreased Code Section 179 expensing

For 2014, the maximum annual expensing amount is \$25,000, for purchases not exceeding \$200,000. There will be no bonus depreciation in 2014. For the remainder of 2013, the expensing amount is \$500,000.

Company Provided Vehicles

Employees should be taxed for the personal use of any employer provided vehicle. Specifically, the employee's gross income on Form W-2 is increased to the extent the fair market value of this benefit exceeds the amount paid, if any, by the employee. This fringe benefit is subject to payroll taxes and should be withheld from the employee's salary by year-end.

2014 Standard Mileage Rates

For the business use of a car, van or truck use 56 cents per mile (down from 56.5 in 2013). When computing deductible medical or moving expenses, use 23.5 cents per mile. You may also deduct 14 cents per mile when providing services to a charitable organization.

Qualified Pension Plan Contribution Limits for 2013 and 2014

There are several employer-sponsored tax-deferred retirement plans that were affected by 2001 legislation, all of which have increased contribution limits. The most common is the 401(k) having a contribution limit of \$17,500 for 2013 and will remain unchanged for 2014. Many of the plans also have "catch-up" contributions for employees age 50 or older, remaining at \$5,500.

Personal dependency exemption (Pde) and annual gift exclusion

The Pde for 2013 is \$3,900 and is estimated to increase to \$3,950 in 2014. The annual gift exclusion for 2013 is \$14,000 and will remain unchanged for 2014. In addition, the lifetime exemption of \$5.25 million is adjusted annually for inflation, bringing 2014's exemption to \$5,340,000.

Please keep in mind that we've described only highlights and some of the changes in the tax rules. There are many more questions and opportunities for proper tax planning. Please give us a call on how you may be affected by these important tax issues.

November 2013