KOS
KESSLER ORLEAN SILVER
CERTIFIED PUBLIC ACCOUNTANTS

BOTTOM LINE BULLETIN

June 2015

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KOS NEWS

Congratulations to Geoff Harlow on being re-appointed as Chairperson of the ICPAS Tax Advisory Committee.

Joyce Campobasso's son became engaged recently (in a hot air balloon in Italy)! Congrats to the mother of the groom!

KOS is celebrating quite a few anniversaries this month. Jeff Butler has been with KOS for 26 years, David Kahn has been here 17 years, Alex Pekler is celebrating 15 years and Carol Weaver and Amanda Baumhardt have been at KOS for 4 and 3 years respectively.

ORT America held their Campaign Phonathon on Wednesday, May 13th at the KOS offices. We are proud to be supporters of this organization!

Conquering the Nanny Tax

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Now that the school year is ending, it is time to consider child care during the summer months. Instead of sending children to day care or summer day camp, many parents consider hiring a nanny or frequent baby sitter to watch their children. As if balancing work and child rearing is not challenging enough, if you get outside help to care for your children at home, you will also need to understand the tax implications, and unless you are a tax expert, you probably have a few questions about how to do things correctly.

If you have a nanny or frequent baby sitter watching your children at your own home, that person is considered your household employee if you are in charge of what work is done and how it is done (which is usually the case). It does not matter whether the person works full time or part time, or that you hired the person through an agency or from a list provided by an agency or association. It also does not matter whether the person is paid for the job or on an hourly, daily, or weekly basis. Your home. Your control. Your household employee.

On the flip-side, someone providing child care services for you in his or her own home is NOT your household employee. Likewise if an agency provides the worker and the agency is in charge of what work is done and how it is done, the worker is NOT your household employee.

As your household employee, a nanny or frequent baby sitter is going to cost you more than the rate you pay them for watching your children. In addition paying their wages, you may be required to pay household employment taxes, popularly referred to as the "nanny tax."

The nanny tax involves two separate employment taxes. Whether you are responsible for either depends on the amount you pay.

First is FICA, which is Social Security and Medicare taxes. FICA is a 15.3% tax on cash wages that is generally split equally between the employer and employee. You and your household employee each pay 7.65% -- which is 6.2% social security tax plus 1.45% Medicare tax.

In 2015, the IRS requires anyone with a household employee to withhold and pay FICA for any employee with *annual* cash wages of $1,900 or more. Once the 2015 annual cash wages reaches $118,500 for a household employee, you will not be required to pay or withhold the 6.2% Social Security tax.

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Conquering the Nanny Tax (Continued)

Nanny and babysitting wages are not subject to FICA if they are paid to any of the following individuals (even if the wages are $1,900 or more during the year):

- Your spouse;
- Your child who is under the age of 21;
- Your parent. **Exception**: Wages are subject to FICA if **both** of the following conditions apply:
  - Your parent cares for your child who is either of the following:
    - Under the age of 18, or
    - Has a physical or mental condition that requires the personal care of an adult for at least 4 continuous weeks in the calendar quarter services were performed.
  - Your marital status is one of the following:
    - Divorced and not remarried,
    - Widow or widower,
    - Living with a spouse whose physical or mental condition prevents him or her from caring for your child for at least 4 continuous weeks in the calendar quarter services were performed;
- A household employee who is under the age of 18 at any time during the year. **Exception**: Wages are subject to FICA if providing household services is the employee's principal occupation. If the employee is a student, providing household services is not considered to be his or her principal occupation.

If you prefer, you can pay your household employee's share of FICA from your own funds instead of withholding them from your employee's wages. Any FICA you pay to cover your household employee's share must be included in the employee's wages for income tax purposes. However, they are not counted as wages subject to either FICA, or FUTA, which is the second employment tax discussed next.

FUTA is the federal unemployment tax. It is a 0.6% tax on cash wages that is paid only by the employer. In 2015, the IRS requires anyone with a household employee to pay FUTA for any employee with cash wages of $1,000 or more in any calendar quarter. Generally, only the first $7,000 in wages per household employee is subject to FUTA.

Nanny and babysitting wages are not subject to FUTA if they are paid to any of the following individuals (even if the wages are $1,000 or more in any calendar quarter):

- Your spouse;
- Your child who is under the age of 21;
- Your parent.

The nanny tax is reported on Schedule H and is filed with your individual income tax return Form 1040. But to file Schedule H, you first have to get an employer identification number, or EIN. The IRS wants your EIN as well as your Social Security number on the form. Therefore, as soon as you hire a nanny or frequent babysitter, you should apply for an EIN by filing Form SS-4.

Let's not forget about state taxes for household employees. If you live in Illinois and have a household employee, you will be subject to IL SUTA, which is Illinois state unemployment tax that is paid only by the employer. In 2015, IL SUTA will be paid for any household employee with cash wages of $1,000 or more in any calendar quarter. In 2015, only the first $12,960 in wages per household employee is subject to IL SUTA and is reported on Form UI-HA. To file UI-HA, you must register as a household (domestic) employer by filling out and filing Form UI-1 DOM. The rate of IL SUTA is determined annually by the Illinois Department of Unemployment Security.

You are not required to withhold federal or Illinois income tax for your household employee. You should, however, withhold federal income tax if your household employee asks you to withhold and you agree.

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Conquering the Nanny Tax (Continued)

A completed federal Form W-4 will be required for withholding. If you withhold federal income tax, then you must also withhold Illinois income tax. A completed Form IL-W-4 will also be required. Federal income tax withheld will be reported annually on Schedule H (mentioned above). As long as you are filing Schedule H, you will be allowed to file Illinois withholding income tax annually with your individual Illinois income tax return Form IL-1040.

The amount of withholding is based on the filing status and exemptions shown on the employee's W-4 forms. Detailed instructions for calculating the amount of withholding can be found in Federal Publication 15 at www.irs.gov and Booklet IL-700-T at www.revenue.state.il.us.

Annually, you must prepare and distribute a Form W-2 to each household employee to whom you paid either:

- Wages for which you withheld income tax;
- Wages of $1,900 or more that was subject to FICA.

If you have prepared and distributed Form W-2s, you must also prepare Form W-2 Copy A and file it along with completed Form W-3, Transmittal of Wage and Tax Statements. The IRS estimates the average family can expect to spend 50-55 hours per year correctly managing the tax implications of a household employee. This includes all the tax requirements listed above, as well as managing your employee's payroll and responding to any notices sent by the IRS and tax agencies in your state. KOS can take care of the work for you. Contact our office to discuss how we can help you manage the nanny tax process.

KOS Not-for-Profit News
Benefit Season has Arrived!

As the pressurized tax preparation season came to end, various KOS personnel have been unwinding by attending various not-for-profit client events. KOS is proud of our commitment to servicing the needs of organizations in the not-for-profit community and is always happy to support the various causes.

These events have included:

- Lake County Center for Independent Living Gala – April 25th
- Karam Foundation – May 10th
- Illinois Humanities Public Humanities Award Benefit Luncheon – May 14th
- Woodstock Institute Community Investment Award Ceremony – May 14th
- Changing Worlds Benefit – May 14th
- AIDS Foundation of Chicago Gala – May 16th
- League of Chicago Theaters Foundation Gala – May 18th
- Music of the Baroque Celebration – May 29th
- Chicago Sinfonietta Annual Gala – May 30th
- Jane Addams Senior Caucus 40th Anniversary Celebration Luncheon

KOS takes great pride in being an active supporter of our community. Please feel free to contact us for more information on these and other organizations we service and to discuss how we may be of service to organizations you support.

Seven Tax Moves to Make at Midyear

Strategies for individuals and small-business owners

The summer is not just the season for recreation and relaxation. It can also be the time to reduce your 2015 tax liability. Here are seven prime examples for individuals and small-business owners:

1. Harvest gains or losses. The maximum tax rate for long-term capital gains is 15%, increasing to 20% for some high-income taxpayers. When appropriate, you may realize capital gains to benefit from this special tax treatment. Conversely, if it suits your purposes, you might harvest capital losses instead. Capital losses offset capital gains plus up to $3,000 of ordinary income. Any remaining loss is carried over to the next year.

2. Maximize Section 179 benefits. Under Section 179 of the tax code, you may currently deduct the cost of qualified business property placed in service during the year. The maximum deduction, which was $500,000 for 2014, is reduced to only $25,000 for 2015 unless Congress chooses to extend a higher allowance again. At this point, wait to see what happens after you reach the $25,000 maximum.

3. Sell real estate on an installment sale basis. Generally, you can defer some or all of the tax on the sale of real estate if you do not receive all payments vin the year of sale. Not only do you stretch out the tax liability over time but you might also reduce your overall effective tax rate. Also, you are more likely to complete a deal if you do not insist on receiving full payment up-front.

4. Schedule summer business trips. If you travel away from home on business, you may deduct your travel expenses—including airfare, lodging and 50% of the cost of meals—if the primary purpose of the trip is business-related. But the number of days spent on business vs. pleasure is crucial, so be careful how you allocate your time.

5. Enjoy business entertainment. A small-business owner who entertains clients during the summer may claim entertainment deductions. For instance, if you treat a client to a round of golf before or after a "substantial business discussion," you can deduct 50% of the fees, club rentals, and meals and drinks afterward. Note: If the client comes from out of town, the business discussion can take place either the day before or the day after the golf outing.

6. Support a college graduate. If your child graduated from college this year, you still may be entitled to a $4,000 dependency exemption for the child if you provide more than half of his or her support in 2015. Figure out how much more support you must give to push you over the halfway mark and give it as a gift. This is likely the last time you will qualify for the exemption.

7. Sweep up charitable deductions. As a general rule, you can deduct the fair market value of property you donate to a qualified charitable organization if you have owned the property for more than a year. For example, if you decide to clean out the basement, attic or garage during the warm weather, you might give used clothing and furniture in good condition to charity and then claim a deduction. A single item of property donated valued over $500 requires an independent appraisal.

These are just seven midyear tax-planning ideas to consider. Schedule a meeting with your KOS Advisor to discuss the best strategies for your particular circumstances.

KOS Employee Spotlight Corner

My First Tax Season

Jeff Niedelman, Staff Accountant ***jniedelman@koscpa.com***

yes, i did it myself

Have you ever wondered how accountants survive the months from February to April? Maybe you have family or friends that you don't see during that time and you just think, "Why are they doing that to themselves?" Well this article is dedicated to those of you who think you could never survive tax season.

As an accounting student the last five years of my life (4 for my bachelors and 1 for my masters) I have been taught to not make any plans from February to April because my life will be work. The idea of tax season has been drilled so much into my head that when it finally came I feared I wouldn't survive. How can someone possibly work 60-70 hours a week and not have the days we live for in Saturday and Sunday to relax and have fun with friends and family?

The answer: Even though I worked 60-70 hours a week, it did not feel like it. While I may have been in the office from 8-8 (which most people would say would be a 12 hour day), it felt like a normal 8 hour day. Weeks flew off the calendar without being noticed. I was like a robot in those months waking up at 6 to work out then in the office by 8 am and leave at 8pm. While it sounds like a long day, those weeks were easily the fastest of my life. Don't get me wrong: I did have those days where a job I was doing wasn't going my way, but for the most part the days couldn't get much faster. Even when those rough days happened (mostly during Saturdays) I just reminded myself of the reasons I got into this job. Coming out of school I wanted to help people. Whether it was keeping their books, doing their tax return, or explaining to them business concepts, I wanted to feel that gratification of making people's lives a little easier. During tax season I was able to do that every day and that is what kept me motivated.

Tax season is definitely not easy. I did have to make some sacrifices in my social life as any free time I had was dedicated to rest and recharging the battery for the week ahead. But then again I didn't mind sacrificing a night out in order to be ready to work on Monday. My social life definitely took a hit during the season but that comes with the territory of being in public accounting and I have family and friends that understand that.

So going back to my original question in why accountants do this to themselves? It is because we truly enjoy helping people. We want people to understand their tax return, hopefully get a refund, know the new IRS rules, and basically have as much knowledge as possible. My parents always taught me that you know you are in the perfect job when work is not work. I feel very lucky because this is true for me. So not only did I survive my first tax season, but I was paid to help people and that is exactly what I love to do. Work was not work this tax season and I know not to stress out for next year!