THE SMALLBIZ BUILDER

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THE SMALL BIZ PROS

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THIS MONTH:

- Federal Health Care Mandate for Employers Delayed!
- Summertime Child Care Expenses May Qualify for a Tax Credit
- Will the New 3.8% Tax on Investment Income Apply to You?

Federal Health Care Mandate for Employers Delayed!

Late on July 2nd, the Treasury Department announced that it is delaying the federal health care mandate for **employers** until January 1, 2015, and there will be no penalties assessed for businesses who don't provide health insurance for their employees in 2014! The Treasury Department intends to use this time to streamline the current law in hopes of making it less burdensome to business owners. The individual mandate is not affected by this announcement. Starting in 2014, individuals are required to obtain medical insurance or pay a penalty. For those individuals not covered by their employer's plan, health insurance can be purchased on the "health insurance exchange." Contact your local Padgett office for updates on "Obamacare" and how this will affect you and your business.

Summertime Child Care Expenses May Qualify for a Tax Credit

Did you know that your summer day care expenses may qualify for an income tax credit? Many parents who work, or are looking for work, must arrange for care of their children under 13 years of age during the school vacation. Those expenses may help you get a credit on next year's tax return.

Here are five facts the IRS wants you to know about a tax credit available for child care expenses. The Child and Dependent Care Credit is available for expenses incurred during the lazy hazy days of summer and throughout the rest of the year.

1. The cost of day camp may count as an expense towards the child and dependent care credit.
2. Expenses for overnight camps don't qualify.
3. If your childcare provider is a sitter at your home or a daycare facility outside the home, you'll get some tax benefit if you qualify for the credit.
4. The actual credit can be up to 35 percent of your qualifying expenses, depending upon your income.
5. When figuring the credit, you may use up to $3,000 of the unreimbursed expenses paid in a year for one qualifying individual or $6,000 for two or more qualifying individuals.

For more information on Child and Dependent Care Expenses, contact your Padgett Office today.

JEFF STRUBLE
3233 W PEIORIA AVE #105 PHOENIX AZ 85029 602-354-5127 FAX:602-354-5590
1660 S ALMA SCHOOL RD #226 MESA AZ 85210 480-668-1155 FAX: 480-668-1313
jeff@rhinodreams.com padgett@rhinodreams.com
www.rhinodreams.com

Will the New 3.8% Tax on Investment Income Apply to You?

Beginning in 2013 the new *Unearned Income Medicare Contribution (UIMC)* tax takes effect and could affect your tax liability. Because of the types of income subject to this new tax, it is commonly referred to as the *Net Investment Income Tax (NIIT)*. The new 3.8% tax is applied to the **lesser** of:

1. The taxpayer's investment income, or
2. Their Modified Adjusted Gross Income (MAGI) over certain thresholds. Those thresholds are $250,000 for married filing jointly, $125,000 for married filing separately, and $200,000 for single and head of household filers.

Because this is the "lesser of" rather than the "greater of," taxpayers with an MAGI under the thresholds, will not be subject to the NIIT.

So, what is Net Investment Income? The IRS has defined net investment income as follows:

1. Gross income from interest, dividends, annuities, royalties, rents, substitute interest and dividend payments, less allowable deductions.
   a. This does NOT include tax exempt interest from state and local bonds, investment income from a qualified retirement plan, nor interest paid to an employee under a nonqualified deferred compensation plan. In addition, rental real estate activities of qualifying "real estate professionals" are NOT subject to the NIIT.
2. Gross income derived from a "passive" trade or business, less allowable deductions.
   a. This includes gross income earned from a partnership or S-corporation, for which the individual does *NOT materially participate.* (Other amounts earned by individuals for services to the business, for example guaranteed payments or wages, will NOT be subject to NIIT.)
3. Net gain attributable to the disposition of property.
   a. This includes ordinary and capital gains from the sale of stocks, bonds, mutual funds, and investment real estate, as well as, capital gain distributions from mutual funds. Losses on such property may be netted with gains, but may not offset net investment income mentioned in items 1 or 2 above.
   b. To the extent the sale of your personal residence generates a taxable gain; it will be considered net investment income for purposes of the 3.8% tax.
   c. Ordinary and Capital gains from the sale of assets held in a partnership or S-corporation will be subject to the NIIT if the business is "passive" in nature.

With respect to self-employment income, the 3.8% net investment income tax does not apply to income subject to self employment tax. In other words, the same item of income can't be subject to both SE tax and NIIT. Other types of income NOT considered Net Investment Income include wages, unemployment compensation, Social Security Benefits, alimony, gambling and lottery winnings, and operating income from non-passive business.

Contact your local Padgett office to determine what this new tax means to you!