

Welcome to Craft, Noble and Company's e-news update. Now that tax season is upon us, here's the most current news. If you would prefer to receive a print copy of each quarterly e-newsletter, please call our office to place that request.

Be sure to like our new Facebook page for more up-to-date news and information (http://www.facebook.com/craftnoble).

Likewise, if you know a friend or colleague who might be interested in receiving this e-newsletter, just click the "Forward to a Friend" button. Privacy and confidentiality is a hallmark of our business, so you can be assured your name or address will not be shared with anyone.

**Employer Health Insurance Mandate Delayed for a Year**

The health care reform law passed in 2010 included a provision that would require employers of 50 or more full-time employees to provide affordable health insurance to their workers or face steep penalties. That provision was scheduled to take effect January 1, 2014.

The Treasury Department has announced that the effective date of this provision will be postponed for one year. The mandatory employer and insurer reporting requirements and any penalties connected with them will be delayed in order to allow more time for companies to adapt to meet the requirements.

**Don’t Get Tripped Up by a Wash Sale**

Are you eyeing your portfolio with year-end investment loss harvesting in mind? Before you place those sell orders, take a moment to review the "wash sale" rules.

A wash sale occurs when you sell a stock, bond, or mutual fund and buy the same or a substantially identical security within 30 days before or after the sale. When this happens, you're barred from deducting a tax loss on the sale. Instead, your cost basis of the new security is increased by the loss.

Example. Say you sell 100 shares of XYZ mutual fund at a loss of $3 per share. A week later, you regret your decision and buy another 100 shares of XYZ fund. Your original loss of $300 will be disallowed, and you'll add the $300 to your cost basis in the new shares.

Beware this trap. Also be aware of a possible trap if you use an automatic purchase plan or dividend reinvestment plan. If these plans cause you to acquire more shares of a stock or fund within 30 days of a sale, the wash sale rules will apply to your sale.

How can you avoid a wash sale? You can avoid a wash sale if you make your purchase more than 30 days before or after the sale date. Also, you can buy shares in a different but similar stock or mutual fund without triggering a wash sale.

If you have questions about the wash sale rules, please call us at Craft, Noble & Company.

**IRS Issues Ruling on Recognizing Same Sex Marriages**

Married same-sex couples will be treated for federal tax purposes just like opposite-sex couples, according to a recent IRS announcement. Same-sex couples who were married in a jurisdiction, domestic or foreign, that recognized their marriage as legal will be treated as married for federal tax purposes even if they live in a state that does not recognize same-sex marriages as legal.

The rule, known as the "state of celebration" rule, will allow same-sex couples to live anywhere they like, provided they were married where same-sex marriages were legal.

The IRS rule applies to all federal taxes - income, gift, and estate taxes. Areas that will be affected include such things as personal and dependent exemptions, social security benefits and taxes, IRA contributions and other IRA rules, and tax credits.

If you have any questions regarding this new ruling please call Craft, Noble & Company today.

**Take Another Look at Health Savings Accounts**

Year after year, health care and medical insurance costs outpace inflation. It's little wonder, therefore, that business owners and employees are scrambling for ways to curtail health care expenses. One option worth considering is a health savings account or HSA.

* **How HSAs work.** An HSA works in tandem with a high-deductible health plan (HDHP). To qualify as an HDHP, the policy's deductible (for the 2013 tax year) must be at least $1,250 for an individual or $2,500 for a family. You sign up for an HDHP policy with an insurance company and an HSA with your employer. Throughout the year, you deposit money in your HSA using pre-tax dollars, subject to certain limits on annual contributions. (For 2013, HSA contribution limits are $3,250 for individuals and $6,450 for families.). When medical bills come due, you're allowed to withdraw money from this account, tax-free, to cover out-of-pocket costs, including your deductible, payments for prescription drugs, and medical bills not covered by your insurance policy.
* **HSAs compared to FSAs**. How does an HSA differ from a flexible savings account (FSA)? For one thing, there's no requirement that you "use or lose" HSA contributions by the end of the year. You can leave the money in an HSA and allow it to grow tax-free until needed. In addition, an HSA is portable. You can take it with you if you change employers (not so with an FSA). Moreover, if you don't need the money for current medical bills, you're allowed to invest HSA contributions and earnings in a variety of mutual funds and other investments.
  + Note: On Thursday, October 31, the U.S. Treasury Department announced it would be relaxing a rule that requires FSA account holders to "use-or-lose" the funds in their accounts by the end of the year. Employers will now be able to allow participants to carry over up to $500 in unused funds into the next year (CNN Money).
* **The business side.** Businesses, too, might want to consider HSAs. The employer's portion of insurance expense may be reduced because insurance premiums tend to be lower with high-deductible health plans. By contributing to HSAs, workers also may be encouraged to become more prudent consumers of health care services and better stewards of their own health. This, in turn, may reduce business costs related to employee sickness.
* **Consider all angles.** For some people, however, an HSA may not be the best option. For example, if you're under age 65 and want to withdraw money from an HSA to cover non-medical expenses, the withdrawals will be subject to income tax and a hefty 20% penalty.

So it's important to consider this option from every angle. If you'd like more information about HSAs, give us a call. We're here to help you succeed.

**Financial Tips for the 20-Something Generation**

The earlier you start, the easier it will be to get ahead financially. Here are some recommendations for those in their early twenties.

* **Pay yourself first**. Every time you get paid, put something aside in a savings or investment account. As a general rule, save 10% of your income. Even smaller amounts add up over time.
* **Watch your plastic**. Credit cards are an expensive form of debt, and it's easy to lose control of them. Try to pay your entire credit balance every month, even if it's a stretch. If you've been carrying a balance, buy nothing more on credit until the balance is zero.
* **Keep a clean credit record.** If you plan to own a home, buy a car, or start a business, you're going to need squeaky-clean credit. Keep all of your financial obligations current, and never make a financial commitment that you can't keep. If you fall behind on any obligation, talk to the creditor immediately to make alternative arrangements.
* **Make sure you have adequate medical coverage.** You may not see a doctor even once this year. But if you do need medical care, it could be for something serious and expensive. Anything less than a good major medical policy could ruin you financially.
* **Watch your expenses.** At this point in your career, you may not receive large or frequent pay raises, but you can achieve the same effect by cutting expenses. Shop before you buy. Very similar - and sometimes identical products - are sold at widely varying prices. Wise shopping can be the equivalent of having a good-paying second job.

For assistance with financial strategies suitable for your particular age and situation, give us a call.

**Business or Hobby? The Nine Factors that IRS uses to decide**

The dividing line between a business and a hobby may be thin, but it can look like a canyon when you are on one side and your tax deductions are on the other. The gap is a function of differing treatment of expenses.

For example, when you incur ordinary and necessary expenses in the operation of your business, those costs reduce the taxable income of the business. In addition, business losses can generally be used to offset income from other sources, such as wages.

When your activity is considered a hobby, expenses can only be claimed to the extent of income from the activity, and are generally deductible as a miscellaneous itemized deduction on your personal return.

Here are nine ways to help convince the IRS that you have a business rather than a hobby.

1. **Act like a business**. Keep accurate books, adopt new techniques and adjust your operating methods to improve profitability. Other good moves: advertising, purchasing insurance, and maintaining a bank account used only for the activity.
2. **Expand your expertise**. The key here is to increase your knowledge of the economic aspects of your business. Seek relevant advice from experts on an ongoing basis.
3. **Expend time and effort**. Focus your energy on the business to show profit intention. Hiring competent managers also indicates your intention to operate as a business.
4. **Invest in appreciating assets**. A reasonable expectation that property you purchase will increase in value and help create an overall gain can show profit motive.
5. **Create a record of success**. Have you run other businesses successfully, whether or not related to the present activity?
6. **Establish a history of income**. No need to be nervous if your startup loses money the first year or two, or if losses in later years are the result of events that are out of your control, such as natural disasters. The general rule for proving your intention to operate a business is to make a profit in three of the last five years.
7. **Show a profit.** No set amount of profit establishes business intent. Instead, compare the profit you have the opportunity to earn to the losses you may incur and the amount of your investment.
8. **Check financing**. How are you financing the business? Do you have substantial income from other sources? Does the activity generate losses that provide tax benefits you might not otherwise enjoy?
9. **Limit the fun factor**. Liking what you do does not necessarily turn a business into a hobby. However, substantial "recreational" aspects can lend weight to classification of your activity as a hobby.

Remember, no one factor is controlling. Instead, you need a pattern that establishes your intention to make a profit.