



Tax Chatter

August 2014

A publication of The Tax Advantage, LLC

The mission of this publication is to help keep both the business owner and the individual tax payer informed about taxes that will have an impact on their daily lives and bottom lines.

Inside This Issue

1. Clarity in Business: Phase 1
2. Clarity in Business Continued...
2. Free Review Clinic
3. Pros and Cons of a Large Tax Refund
4. Tax Refund Continued...
4. Community Corner:
Featured this issue: Feed The Kids, Inc.
5. Barstool Economics – Good for a Chuckle
6. Know Your Rights!
6. Where is your income tax spent?
7. Important Dates/ Calendar

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Clarity in Business: Phase 1

By: Kim West Padgitt, EA

If you do not know where you are going, how will you know when you get there? Variations of this old adage have been used for decades to help explain why a business needs a business plan and why setting goals are so very important. Developing a business and setting goals provides get clarity. So does your business have clarity? If not, let The Tax Advantage help you develop Clarity.

I will be the first one to admit that developing clarity and writing a business plan is an extremely time consuming and frustrating process, so very worth it, but frustrating and time consuming nonetheless. With most of my small business owners already stretched to the limit, I needed to come up with a solution. My solution; start small, very small. Although your business may not have total clarity today, tomorrow or even next month, each day you will be one step closer. Over the next few issues, we will be covering the phases to achieve business clarity.

Let's go on this journey together.

PHASE 1:

***Start with the following:* for the next month, every day, yes each and every business day, fill out the form below. Email my office your results weekly and we can schedule some time to talk about those results.**

Continued on page 2...

Clarity in Business Continued...

This is a small step a very small step in developing the clarity and the business plan you need. The Tax Advantage would love to go on this journey with you. Make the commitment, devote 10 minutes a day to this process and I promise you will start to see results. I look forward to hearing from you often over the next month.

Below is your task outline for the next 30 days.

Morning 5 Minute Plan:

What is the goal for today? (You can have multiple goals)

How will you achieve that/those goal(s)?

End of the Day 5 Minute Summary:

Did you achieve the goal? (Yes/No)

If yes, how? And can that be duplicated every day? If yes: implement it, and move onto the next goal. If it cannot be duplicated in the same manner daily, can it be duplicated in some other manner?

If no, why? Were you distracted, did another problem arise etc... What can you do to achieve this goal tomorrow? Was it an unrealistic goal and if it was let's get on track with a more realistic one.

2014

Clinic ends November 30th

Second Annual **Free Review Clinic!**

Drop off your 2013 tax return for a free review. . Whether you prepared your return yourself or had our competition prepare it. We will take a closer look to be certain that you didn't miss any deductions. We will also let you know what our fees would have been if we had prepared the return. It's free! Why not take the time to ensure you are taking all the deductions you are entitled to and that you are getting your return prepared for a reasonable fee.

*If an amended id warranted fees may apply.

Call to make
your
appointment
today!

317-784-7402

Pros and Cons of a Large Tax Refund

By: Stephanie Roberts

PROS:

If you don't have it, you can't spend it.

Some people can't handle their money, even in a savings account. It is too accessible and would be spent regardless. Also, savings account interest rates are a joke; about as good as hiding the money in your mattress.

Hedonic Treadmill

The theory of the hedonic treadmill states that as income increases, expectations and desires rise in tandem. Basically, if Bob makes \$60,000 this year and makes \$80,000 the following year, his spending habits will increase and he will become accustomed to the \$80,000.

If the taxpayer elects to withhold less money from their paycheck, they might become accustomed to the extra money and at the end of the year, will have nothing to show for it.

Taxpayers electing a large refund, can make a large, one time purchase, or make a large retirement deposit, at little to no emotional cost.

CONS:

You are lending your money, for a year, to the government.

The average federal refund for 2013 (thus far) was \$2,755.00. The government has used this money all year interest free. If this was in reverse and you owed the IRS \$2,755.00, they would charge you interest (compounded daily) as well as monthly penalties.

Inflation

Economists teach us that a dollar today is worth more than a dollar tomorrow. A \$2,755 refund has the same buying power as \$2,813.46 a year later. That is a loss of \$58.46 in inflation costs.

Current savings rates are worthless. Saving abroad can yield interest rates 10% and above, but are viewed as risky.

The country Serbia, for example, pays 10% for a one year term deposit (minimum \$60), however 7% of that is eaten up by inflation. Still, 3% interest on \$2,755 would be a \$82.65 profit; much better than no interest from the government.

Pros and Cons of a Large Tax Refund Continued...

Opportunity Costs

If a taxpayer has high interest debt, the extra monthly income could be used to pay down debt.

Instead of letting the government sit on your money all year, you could invest in the stock market, or invest more into your retirement.

In theory, this method only saves money if the taxpayer is disciplined. If they're spending that extra money in their paycheck each month on frivolous things, instead of putting it to better use, the hedonic treadmill may take effect and they will lose the benefit of changing their withholding.

COMMUNITY CORNER:

FEED THE KIDS, Inc.: A new Indianapolis Charity with a simple mission

Ryan Cox routinely pays for the coffee of the stranger behind him at his favorite coffee shop. On April 11th 2014, he decided to switch up his routine. He went to his nephews' school and paid off some anonymous kids' delinquent school lunch balances. He originally thought it would be a onetime goodwill gesture, but when he saw the looks on the cafeterias ladies' faces, he knew it was going to become his monthly mission' and so he founded Feed The Kids, Inc.

Each day kids across America are denied a hot lunch because their school lunch balance is delinquent. Feed The Kids, Inc. was founded with the mission of giving every kid in school in America at least one hot meal a day, their school lunch. Through sponsorships and donations, Feed The Kids, Inc. is feeding children, one meal, one school and one child at a time.

Right now Feed The Kids is targeting Marion County elementary schools, and is applying for 501(c)(3) status. Feed the Kids has a partnership with the Indiana Fever; on August 16th the Fever are having a Feed The Kids Night. Each ticket includes a free hot dog, chips, Pepsi product, t-shirt and a free throw on the court after the game! Tickets are \$17 and all of the proceeds go to Feed The Kids. You can purchase your ticket here: <http://fevergroups.com/tickets/744/>.



Article and photograph provided by Feed the Kids, Inc.

*If you have a current event, charitable event or organization, or a community project that you would like to feature in Tax Chatter, please contact Stephanie Roberts for more information.
stephanie@taxadvantagellc.com*

Bar Stool Economics: Good for a Chuckle

Suppose that every day, ten men go out for beer and the bill for all ten comes to \$100. If they paid their bill the way we pay our taxes, it would go something like this:

- The first four men (the poorest) would pay nothing
- The fifth would pay \$1.
- The sixth would pay \$3.
- The seventh would pay \$7.
- The eighth would pay \$12.
- The ninth would pay \$18.
- The tenth man (the richest) would pay \$59.

So that's what they decided to do. The ten men drank in the bar every day and seemed quite happy with the arrangement, until one day, the owner threw them a curve. "Since you are all such good customers", he said, "I'm going to reduce the cost of your daily beer by \$20.

Drinks for the ten now costs just \$80.

The group still wanted to pay their bill the way we pay our taxes so the first four men were unaffected. They would still drink for free. But what about the other six men – the paying customers? How could they divide the \$20 windfall so that everyone would get his 'fair share'?

They realized that \$20 divided by six is \$3.33. But if they subtracted that from everybody's share, then the fifth man and the sixth man would each end up being paid to drink his beer. So the bar owner suggested that it would be fair to reduce each man's bill by roughly the same amount, and he proceeded to work out the amounts each should pay! And so...

- The fifth man, like the first four, now paid nothing (100% savings).
- The sixth man now paid \$2 instead of \$3 (33% savings).

- The seventh now paid \$5 instead of \$7 (28% savings).
- The eighth now paid \$9 instead of \$12 (25% savings).
- The ninth now paid \$14 instead of \$18 (22% savings).
- The tenth now paid \$49 instead of \$59 (16% savings).

Each of the six was better off than before. And the first four continued to drink for free. But once outside the restaurant, the men began to compare savings. "I only got a dollar out of the \$20," declared the sixth man. He pointed to the tenth man, "But he got \$10!"

"Yeah, that's right," exclaimed the fifth man. "I only saved a dollar, too. It's unfair that he got ten times more than I!"

"That's true!" Shouted the seventh man. "Why should he get \$10 back when I got only two? The wealthy get all the breaks!"

"Wait a minute," yelled the first four men in unison. "We didn't get anything at all. The system exploits the poor!" The nine men surrounded the tenth and beat him up.

The next night the tenth man didn't show up for drinks, so the nine sat down and had beers without him. But when it came time to pay the bill, they discovered something important. They didn't have enough money between all of them for even half the bill!

And that, boys and girls, journalists and college professors, is how our tax system works. The people who pay the highest taxes get the most benefit from the tax reduction. Tax them too much, attack them for being wealthy, and they just may not show up anymore. IN fact, they might start drinking overseas where the atmosphere is somewhat friendlier.

David R. Kamerschen, Ph.D.
Professor of Economics, University of Georgia

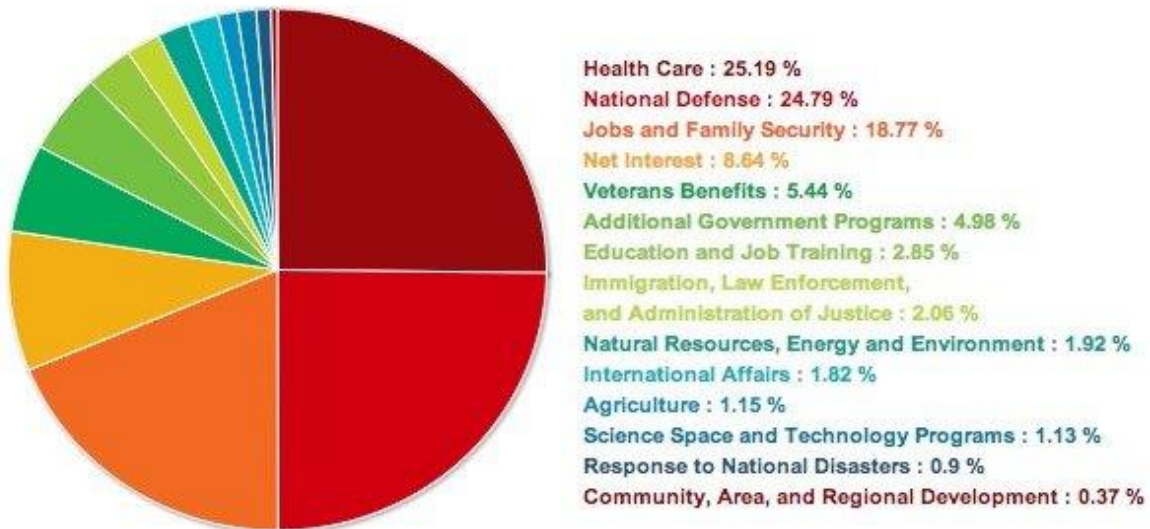
KNOW YOUR RIGHTS!

Publication 1 combines all of the taxpayers rights found in various locations within the IRS codes and puts them in one location. This should give taxpayers a better understanding of their rights. We think it is important for every taxpayer to understand their rights and so we are including a link to the publication in this newsletter as well as on our website.

<http://www.irs.gov/pub/irs-pdf/p1.pdf>

WHERE ARE YOUR INCOME TAXES BEING APPLIED?

Overall Federal Spending



<http://finance.yahoo.com/news/black-hole-government-where-does-121501736.html>

Important Dates for Small Businesses

- July 15 Deposit payroll tax for June if monthly deposit rule applies.
- July 31 Deposit FUTA owed through June if more than \$500.
- July 31 File Form 941 for the second quarter.
- Aug 15 Deposit payroll tax for July if the monthly deposit rule applies.
- Sept 15 Pay the third installment of your 2014 estimated tax.
- Sept 15 Partnership: File Form 1065 if you timely requested a 5-month extension.
- Sept 15 Corporations: File calendar year Form 1120 or 1120S if you timely requested a 6-month extension.
- Sept 15 Deposit payroll tax for August if the monthly deposit rule applies.

For other payroll tax deposit dates, check with your accountant or payroll service.

For more important dates visit: <http://www.tax.gov/calendar>

JULY

S	M	T	W	T	F	S
		1	2	3	4	5
6	7	8	9	10	11	12
13	14	15	16	17	18	19
20	21	22	23	24	25	26
27	28	29	30	31		

AUGUST

S	M	T	W	T	F	S
					1	2
3	4	5	6	7	8	9
10	11	12	13	14	15	16
17	18	19	20	21	22	23
24	25	26	27	28	29	30
31						

SEPTEMBER

S	M	T	W	T	F	S
	1	2	3	4	5	6
7	8	9	10	11	12	13
14	15	16	17	18	19	20
21	22	23	24	25	26	27
28	29	30				

Upcoming Events:

- Free Review Clinic:
Now until November 30th
- Indiana Fever/ Feed the Kids, Inc. Charity Event.
August 16th
- Indiana State Fair
August 1 – 17th