ENDERLE & COMPANY PLLC
CERTIFIED PUBLIC ACCOUNTANTS
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We sincerely appreciate the trust you place in us to be your accountants. With few exceptions, we have seen an improvement in our clients' financial results during the past year.

There also seems to be a renewed entrepreneurial interest, as we see lots of new businesses being started. What's ahead for next year? There will almost certainly be some kind of tax bill passed in 2014 – let's hope for the best.

-Mark

Inside This Issue

IMPORTANT DATES TO REMEMBER:

January 31
Have W-2's to your employees

January 31
Send most 1099's to Independent Contractors

Of interest to individual taxpayers:

What to Expect When Filing Your 2013 Individual Tax Return

There are numerous changes in tax laws that might affect your taxes for 2013, including steeper rates, a new tax on investment income, changes in the deductibility of itemized deductions for higher-income taxpayers, and many others. In general, if your income stayed the same in 2013 as it was in 2012, you'll probably end up paying higher taxes, so be prepared for that.

We will be sending out tax "organizers" in late December or the first week of January, so be looking for that package. If you would rather get yours via email, just call in and we'll take care of that. If you would like some one-on-one assistance with gathering your tax information, we are more than happy to send one of our tax staff out to your home to assist; just let us know in advance. And if you have questions while gathering your materials, please call us.

NET INVESTMENT INCOME TAX
The IRS has issued final regulations on the general application of the net investment income tax (NIIT) and the computation of net investment income (NII). This tax, which became effective in 2013 (i.e., right now), generally affects individuals and trusts with income above certain threshold amounts. It was enacted as part of the funding for Obamacare. This tax is subject to estimated tax rules and is reported on Form 1040 for individuals and Form 1041 for estates and trusts.

The 3.8 Percent NII Tax
Individuals. For tax years beginning after December 31, 2012, the NII tax on individuals generally equals 3.8 percent of the net investment income for the tax year that exceeds certain threshold amounts:

- $250,000 in the case of a taxpayer filing a joint return or a surviving spouse;
- $125,000 in the case of a married taxpayer filing a separate return; and
- $200,000 in any other case.

These amounts are not indexed for inflation. Consequently, the number of affected taxpayers is expected to increase over time.
Net Investment Income defined. In general, net investment income is the sum of:

- Gross income from interest, dividends, annuities, royalties, and rents, other than such income which is derived in the ordinary course of a trade or business;
- Other gross income derived from any trade or business that is a passive activity with respect to the taxpayer, and
- Net gain attributable to the disposition of property, other than property held in a trade or business.
  Less
- Deductions properly allocable to such gross income or net gain.

Trusts and Estates. Trusts and estates are subject to the NII tax on the lesser of:

- Undistributed net investment income, or
- The excess of adjusted gross income over the dollar amount at which the highest tax bracket begins ($11,950 for 2013).

Unlike the individual threshold amounts, the threshold amount used for estates and trusts is adjusted for inflation because the threshold is tied to the highest tax bracket. Nevertheless, the amount is far less than the lowest threshold amount for individuals ($125,000 for married filing separately). Therefore, trusts and estates should consider distributing investment income, especially if one or more beneficiaries would not otherwise be subject to NII tax because of their threshold amount.

The guidance on the computation of net investment income subject to the net investment income tax is complex. However, we can assist you in evaluating the impact of this tax on your total tax liability and guide you in developing a tax saving strategy.

How Do New Estate Tax Rules Affect You?
You may have heard that there are new rules on estate taxes as a result of the new tax law enacted earlier this year. The top tax rate on estates rose to 40% from 35% as of Jan. 1, 2013, but no tax will be imposed on the first $5.25 million (adjusted for inflation) of an estate, so the use of estate planning, at least for tax purposes, has become less important for a lot of people. We can discuss these issues with you anytime.

USING IRA DISTRIBUTIONS FOR CHARITABLE DEDUCTIONS—IT'S NOT TOO LATE YET!

Have you considered using the funds in your individual retirement account (IRA) to make a charitable contribution? If so, it's a good idea to follow up on your plans sooner rather than later. Under the American Taxpayer Relief Act of 2012, individuals who are age 70½ or older can make a qualified charitable distribution from an IRA directly to a charity. You can exclude donations up to $100,000 of an otherwise taxable distribution from your gross income and count them toward the current tax year's required minimum IRA distributions.

The tax benefit associated with this strategy can have a significant effect on higher-income taxpayers. The rules only apply to distributions made in 2013, so you need to act now.

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DO YOU QUALIFY FOR THE HEALTH CARE PREMIUM TAX CREDIT? OR WILL YOU BE SUBJECT TO A PENALTY?

Beginning next year, individuals and families can buy private health insurance through the highly publicized Affordable Insurance Exchanges. If you purchase health insurance through an exchange, you may be eligible for a tax credit. If you choose not to purchase health insurance, unless you are in an "exempt" category, you may be assessed a penalty.

The credit is aimed at middle-income individuals and families. A larger credit is available for older individuals whose coverage costs may be higher. The credit will be refundable, which means it can be used by people who pay little or no federal income tax. You can arrange for the credit to be paid to your insurer in advance so that you have little or no out-of-pocket costs.

DOMA DECISION'S IMPACT ON FINANCIAL PLANNING FOR SAME-SEX COUPLES

If you are a member of a married same-sex couple, then the U.S. Supreme Court's recent decision to strike down the Defense of Marriage Act could have a substantial effect on many aspects of your financial life, including how you file income taxes. You may want to consider, for example, filing an amended income tax return if you now qualify for deductions or credits available to married couples under federal law.

However, for our Kentucky clients, the Kentucky Department of Revenue has announced that the IRS decision allowing same-sex couples married in a state that recognizes such unions to elect a federal income tax filing status of married filing jointly or married filing separately will have no effect for Kentucky income tax filing purposes. The Kentucky Constitution prohibits the recognition of same-sex marriages, and, therefore, same-sex couples legally married in a different state will still be required to file separate Kentucky income tax returns. The Kentucky authorities say that each deduction on the federal Form 1040 Schedule A return that is claimed jointly must be separated in accordance with individual ownership, expenses, and/or charitable gifts when filing a Kentucky income tax return and reported on the individual's single return. Itemized deductions related to joint ownership should be separated by agreement or some other acceptable method of division between the two parties.

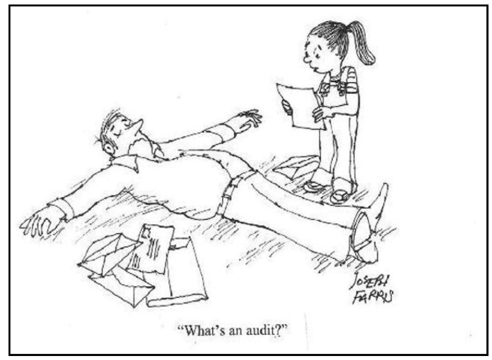
SEEKING A JOB? YOU MAY BE ABLE TO DEDUCT THE EXPENSES

Did you know that if you are trying to find work in your current occupation, the costs of your search, including expenses for preparing and sending resumes, employment agency fees and related travel expenses, should be deductible? This may sound better than it actually is, because these expenses are treated as "miscellaneous" itemized deductions, which have threshold amounts they must reach before they are deductible at all. Also, you're not eligible to use them if you are seeking employment in a new field or if this will be your first job. If it's been a long time since you left your last job, your costs also may not qualify.

STUDENT LOAN DEBT AND EDUCATIONAL TAX INCENTIVES

Student debt is taking a heavy toll on borrowers, according to an American Institute of CPAs survey. I could have told them that without a survey. Any of us that have kids in college know this pain, and the young people graduating know the student-loan people all too well.

There are a number of incentives still in full play, and if you are not aware of what those are, let's discuss those as you are making educational financing choices.



"What's an audit?"

Printed with permission of T- McCracken, www.mchumor.com

THE IRS WAR ON IDENTITY THEFT

Last year, we had several instances where a client had their refund held, or delayed, because of the new procedures implemented by the IRS to reduce identity theft. When this happens, there is little we can do but wait the IRS out. I was interviewed a while back on the topic of identity theft and if you missed it, there is a transcript at *http://www.wkyt.com/home/headlines/tax_professionals_say_stolen_identity_fraud on_the_rise_139753753.html*.

We will be sending out tax organizers in early January—be looking for that!

If you prefer to receive your organizer via email, call us at (859)254-4427 and we will take care of it.

For Business Owners:

WHAT TO EXPECT ON YOUR 2013 BUSINESS TAX RETURN

We stay in pretty close contact with our small business clients, who also are pretty good at contacting us when they have a question, so a lot of this you may have seen or heard before. We've fielded lots of questions on the Section 179 "expensing" election for equipment (and other fixed asset) purchases, and yes, it is scheduled to drop for 2014. Will it be extended? No one can say, but it is a very potent driver of our economy, and extremely popular with the business community. The 50% bonus depreciation deduction we can elect for 2013 purchases is scheduled to go away entirely for 2014. These are a couple of big items that are scheduled to change for 2014, and there are many other provisions also scheduled to be reduced or be eliminated. Let's discuss these changes when we meet on your 2013 year-end taxes.

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SAVING FOR RETIREMENT

Saving for retirement is a key consideration for many small business owners. Common options for small business owners include: IRA-based plans such as Savings Incentive Match for Employees (SIMPLE) and Simplified Employee Pension (SEP) plans, as well as profit-sharing plans and a variety of 401(k) plans. Qualified retirement plans include many tax benefits for both the employer and employees. With traditional plans, employers get a tax deduction for contributions, and employees may be allowed to make pre-tax contributions and defer taxes on income until distribution. In Roth plans, employees do not get tax deductions for contributions, but qualified distributions and withdrawals are tax-free. In addition, assets held in qualified plans generally are protected from creditors of both employees and employers. However, these plans are heavily regulated and include different contribution limits and matching requirements.

As always, if you would like to review the plan you have, or start one, let's discuss the pros and cons of the various alternatives.

START-UP AND ORGANIZATIONAL EXPENSES

New business owners typically incur a wide range of costs in the launch of their business. Both start-up and organizational costs are eligible to be deducted in the year a business is started. These deductions promote entrepreneurship and make additional capital available to business owners since they reduce your net taxes owed.

Start-up costs include expenses incurred when investigating whether to start or buy a business, market analysis and feasibility studies, advertising, consultant fees, attorney fees and accountant fees paid prior to the start or purchase of the business. The tax law allows business owners to deduct a portion of these costs in the year the business starts ($10,000 in 2013), as well as a portion over time (typically over 180 months).

Organizational costs (which are different from start-up costs) are incurred in the setup of a C or S corporation or a partnership and can be deducted under the same rules as business start-up costs.

A SIMPLIFIED HOME OFFICE DEDUCTION

We've mentioned this topic before in our newsletter, but this is such a big change, that it is worth going over again. Do you work at home or have a home-based business? If so, you should be aware that beginning this year, the IRS has created a simpler option for calculating the deduction for the business use of your home. The new option makes record-keeping easier because, instead of maintaining records of specific home office expenses, you can use a standard rate per square foot. The rate is $5 per square foot (up to a maximum of 300 sq. feet or $1,500) for qualifying business-use space in place of taking a pro rata percentage of items such as mortgage interest, taxes and repairs.

Keep in mind there are good and bad aspects to this "simpler" method. The new method gives you back your full interest and tax deduction on Schedule A, but you will lose your depreciation and loss carryover deductions. Of course, you must still use your home office regularly and exclusively for business. This may be a welcome relief for some taxpayers, but it might not be the best choice for others. We can discuss this with you during this year's tax meeting.

If you would like some one-on-one assistance with gathering your tax information, we are happy to send one of our tax staff out to your home to assist.
Call us at (859)254-4427 to set up a time.

IS A LIKE-KIND EXCHANGE A GOOD OPTION FOR YOUR BUSINESS?

Normally, when companies sell properties, they must pay taxes on any gain they receive. Like-kind exchanges, transactions in which companies trade properties, may be carried out without any immediate tax consequences. They must satisfy Internal Revenue Service rules, however, which include:

- The properties must have the same "nature or character," as set forth in IRS guidance.
- The exchanges can be business or investment properties put to a productive use.
- The exchanges can't involve inventory, most securities and some other assets.
- Taxes must be paid on any cash or non-similar property that is part of the deal.

Keep in mind that like-kind exchanges are tax-*deferred* transactions, not tax free. When a company eventually sells the property it received in an exchange, it must pay tax on any gain from its original investment. In the meantime, though, the business/company can use the funds it would have paid in taxes while it has acquired a new property that may better suit its needs without necessarily making a cash outlay.

NOTICE FOR KENTUCKY BUSINESS OWNERS:

Kentucky: This topic has been mentioned before, but here it is again, as the local governments and state governments have stepped up their search for revenue. If you have an Inc. or a LLC, states want their minimum fees, and in Kentucky, that's $175 each year. What's new, or relatively new, is that Kentucky is going back through old Secretary of State records and dredging up records of any LLC or Inc. that never filed a tax return, to get their $175. A lot of owners set up entities with the idea of utilizing them, but not all ever were, and if there is no activity, an income tax return might never be required. However, KY is still looking for their LLET fee (that's the $175). If you get one of these notices, let us know, and we'll assist as best we can. On some, we get quick resolution; on others, we get stonewalled and cannot get you out of the fee.

If you started an LLC or Inc., then decided not to utilize it, it needs to be dissolved. If you do nothing (i.e., don't pay your $15 Annual Report fee to the Secretary of State), the state will "administratively" dissolve it, but it is best to be proactive and pay the fee the state charges to dissolve it.

Other states: If you open a location in another state, we need to be apprised of that also, so that proper filings can be done. Most of the surrounding states have minimum fees, just as Kentucky does, and require you to register there before business commences.

Local governments (cities and counties): For business owners operating in multiple localities, we need to be informed about which of these localities you operate in (have sales, etc.). All of them want a slice of your income at the end of the year, and we can certainly see the trend of them becoming more aggressive in collections. When you step out of your "home" county, you need to take into account payroll taxes paid to each locality your employees work in, and then at the end of the year, a "net profits" tax based on the locality's "share" of your profits. More and more localities are extracting a "minimum" net profits tax, so that they have revenue from you even if you did not make a profit. A good example is the Lexington/Fayette County minimum license fee of $100.
So when you give us your year-end information, we'll need a report that breaks down sales by locality, as well as payroll by locality.

Meet Our Professional Staff

Jason C. Mitchell, CPA—Senior Auditor – A native of Frankfort, Kentucky, Jason graduated from the University of Kentucky with a Master of Science in Accountancy and joined Enderle & Company, PLLC in October of 2011. Jason specializes in audits, financial statement presentation, and not-for-profit taxation.

Elizabeth H. Besten, CPA – Senior Tax Advisor - Elizabeth graduated from the University of Kentucky in 2006 with a Master of Accountancy with an emphasis in taxation. Elizabeth specializes in individual and business taxation compliance and planning, and supervises much of the firm's bookkeeping work.

Kathleen T. Soukup—Kathleen has worked with the firm for several years. Her main focus is business analysis. Kathleen has a Bachelor in Accounting from Siena Heights University in Michigan. Kathleen is an accounting software expert.

Amber A. Stone— Amber has been working with the firm since 2010. She received her Bachelor in Accounting and her Master in Accountancy from the University of Kentucky. Amber works primarily with individual, S corporation, and partnership taxation. She also has experience with payroll for small businesses. Amber is currently working on attaining her CPA certificate.

William D. Craycraft — Will started his career at our firm as an intern after completing his bachelor's degree. He then went back to graduate school to complete his master's degree before attaining his CPA certification. He joined Enderle & Company as a staff accountant in 2013. Will's focus will be working on Individual and S Corporation taxation, along with Trusts & Estates. He will also be working with our Oil & Natural Gas clients.

Teri Browning
Office Manager

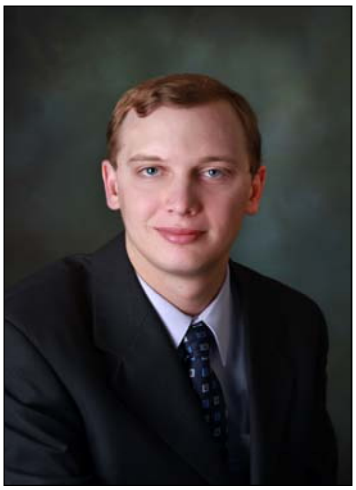
Jennifer Walters
Firm Administrator

(Continued on the next page)

Meet Our Professional Staff—Spotlight On…….

Scott L. Romans, CPA, CFE, Director of Small Business Services: Scott was raised in Mount Sterling, Kentucky. He loves dogs, and played soccer, baseball and the saxophone growing up. His crowning achievement in his youth was turning an unassisted triple play. He still loves baseball, especially the Atlanta Braves. His favorite movie is The Shawshank Redemption, and he is trying to read biographies of all of the presidents – currently he is reading about George Washington. He likes country music, and would love to travel to Scotland. Scott recently became engaged to his girlfriend of 3 years.

Scott graduated from Transylvania University in May 2009 with a Bachelor of Arts degree with a focus on Accounting. He originally intended to be a banker, however, he found when he took an accounting course that he loved it. Scott joined Enderle & Company, PLLC in December of 2009. Scott focuses on Partnership and S-Corporation Taxation, Forensic Accounting, and Business Consulting. He enjoys helping his clients solve their tax and accounting problems.



Thom Pavlik, Staff Accountant: Thom began his professional career in advertising before returning to school to earn his degree in accounting. Thom joined Enderle & Company, PLLC in the summer of 2012. Thom likes the flexibility and good people at Enderle & Company, and appreciates the firm's values – "We are very personally involved and go the extra mile. We try to help clients with things they might not be aware of." He works daily on individual and corporate returns, notice responses, generating payroll returns, and other tasks as needed by clients and co-workers.

Thom grew up in Lexington. He is in a long-term relationship with his girlfriend, whom he met in college at Miami University. He roots for the Kentucky Wildcats, enjoys soccer, and hopes to someday travel to the Amalfi Coast of Italy.

Thom is currently working on attaining his CPA certificate. Why become a CPA? "Because it's an expanding field, I get to work with a lot of small businesses and others in the community. It's challenging." He would like our clients to know that he is a very relaxed, laid back person.

Enderle & Company Partners

Mark G. Enderle, CPA, CFF—Partner—Graduated from Miami University in 1989 with a Master of Accountancy (taxation), and from Ohio University in 1988 with a Bachelor of Business Administration in Accounting. He has extensive experience in the taxation and management of business entities, including LLC's, S-Corporations, and partnerships. Mark regularly consults with business owners on optimal business structure and succession issues. Mark holds a CFF (Certified in Financial Forensics) certificate.

Christopher B. Besten, CPA— Partner—Native of Lexington, KY where he attended Lexington Catholic High School and then the University of Kentucky. Chris graduated from UK in December of 2005 with a BS in Accounting and a BBA in Management, and was also a member of the business fraternity Alpha Kappa Psi. He was a founding member of the Rotary affiliate Rotaract Club of Lexington. Chris specializes in topics pertaining to individual income taxation, LLC's, S-Corporations, and forensic accounting.

Andrew H. Dieruf, CPA, CFE—Partner—Andrew Dieruf came to us a few years ago from PriceWaterhouse-Coopers' Cincinnati office, where he worked on the audits of SEC clients. Andrew is a CPA and has a designation as a Certified Fraud Examiner. He is a graduate of Transylvania University, with a Bachelor in Accounting. Andrew is our Director of Audit Services.