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Inside this issue

Tax & Business letter
SUMMER 2016

Summertime planning for business taxes

Tax planning for small business owners isn't restricted to the end of the year. There is plenty you can do in the summer months to reduce your 2016 tax liability. Here are six moves to consider now.

1. Business equipment. Thanks to recent legislation, the Section 179 deduction and bonus depreciation have both been restored. For 2016, a maximum Section 179 deduction of $500,000 and 50% bonus depreciation are generally available for qualified property placed in service anytime during the year. Be aware that special limits apply to vehicles.

2. Business trips. When you travel on business this summer, you can write off your expenses – including airfare, lodging and 50% of the cost of meals – if the primary motive of the trip is business-related. Costs attributable to personal side trips are nondeductible. If you travel by car, deduct actual business-related auto costs or a flat rate of 54 cents per mile (plus tolls and parking fees).

3. Entertainment and meals. Generally, you can deduct 50% of the cost of entertainment and meals that precede or follow a "substantial business discussion." For example, you might treat a client to dinner and drinks after completing a contract earlier in the day. In this case, you can include 50% of the expenses for the client and yourself, as well as for spouses and significant others.

4. Company outings. Generally, deductions for business entertainment and meals are limited to 50% of the cost. However, if you throw a company-wide picnic or barbecue in the summer, you might be able to deduct 100% of the cost when you meet certain requirements, such as inviting your entire staff.

5. Hiring your child. Does your teenaged child need a summer job? If you hire your child, the wages paid for actual services rendered are deductible, the same as wages of other employees. The wages will be taxable to your child at your child's tax rate, which may be lower than your rate or that of your business.

6. Job credits. When your business hires workers from certain "target groups," such as veterans and food stamp recipients, you may be able to claim the Work Opportunity Tax Credit. The maximum credit is generally $2,400 per qualified worker. A special summertime credit is available for hiring youths residing in empowerment zones or enterprise communities who work for you between May 1 and September 15.

Don't let tax-saving opportunities in the summer pass you by. Contact us today. ◆

Learn how to manage your retirement accounts

How can you achieve a comfortable retirement? The steps are deceptively simple.

■ **Start a retirement savings program as early as possible and contribute regularly.** This step is simple but vital. The longer and more regularly you contribute, the larger your nest egg will become – even before the compounding provided by growth and earnings. Regular, reasonable deposits wisely invested will easily outgrow sporadic and insignificant contributions.

■ **Deposit your funds in tax-deferred accounts.** Invest in tax-deferred accounts to the greatest extent possible. If your employer or business offers a tax-deferred plan, such as a 401(k), contribute as much as you can, particularly if the plan provides matching funds. Investigate individual options, such as IRAs, for additional planning opportunities. Why? One of the advantages of tax-deferred accounts is that investments that aren't reduced by taxes will grow and compound at a faster rate. Other advantages include the ability to control your withdrawal rate and the amount of any accompanying tax, and the opportunity to postpone recognition of taxable income until retirement, when you'll likely pay tax at a lower rate.

■ **Establish a portfolio balance suited to your age and personality.** As funds within your retirement accounts accumulate, you'll have to decide how to invest them. Establish an investment plan as early as possible. Then follow your plan consistently, revising only enough to keep matters on course, correct for deviations, and respond to unexpected events.

■ **Track your portfolio and rebalance as needed.** Maintain a balance among growth, income, and short-term investments, and adjust the ratios as you age. The standard rules of thumb: When you're under forty, you can choose to invest more heavily in moderately aggressive growth vehicles. In your forties and fifties, you might want to become more conservative, shifting your balance toward income-generating investments such as high-dividend stocks.

■ **Once you're retired, plan your withdrawals so your funds will last the rest of your life.** To avoid running out of funds, plan for a long retirement. Postpone withdrawals as long as possible, and pay them out carefully. Calculate a workable percentage to withdraw from your portfolio on an annual basis. Assume your funds will need to last at least thirty years. Continue to revisit your investments each year to monitor and rebalance as needed.

A satisfactory retirement program requires planning, discipline, and monitoring. Wherever you are in the process, we're happy to help. Contact us for assistance. ◆

Be familiar with these retirement plan definitions

Tax-deferred retirement plans – those government-sanctioned programs enabling you to accelerate your retirement savings by postponing income taxes on funds contributed to and/or earned within the plan – have a language all their own. Here are some common plan definitions.

● **Standard IRAs** are available to individuals. You can deduct your contributions, and earnings in your accounts are tax-deferred. Federal income tax applies when funds are withdrawn. Contributions are limited to the smaller of taxable compensation or an annual ceiling ($5,500 for 2016). If you're a high-earner already covered by a retirement plan, you can make nondeductible contributions.

● **Roth IRAs** are subject to the same contribution limits as standard IRAs, though income limitations may apply. Your contributions aren't deductible, but earnings within the account are exempt from federal income tax. Withdrawals are tax-free subject to certain requirements.

● **SEP-IRAs** are established by your employer, who sets up a traditional IRA for you and contributes up to 25% of your pay. Only your employer can contribute and annual contributions can vary.

● **SIMPLE IRAs** are available to smaller businesses who offer no other retirement plan. Your employer must make a specified matching contribution or a 2% contribution for each eligible employee. You may elect to contribute.

● **401(k) plans** are employer-provided retirement plans. If your employer offers a 401(k), you may be able to make pre-tax elective contributions through payroll deductions. Your employer may contribute on your behalf and/or make matching contributions based on your elected deferrals. Contributions and earnings are not taxed until withdrawn from the plan. ◆

Organize your business records to save time and money

Organizing – the art of placing information in a logical order – is key to effective planning for your taxes as well as general business operations. Here are suggestions to help you master the art of organization.

Succession planning

Address succession planning for your critical employees well before a crisis occurs. Document daily responsibilities, skills needed to complete the tasks, and the location of all paper and electronic files. Appoint and cross-train backup staff.

Tax planning

Be aware of possible tax incentives, such as credits for hiring certain workers and accelerated depreciation methods for business assets. Create a filing system to collect the documentation needed to take advantage of these tax breaks. For example, for asset purchases, retain receipts, and make sure the details include the type of equipment, the date and amount of the purchase, the date you began using the equipment, and a schedule of additional related costs, such as set-up costs, that might be eligible for capitalizing. For ordinary deductible business expenses, such as car expenses, travel costs, professional magazines, meeting and association fees, and seminar and training expenses, establish an electronic or paper filing system to store receipts.

Electronic and paper records

Is your email inbox cluttered with so much mail you don't know where to look for what you need? Aim to make your inbox hold only the current day's emails. Delete non-critical emails. Electronically sort critical emails into folders to eliminate time-wasting searches. Cancel automatic messages that are no longer useful to reduce the deluge.

What about your file cabinets – the ones that hold real paper? Are they stuffed to overflowing? Review and shred outdated documents. If the information might be needed later, scan it into computer files. Consider using document management software.

Organize your desk by shredding documents with sensitive information and scanning older papers into computer files. The most efficient method is to scan, file, and shred as soon as you are finished with a document. If you don't have time, consider assigning document organization to specific employees and making it a task to be completed on a daily basis.

You're already busy, and you may feel that organizing your records will take more time than you have. But think about why you feel as though your day is overloaded. Is one reason because you're spending your efforts searching through a disorganized office? In that case, mastering the art of organization may save you not only time, but money as well. Contact us for more suggestions. ◆

IRS TAX NOTES

Two changes to Forms 5500

Form 5500 compliance questions are optional. Form 5500, the return filed by employee benefit plans, includes new compliance questions for tax year 2015 (returns with a due date of July 31, 2016, for calendar year filers). Because the questions were not approved by the Office of Management and Budget, the instructions for Form 5500 say plan sponsors should skip them when completing the form.

Some Form 5500-EZ filers will need to file electronically. If you're required to file at least 250 returns of any type with the IRS, including information returns (for example, Forms W-2 and Forms 1099), you may need to electronically file Form 5500-EZ for calendar year 2015.

Business ACA credit underused

In a recent report, the U.S. Government Accountability Office (GAO) found that fewer small businesses than expected are taking advantage of the small employer health insurance tax credit. Businesses and tax-exempt organizations who pay at least 50% of health insurance premiums and have fewer than 25 full-time equivalent employees with average annual wages below $51,800 (for 2016) are generally eligible for the credit. According to the GAO, the number of employers who claimed the credit in 2014 was about 181,000 (down from the number who claimed it in 2010).

Tax collection by the numbers

The latest IRS Data Book is available online at the IRS website. The book details IRS activities for the fiscal year ended September 30, 2015. Highlights include the collection of more than $3.3 trillion in gross taxes, with approximately 243 million tax returns and other forms processed, and 119 million tax refunds issued totaling about $403 billion. ◆

Are you in the crosshairs of the IRS?

According to recent statistics, your chances of being audited by the IRS are less than 1%. Sound like a non-event to you? Don't be lured into a false sense of security. The statistic is a blended rate covering many types of incomes and taxpayers. Here are some of the reasons returns were audited.

No adjusted gross income. For AGI of zero, audit risk jumped to over 5%. The IRS benchmarks AGI because it is total income including losses from businesses and investments.

Large adjusted gross income. Audit risk was nearly 2% for returns with AGI over $200,000. Audit risk climbed to 16% when AGI was $10 million or more.

International returns. Due to a focus on offshore tax evasion, the audit rate of international returns was almost 5%.

Estate taxes. Approximately 8.5% of estate returns were audited. Gross estates of $10 million or more were tagged with a 27% audit risk.

Corporate tax. Small corporations experienced up to a 2% audit risk. The risk for large corporations with assets over $20 billion was 85%.

Be aware that even if you don't fit into any of these categories, your return may still be selected for audit. That's one reason it's essential to keep good records to support all deductions and credits you claim on your tax return for at least three years after filing.

Examples of required recordkeeping include:

- Meals and entertainment
- Home office deductions
- Certain non-business property that you gift, donate, or intend to transfer through your estate

Contact us for more information about tax audit issues. ◆

__NOTE:__ This newsletter is issued quarterly to provide you with an informative summary of current business, financial, and tax planning news and opportunities. Do not apply this general information to your specific situation without additional details. Be aware that the tax laws contain varying effective dates and numerous limitations and exceptions that cannot be summarized easily. For details and guidance in applying the tax rules to your individual circumstances, please contact us.

We appreciate your business. Please call any time we can be of assistance to you in your tax, financial, or business affairs.

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Tax CALENDAR

SUMMER 2016

JUNE 15 – Second quarter 2016 individual estimated tax is due.

JUNE 15 – Second quarter 2016 estimated tax is due for calendar year corporations.

JUNE 30 – Report of Foreign Bank and Financial Accounts (FBAR) must be received by the Treasury Department.

JUNE 30 – Due date for electronically filed Forms 1095.

AUGUST 1 – 2015 retirement and employee benefit plan returns are due for calendar-year plans.

SEPTEMBER 15 – Third quarter 2016 individual estimated tax is due.

SEPTEMBER 15 – Third quarter 2016 estimated tax is due for calendar year corporations.

SEPTEMBER 15 – Deadline for filing 2015 calendar year tax returns for corporations with extensions of the March due date.

SEPTEMBER 15 – Deadline for filing 2015 partnership returns with extensions of the April due date. ◆