

Client Update

FALL 2015



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Certified Public Accountants

2 State Street, Suite 300 • Rochester, New York 14614
(585) 454-6996 • FAX (585) 454-4024
www.inserocpa.com

Kimberly Gangi, CPA
kim.gangi@inserocpa.com • (585) 697-9643

Going back to school? *Your costs may be deductible*

Are you going to school this fall to earn an advanced degree or to brush up on your work skills? If so, you might be able to deduct what you pay for tuition, books, and other supplies.

In general, when you're self-employed or working for someone else, you can claim a deduction for out-of-pocket educational costs if the training is necessary to maintain your skills or is required by your employer.

A caution: Even when the education meets those two tests, if you're qualified to work in a new trade or business when you've completed the course, your expenses are personal and nondeductible. That's true even if you do not get a job in the new trade or business.

Because it's often difficult to determine whether some degrees, such as an MBA, qualify you for a new trade or business, you'll need to look at your specific situation to decide if you can claim a deduction. One useful test is to compare the work you were able to perform before the education to what you are qualified to perform afterward.

Work-related education expenses are an itemized deduction when you're an employee and a business expense when you're self-employed. You may also be eligible for other tax benefits, such as the lifetime learning credit.

For more information, please call our office. ♦

Fourth quarter tax planning – *It's how you finish that counts*

The fourth quarter is often make-or-break time in sports. Likewise, tax-cutting steps you take in the last

three months of the year can transform a financial plan into a bona fide winner.

Late-year tax planning is often a matter of reviewing your inflows and outflows. For instance, income from capital gains can be subject to both capital gains tax and the 3.8% Medicare surtax. To offset capital gains, you might sell investments that have lost value since you purchased them. Net capital losses can be used to reduce ordinary income by up to \$3,000. A tax-saving examination of your portfolio is a good time to rebalance your holdings between asset classes.

Interest and dividend income can be subject to the 3.8% Medicare surtax too. Plan for this by considering investments in municipal bonds that pay tax-free interest. If you are contemplating a mutual fund investment between now and the end of the year, check the fund's expected dividend date. Purchasing a mutual fund now could bring an unwanted taxable dividend before December 31.

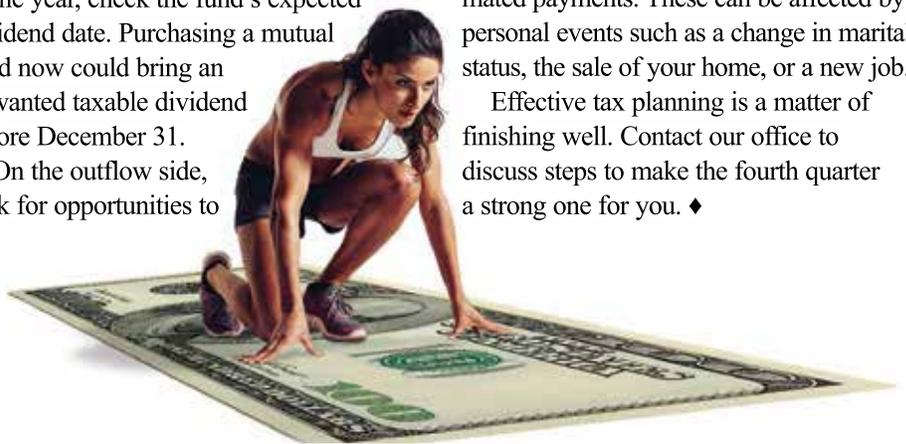
On the outflow side, look for opportunities to

maximize deductions. Accelerate your charitable donations and consider donating appreciated securities you have owned for more than one year. This strategy can offer double value – you get the benefit of a deduction and you don't have to pay tax on the gain.

Take advantage of increased retirement plan contribution limits for 2015. This year you can contribute as much as \$5,500 to a Roth or traditional IRA (\$6,500 if you're age 50 or over). The limit for 401(k) plans is \$18,000, plus an additional \$6,000 if you're 50 or older. While checking on the status of your retirement plan contributions, review your list of beneficiaries too.

Another important fourth quarter exercise is an analysis of your federal and state income tax withholdings and estimated payments. These can be affected by personal events such as a change in marital status, the sale of your home, or a new job.

Effective tax planning is a matter of finishing well. Contact our office to discuss steps to make the fourth quarter a strong one for you. ♦



Give your kids the power of a Roth IRA

Would you like to give your child a head start on smart money habits? Here's a suggestion: Have the child invest in a Roth IRA. Why? The tax-free compounding of contributions and investment returns over your child's lifetime is a great wealth-builder.

Here's what you need to know.

► There is no minimum age to open a Roth IRA account. All your child needs is earned income, either from a job or from self-employment.

► The maximum contribution to a Roth IRA for 2015 is \$5,500. Your child can contribute less and you can provide some or all of the cash, up to the amount of your child's earned income.

► Your child won't receive a federal tax deduction for a Roth IRA contribution – and will pay no federal income tax on qualified distributions taken after age 59½.

► You can continue to claim a qualifying child as a dependent on your tax return. Your child is also allowed a federal standard deduction of \$6,300 for 2015, which means the first \$6,300 of earned income is income-tax free.

► If you own a business and can employ your child, you can benefit from additional tax savings, including a payroll deduction for your business. In addition, depending on how your business is organized, you may not have to pay federal payroll taxes such as FICA, Medicare, and unemployment. Remember, your child must perform real services and the wages can't be excessive.

► An early Roth IRA withdrawal could affect your child's college financial aid. Your child can take withdrawals from a Roth penalty-free to pay for college costs. But those withdrawals generally count as income when applying for financial aid.

Are you interested in learning more? Give us a call. We'll help you get started on saving for your child's future. ♦

Supreme Court rules on ACA

On June 25, 2015, the U.S. Supreme Court ruled that tax subsidies provided to health insurance buyers in the *Affordable Care Act* (ACA) must be made available in all states, including the 34 states using health care exchanges run by the federal government. Had the Court ruled otherwise, the subsidies would have been permitted only within the sixteen states (and the District of Columbia) that have established their own exchanges or state-federal hybrids.

The exchanges are government-run Internet marketplaces allowing consumers to shop among competing insurance plans. The subsidies were enacted to help low and moderate income people afford private health insurance.

Without the subsidies, residents of two-thirds of the states would have had to pay full price for such insurance, which would render it unaffordable to many (as defined by ACA criteria).

Consequently, the affected parties would have become exempt from the individual mandate requiring most Americans to either have health coverage or pay a tax penalty. The employer mandate to provide health insurance to workers would have been similarly affected.



The case (*King v. Burwell*) hinged on one four-word phrase within the ACA that said subsidies would be available to those buying insurance on exchanges “established by the state.” According to the opponents of the ACA who filed the initial lawsuit, the phrase meant that the subsidies would not be available in states that used federally run exchanges.

In a 6-3 majority vote, the Court ruled that the context and structure of the entire ACA compelled an interpretation that the subsidies were intended to be made available nationwide, regardless of whether individual states chose to use the federal exchange or set up their own versions.

A different interpretation would have undercut the Act, since the insurance markets may have fallen apart in states without subsidies.

As you do your 2015 tax planning, be aware of how this latest ACA ruling could affect you. ♦



SEPTEMBER

15 – Due date for individuals to pay third quarter installment of 2015 estimated tax.

15 – Deadline for filing extended 2014 tax returns for calendar-year corporations.

15 – Deadline for filing extended 2014 partnership and limited liability company returns.

OCTOBER

1 – Deadline for businesses to adopt a SIMPLE retirement plan for 2015.

15 – Filing deadline for extended 2014 individual tax returns.

15 – If you converted a regular IRA to a Roth IRA in 2014 and now want to switch back to a regular IRA, you have until this date to do so without penalty.

NOVEMBER

During November – Estimate your 2015 income tax liability and review your options for minimizing your 2015 taxes. Call us to schedule a tax planning review. ♦

Talk finances with your parents

According to a generational finance study, you're probably about as eager as your parents to discuss

finances – which is to say, not very eager at all. But addressing the topic can benefit your entire family by clarifying your parents' wishes and enabling you to help establish a joint plan for carrying those wishes to fruition. And the sooner the better – communicating and planning now can alleviate the problems and confusion that arise if you wait until your parents are incapacitated, suffer diminished mental faculties, or pass away.

Before initiating the conversation, plan your approach to enhance mutual trust and understanding. Tailor the discussion to your parents' personalities and viewpoints. Position yourself as helper rather than custodian, and ensure that your parents maintain a sense of control. Emphasize that you want to fulfill your parents' wishes to their satisfaction and help them maintain independence as long as possible.

Involving other supportive family members may also help ease the stress. If your parents have a trusted advisor, such as a family attorney, explore the option of including that person as part of the process. Notify anyone who will be part of the conversation in advance.

The scope of your discussion will depend on your existing knowledge and your family dynamics. If the issues are complex or weighty, consider splitting your talk into multiple sessions.

Here's a framework for starting the dialogue.

- **Legal**

Do your parents have a will and an estate plan? Have they executed a trust, a durable power of attorney for finances, or an advance healthcare directive? Will they allow you to review the documents and/or speak with their attorney?

- **Medical**

What medical insurance policies are in place? Do your parents have long-term care insurance? Who is their personal physician and what significant medical issues exist?

- **Income, expenses, and debt**

What are the sources and amounts of your parents' income and expenses? To whom do your parents owe money, and how much do they owe?

- **Records**

Where do your parents keep tax returns, bank and brokerage statements, and similar records? Who are their tax preparers, financial advisors, and/or stockbrokers? Will your parents allow you current access to those records and advisors?

Discussing finances with your parents can be a daunting prospect. Give us a call if you'd like us to be part of the conversation. We're here to help. ♦



Businesses say taxes are a hassle

In a survey of small businesses conducted by the National Small Business Association, 59% of respondents said taxes were more of an administrative burden than a financial one. Most businesses put payroll taxes at the top of the list of taxes with the greatest administrative burden. Payroll taxes also outranked other taxes, such as income, property, and sales taxes, as the top financial burden to businesses.

IRS releases 2016 HSA limits

The IRS has announced the 2016 inflation-adjusted contribution limits for health savings accounts (HSAs). HSAs allow taxpayers with high-deductible health insurance plans to set aside pretax dollars that can be withdrawn tax-free to pay medical expenses. The 2016 contribution limit for individuals is \$3,350; the limit for family coverage is \$6,750. Individuals who are 55 or older may contribute an additional \$1,000.

Law makes some benefits tax-free

A new law, the "Don't Tax Our Fallen Public Safety Heroes Act," was signed on May 22, 2015, to clarify the tax treatment of federal and state benefits for public safety officers killed or injured in the line of duty. Under the law, such benefits will not be subject to federal income tax.

IRS changes filing deadline

Next year, taxpayers will get a few extra days to file their 2015 income tax returns. The District of Columbia will be observing Emancipation Day on April 15, 2016, the usual filing deadline. Because April 16 and 17 fall on a weekend, the 2016 filing deadline is moved to the next business day which is April 18. ♦



Smoothing out cash flow could save your business

A sad and oft-repeated truth is that half of all new businesses fail within the first five years. In fact, all too many fail in their first decade.

Although many factors contribute to business failure, a common culprit is poor cash management. Farmers, retailers, and car dealers are especially aware of seasonal fluctuations in cash flows. But to some extent all businesses, large and small, must deal with the uncertainty of fluctuating sales, inventories, and expenses. An owner-manager who engages in wishful thinking about profitability, who becomes lackadaisical about money flowing through the business, is often headed for disaster. By endeavoring to smooth out cash fluctuations, prudent managers keep their companies strong throughout the business cycle.

Follow these practices to moderate the ebb and flow of cash in your business.

► Analyze cash every month.

Analyzing cash doesn't have to be a complicated procedure. You simply prepare a schedule that shows the cash balance at the beginning of the month, then add cash you received (from sales, collections on receivables, asset dispositions, and so forth), subtract cash you spent, and calculate the ending cash balance. If your cash balance is decreasing month by month, you have a negative cash flow. If it's climbing, your cash flow is positive.

► Monitor receivables.

Many businesses fall short in this area. Extending credit to deadbeats, failing to identify late payers, refusing to collect on a timely basis – these practices amplify cash flow problems. Mitigate receivable fluctuations by using financial software to generate aging reports, following up when payments are even a day late and offering discounts to customers who pay early. Factoring receivables – selling your invoices to a factoring company – is another way to maintain a predictable cash flow.

► Slow down disbursements.

Prudent cash flow management dictates that you retain cash as long as possible. Pay your vendors on time – not too early, not too late. Of course, if suppliers offer discounts for early payment, take advantage of cost savings whenever possible. Consider also negotiating with suppliers to extend payment times.

► Time large expenses.

If you know a property tax payment is due in June, start setting aside money in a separate fund in January. The same holds true for any large payment that comes due during the year. If your equipment is nearing the end of its useful life or your roof is showing signs of wear, start saving now. Don't let big expenditures catch you by surprise. ♦



Keys to effective cash management

No matter the type of company you're managing, following a few simple practices can be the key to effective cash management.

■ **Reduce lag time.** For example, give incentive discounts to customers who pay early. Aim for just-in-time inventory to reduce holding costs.

■ **Establish a line of credit.** To cover shortfalls resulting from excessive lag time, unforeseen business disruptions, or weakening in your particular market, set up a line of credit with your local financial institution. But take care that short-term credit doesn't develop into a crutch that props up poor cash management.

■ **Check out new customers.** Like a landlord who checks the payment history of a potential tenant, a prudent business owner will assess whether new clients are likely to pay on time before extending them credit. Deadbeat clients can squeeze a firm's cash flow quickly, especially if they purchase large amounts of inventory or services.

■ **Grow with caution.** Expanding into new markets can bring momentum and additional sources of income. But watch out. Developing new product lines, expanding facilities, hiring employees, ramping up your marketing budget – all consume cash. Before racing down this road, be sure to generate accurate cash forecasts, preferably with expert help.

For more guidance in effectively managing your company's cash, give us a call. ♦

CLIENT UPDATE: 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. ©MC