ClientLine®

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Choosing a RETIREMENT PLAN That Fits

Many Americans aren't saving enough for retirement. And small business owners and their employees often fall into that category. If your business doesn't have a retirement plan, you may want to think about starting one.

You can choose from several types of tax-advantaged plans. They have different features and vary in administrative complexity. Before you get into the specifics about particular plans, you can narrow the options by considering what you want to accomplish with the plan.

GOALS

Establish and prioritize your goals so you don't get locked into a plan that doesn't fit your needs. Do you want to save as much as you can for your own retirement? Maximize tax benefits for your business? Allow employees to contribute to the plan? Keep costs and administrative time to a minimum?

FUNDING

Some plans require the employer to make contributions each year for all eligible employees. Other plans allow business owners to decide whether to make a contribution for the year, which may be a better fit for companies that don't make a profit year in and year out. Contribution limits vary from plan to plan. If your main goal is to maximize the amount you can tuck away for your own retirement, plan limits may be a deciding factor.

ADMINISTRATION

Plans that are more complex tend to be more costly to administer. And while the bottom line is important, also consider bang for the buck. Plans that are attractive to current employees and prospective hires can help reduce turnover and the associated costs.

TAXES

Limiting your tax burden may be a high priority — and contributing to a retirement plan can help you do it because contributions are tax deductible (within limits) and plan earnings are tax deferred. When you look at plan options, review the deduction limits that apply.

Amending a Tax Return

It doesn't happen all that often, but taxpayers sometimes receive corrected or missing tax information after they've already filed their federal income-tax returns. If it happens to you, don't panic. The IRS has a process for amending returns.

You can correct mistakes on your federal income-tax return (Form 1040) by filing Form 1040X. It includes columns for listing amounts from your original return and the correct amounts and asks for an explanation of the specific changes being made. Any supporting documents and new or changed forms and schedules must be attached.

To receive a credit or refund, you generally must file Form 1040X within three years after the date you filed the original return or within two years after the date you paid the tax, whichever is later. If you owe additional tax, you'll typically also have to pay interest on the balance due.

The Battle **IS ON!**

Last year was a busy one for hackers. The number of data breaches rose 62% from 2012, and eight of the breaches that occurred in 2013 exposed more than 10 million identities each. In total, over 552 million identities were exposed.*

If you think small businesses fly under hackers' radars, you're mistaken. Thirty percent of targeted cyber attacks in 2013 were directed at small businesses, and one in five small businesses was the target of at least one spear-phishing e-mail. Why? Because they're vulnerable. Also, when a small business is part of a large corporation's supply chain, hacking the little fish provides access to the big fish.

TOP THREATS

Targeted attacks are attempts by hackers to deliver malware to a specific person or group of people within a targeted organization. The goal is to gain access to the victim's data. *Spear phishing* uses e-mail to deliver malware via a link or attachment. In response to growing awareness and increased protections against spear phishing, hackers are streamlining their attacks. The number of campaigns rose 91% in 2013.

Watering-hole attacks, first observed in 2011, were also popular in 2013. In these "drive-by attacks," victims are lured to a legitimate website that has been hacked to deliver malicious code.

PRECAUTIONS

Hackers aren't the only problem. Accidental disclosure was the second leading cause of data breaches in 2013. Small store or mega chain, cyber security *must* be a priority these days. Some steps to take:

> Identify sensitive data and where it is stored

> Limit access to only those employees who need it

> Encrypt sensitive data

> Back up systems routinely

> Keep your operating system current and install security patches

> Make sure antivirus and anti-malware software is up to date

> Secure networks externally and internally, since attacks can come from inside

> Make password security your first line of defense; establish strict guidelines for creating, storing, and changing them

> Educate employees about cyber threats and security awareness

COMING SOON

What's next? Just follow the technology. There have already been reports of baby monitors, routers, and security cameras being hacked. As the Internet continues to evolve and connected devices proliferate, hackers and cyber criminals will almost certainly be there doing their thing.

* *Internet Security Threat Report 2014: Volume 19*, Symantec Corporation

Client PROFILE

Yolanda recently bought a vacation home. She's considering renting it out for part of the year to help cover expenses but is concerned about the tax consequences.

The tax rules that apply to owning and renting out a vacation property can be complex. Yolanda first needs to decide whether she and her family will use the property exclusively. If so, mortgage interest and property taxes are generally deductible, just as they are on her primary house.

If Yolanda decides to rent out the home, her rental income will be tax free as long as she doesn't rent it for more than 14 days during the year. However, she won't be able to deduct her rental expenses (other than property taxes and qualifying mortgage interest).

Once Yolanda exceeds 14 rental days, she will have to report the rental income. But she can deduct her rental expenses, subject to certain limitations. If Yolanda limits her personal use of the home to 14 days (or 10% of the total number of days the home is rented, whichever is greater), all rental expenses are potentially deductible. However, loss deductions are restricted by "passive loss" rules. If Yolanda exceeds the 10%/14-day personal use threshold, her tax deductions for rental expenses generally will be limited to the amount of rental income she collects. No loss is allowed.

Renting out a vacation home will have tax consequences. It's important to understand the tax rules before deciding to rent out a property.

Client Profile is based on a hypothetical situation. The solutions we discuss may or may not be appropriate for you.

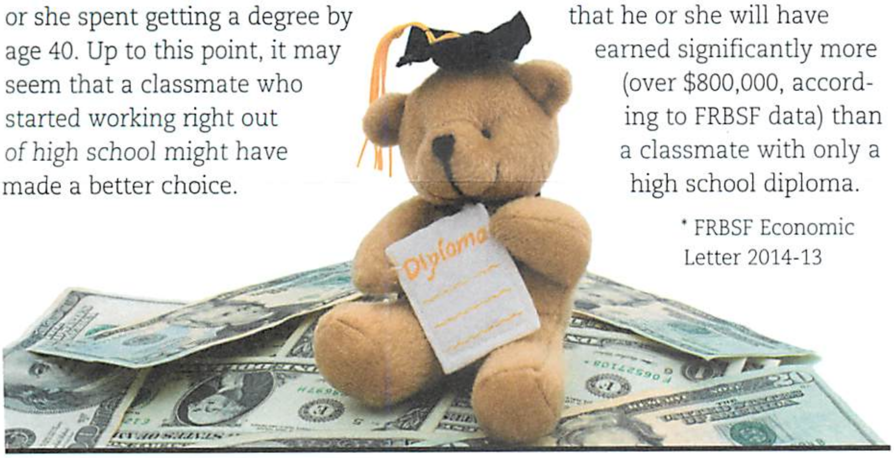
The College PAYOFF

Is getting a college degree worth it financially? Three factors — higher college costs, rising student debt, and a less than robust job market — might make you think the answer is "No." But the Federal Reserve Bank of San Francisco (FRBSF) reports that a four-year college degree is still a worthwhile investment.*

According to the data, an average college student who pays tuition of $20,000 a year for four years is generally able to recoup the amount he or she spent getting a degree by age 40. Up to this point, it may seem that a classmate who started working right out of high school might have made a better choice.

However, things change after the breakeven point. By the time the average college graduate reaches retirement age, the data show that he or she will have earned significantly more (over $800,000, according to FRBSF data) than a classmate with only a high school diploma.

* FRBSF Economic Letter 2014-13



WHO'S the Boss?

Do you have someone come in to help around the house, such as a housekeeper, nanny, or gardener? If so, that person may qualify as a household employee, which makes you an employer. On the other hand, if the worker is an independent contractor, then you're not an employer. It's an important distinction because employers have obligations under the federal employment tax laws.

YOU MAY BE AN EMPLOYER

It all depends on who gives the orders. Independent contractors control how they do their work and usually use their own tools and provide services to the general public. However, if *you* control both the work and how it's done, the worker is your employee.

AND A TAX COLLECTOR

You are responsible for withholding and paying FICA taxes (Social Security and Medicare taxes) for a household employee if the wages you pay the employee reach or go over an annual limit ($1,900 in 2014). FICA taxes generally are split down the middle, with the employer and employee paying equal shares. Alternatively, you can pay the whole amount from your own pocket.

You're not obligated to withhold federal income tax, although you can — and your employee may request that you do. Federal unemployment tax (FUTA) may also apply, depending on how much you pay your household employees.

If household employment taxes apply, they'll be added to your federal income-tax bill. So you might want to start making (or increasing) quarterly estimated tax payments or having more taxes withheld from your paycheck. Otherwise, you may get hit with an underpayment penalty.

....Q&A

Q **I bought a two-family house in March and am having some repairs done to get it ready to rent. When may I begin depreciating it for tax purposes?**

A You begin to depreciate property when you *first place it in service* for the production of income or for use in a trade or business. Property is considered placed in service when it is ready and available for its specific use — in your case, when it is ready and available for rent. If you are going to advertise the property for rent, you may begin depreciating it in the month you first place the advertisement. You don't have to wait until you actually rent the property.

Q **My two brothers and I are equal shareholders in an incorporated family business. We have a "cross purchase" agreement in connection with our estate planning. Basically, if one of us dies, the surviving shareholders will buy his shares. We have life insurance policies on each other's lives to fund the agreement. Let's say I die first. In addition to selling my shares, should my estate sell my brothers the life insurance policies I own in connection with the agreement?**

A That wouldn't be wise from a tax standpoint. Normally, life insurance proceeds can be received income-tax free. But, if a life insurance policy is sold, a portion of the policy proceeds would become taxable (unless an exception applies).

ClientLine ITEMS • • • •

> EMPLOYEES WITH EMPLOYER-SPONSORED HEALTH INSURANCE are paying more of the cost of their care. According to a survey by benefits plan management company HighRoads, 66% of plans had individual, in-network, out-of-pocket maximums of $2,500 or more in 2014, up from 58% in 2013.

> FINDING BUSINESSES located in major cities may be easier with the introduction of city-specific website domain names. In January, the Internet Corporation for Assigned Names and Numbers (ICANN) started issuing the new domain names, such as .nyc and .miami. Businesses in these areas can apply for their website names through domain registration sites.

> THE IRS RECENTLY ANNOUNCED THE 2015 LIMITS FOR HEALTH SAVINGS ACCOUNTS. An individual with self-only coverage under a high-deductible health plan (HDHP) will be able to deduct contributions of up to $3,350; the limit is $6,650 with family coverage. A qualifying HDHP must have a minimum annual deductible of $1,300 for self-only coverage or $2,600 for family coverage, and annual out-of-pocket expense maximums (excluding premiums) may not exceed $6,450 for self-only coverage or $12,900 for family coverage.

> A RECENT REPORT FROM THE TREASURY INSPECTOR GENERAL FOR TAX ADMINISTRATION found that out of 567,887 returns for the 2010 tax year claiming an alimony deduction, 266,190 claimed alimony deductions for which the corresponding income was either not reported or the amount of the income did not agree with the deduction taken.