ClientLine®

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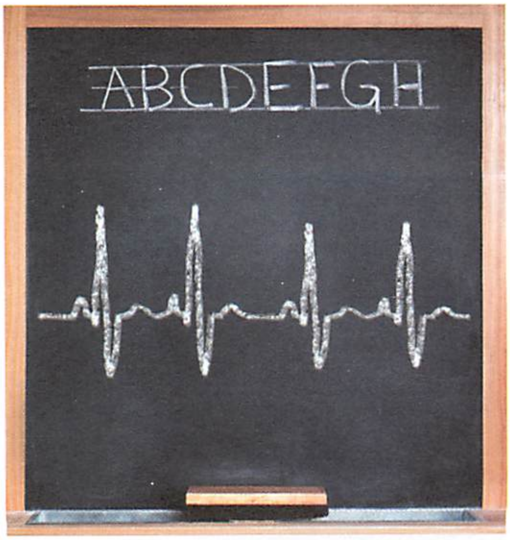
The ABCs of HSAs

Health savings accounts (HSAs) have been available since 2004, but they've become more popular recently. HSAs offer income-tax advantages that can make them an attractive way to save for out-of-pocket medical expenses.



HDHP REQUIRED

HSAs allow you to make tax-deductible (or pretax) contributions to a tax-deferred account to pay medical expenses for you and your spouse and dependents — but only if your health insurance is a qualifying high-deductible health plan (HDHP). If your employer doesn't offer an HSA, you can open one yourself, provided you have an HDHP and don't have other prohibited coverage.

To qualify as an HDHP in 2015, a plan must have an annual deductible of at least $1,300 for self-only coverage or $2,600 for family coverage.* Out-of-pocket payments under the plan can't exceed $6,450 (self-only) or $12,900 (family).

With self-only coverage under an HDHP, you can contribute up to $3,350 to an HSA for 2015. The HSA contribution limit is $6,650 with family coverage.** Once you're age 55 or older, you can make additional catch-up contributions of up to $1,000 a year. However, you cannot contribute to an HSA once you are enrolled in Medicare.

NO TIME LIMIT

As long as you use the money to pay qualified medical expenses, no tax is due. However, funds used for nonqualified medical expenses are taxable and are generally subject to an additional 20% penalty before age 65. You're not *required* to spend down your HSA; you can allow funds to accumulate.

While most health insurance premiums are not qualified medical expenses, you can use HSA funds to pay qualified long-term care insurance premiums and, as long as you're age 65 or older, Medicare premiums (except premiums for a Medicare supplemental policy, such as Medigap).

* The preventive care deductible can be zero or an amount lower than the $1,300/$2,600 minimum.

** The IRS has announced that the HSA contribution limits for 2016 will be $3,350 (self-only) and $6,750 (family).

Nonprofit Accounting Changes

The Financial Accounting Standards Board (FASB) has proposed making some significant changes in the way nonprofits provide financial information. The goal is to make their financial statements more useful to donors, lenders, and other users.

One proposal would change the way net assets are classified by eliminating the distinction between temporarily restricted and permanently restricted assets. That would leave only two net asset classifications: with donor restrictions and without.

Another proposal would require nonprofits to present two intermediate measures of operating performance in the statement of activities. The FASB changes would also require nonprofits to use the direct method of reporting operating cash flows and provide enhanced disclosures in the notes to help statement users assess the organization's liquidity.

A public comment period ends on August 20.

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Shopping for a LOAN

Is it time to put your expansion plan on the front burner? Have you outgrown your current location? Do you need to replace some equipment? There are many reasons small business owners might be in the market for a loan. If you'll be shopping soon, here are some pointers.

CHECK YOUR CREDIT

When you apply for a loan, the lender will look at your personal and your business credit histories. Before you start the *application process*, check to make sure both are accurate and up to date. If there are errors, clear them up ahead of time.

POLISH YOUR PLAN

Prospective lenders will want to know as much as possible about your business. Prepare a comprehensive, up-to-date business plan that provides information about your company (a description and an executive summary) and yourself (educational background and relevant experience). Since your plan may be pivotal in convincing potential lenders to approve your loan, consider including an overview of your management team and key personnel along with some market analysis and a marketing plan.

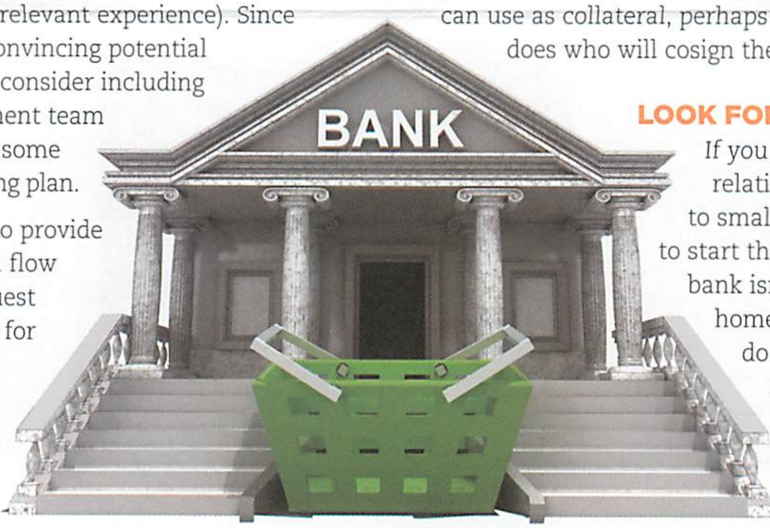
You should also be prepared to provide financial statements and cash flow projections. Lenders may request personal financial statements for you and other owners as well.

CHECK YOUR EQUITY

Before you put in a loan application, make sure you have enough equity in the business. Although requirements can vary, lenders generally want a company's total liabilities to be less than four times equity. A lender may require you to put some additional money into your business before approving you for a loan.

IDENTIFY COLLATERAL

Lenders generally require collateral, an alternate repayment source that can be used in case your business isn't generating enough cash to make payments on your loan. Either business or personal assets can be used. If you don't have anything you can use as collateral, perhaps you can find someone who does who will cosign the loan.



LOOK FOR A GOOD MATCH

If you already have a good working relationship with a bank that lends to small businesses, it makes sense to start there. If you don't, or if your bank isn't a good match, do your homework. Look for lenders that do business with companies similar in size to your own. Finding a lender that's familiar with your industry is an added bonus.

Client PROFILE

Heather and her husband Felix recently divorced. Heather wants to take stock of her financial situation and plan for her future.

The first thing Heather should do is review her financial goals. Saving for retirement, a house, or her children's education or continuing her own education may be among her priorities. She should have a plan in place for meeting these goals.

Checking her insurance coverage — health, disability, and life — to make certain it's adequate should be another priority. Accumulating an emergency fund of three to six months' living expenses is also a good idea. And, as always, Heather should make an effort to keep credit card and other high-interest debt to a minimum.

Reviewing her existing investments will help Heather determine if she should consider making changes. Adequate diversification and an appropriate mix of asset types are crucial to building a strong portfolio.

Finally, by making regular contributions to her employer's retirement savings plan, if available, or to an individual retirement account, Heather can build her retirement nest egg.

It can be hard starting over as a newly single adult. A thorough financial review can help make planning for this new phase of life a little smoother.

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

NOT So Fast . . .

The next time you get an itch to pitch old payroll records, make sure you're not moving too fast. Generally, the IRS requires payroll records to be retained for four years, but there are exceptions.

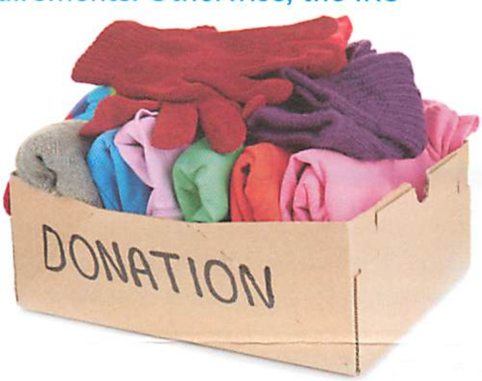
Taxes. Records related to federal income, Social Security, and Medicare taxes withheld and paid should be retained for at least four years after the due date of the employee's personal income-tax return (usually April 15) for the year the payment was made.

Fringe benefits. Employers that offer health insurance or various other fringe benefit plans should keep the records necessary to establish that the plan meets the requirements for excluding the benefit amounts from employees' incomes. Assume the general four-year minimum applies unless there is a six-year retention period under federal pension law (ERISA).

Unemployment taxes. The four-year rule applies to records related to employee compensation and unemployment contributions. The period is tracked from the filing deadline for Form 940, *Employer's Annual Federal Unemployment (FUTA) Tax Return*, or the date the FUTA tax was paid, whichever is later.

GOT PROOF?

If you plan to help a charity by donating clothing or household items* and help yourself to a tax deduction, pay close attention to the tax law's substantiation requirements. Otherwise, the IRS could disallow your deduction.



PROPERTY < $250

When you donate items valued at less than $250, you'll need a receipt from the charity. If that isn't practical (such as when you take items to a drop box), you must create your own reliable written record. Include the name of the organization you donated to, the date and location of your donation, a description of each item, and an explanation of how you arrived at its value.

PROPERTY ≥ $250

If the value of your gift is $250 or more, you need a "contemporaneous" written acknowledgment from the charity that describes the donated property and says whether you received anything of value in return. If you did, the charity must provide a description and good-faith estimate of the value of the goods or services provided.

PROPERTY > $500

If your gift is valued at over $500 — or you donate similar items of property valued at more than $500 in aggregate — you must document the date (approximate) and manner in which you acquired the property, a description, your cost or other basis, the property's fair market value (FMV) when donated, and the method used to determine FMV. Very large donations (more than $5,000 for one item or a group of similar items) require a qualified appraisal and an appraisal summary for attachment to your return.

* Note that clothing and household items generally must be in good used condition or better.

....Q&A

Q **My oldest daughter starts college next month. What insurance will she need?**

A Health insurance is essential. Your daughter can be covered by your family policy until she turns age 26. Make sure there are doctors and hospitals near the college that accept your insurance. Alternatively, you can check into the college's health plan if there is one or apply for a plan through the Marketplace during the next available enrollment period.

Your homeowners policy may cover your daughter's possessions if she lives in college housing. It's best to check with your insurance company to confirm coverage.
If your daughter will be taking a car and it's registered in your name (or your spouse's), your auto insurance should cover it. Just be sure to tell the insurance company where the car will be driven and housed. It may change your premium.

Q **I'm planning to lease a new car that will be used for business only. Will the lease payments be tax deductible?**

A Yes, provided you use the actual expense method to figure your deduction for business use of the auto rather than the standard mileage rate. Just be aware that you generally will need to reduce your deduction if the fair market value of the car was more than a certain amount when the lease began ($17,500 for cars first leased in 2015). The required reduction amount varies each year.

ClientLine ITEMS

> 401(K) PARTICIPANTS are leaving "free money" on the table. A survey by Financial Engines found that about one quarter of Americans fail to save enough to collect their employer's full 401(k) matching contribution. On average, employees who fall short of the full match miss out on $1,336 (2.4% of salary) annually.

> DOT-ORG IS NO LONGER THE ONLY INTERNET DOMAIN choice for charities. Nonprofits can now register for website addresses with the domains dot-ngo and dot-ong. According to Public Interest Registry, the nonprofit organization in charge of managing the domains, dot-ngo and dot-ong will be granted only to active, independent, nonpolitical nonprofits that meet eligibility requirements. The standards are intended to lend credibility to legitimate charities and help donors know which organizations are worthy of a donation.

> A MAJORITY OF AMERICANS AREN'T WAITING UNTIL FULL RETIREMENT AGE to claim Social Security benefits. The Social Security Administration reports that of the 37.9 million Americans receiving Social Security benefits as of December 2013, 73% were receiving reduced benefits because they claimed benefits early.

> HIGHER WAGES are becoming more desirable than health benefits. According to the Employee Benefit Research Institute, in the past two years, the percentage of workers who would give up health benefits for higher wages has nearly doubled, from 10% in 2012 to 19% in 2014. On the flip side, the percentage of workers who would give up money for benefits has decreased, from 15% in 2012 to 12% in 2014.