

ClientLine®

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HELPFUL HINTS for Both Your Lives

You may try to keep your personal life and your business life separate, but they're bound to overlap, sometimes in surprising ways. Case in point: Two basic principles for managing your personal finances also apply to managing your business.

PAY YOURSELF FIRST

Before you start divvying up your paycheck to pay bills and spend on other things, tuck some money away for financial emergencies and for your future. Paying yourself first may be difficult in the beginning, but you'll soon adjust. Make it as easy and as invisible as possible by arranging to have money transferred automatically from your paycheck or checking account to a separate savings account, an investment account, or a retirement account. If you have access to a 401(k) or similar tax-deferred plan, it's a good way to put your retirement savings on autopilot.

TAKE PROFITS FIRST

The business version of pay yourself first is to put money into a "profit account" before you spend it elsewhere. As money from sales comes in, deposit a predetermined percentage in a separate account and leave it there. Out of sight, out of mind. Since small business owners

generally make spending decisions based on how much is in the bank, having a profit account helps protect you from spending everything.

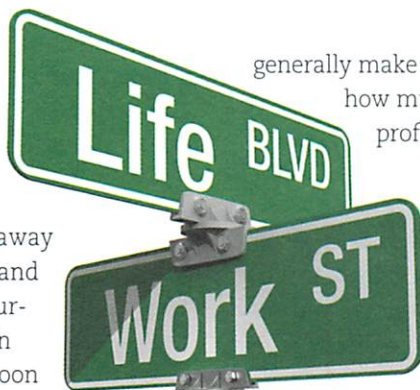
SPREAD THE RISK

Diversification is the strategy of holding different investments and different asset types in your portfolio instead of

putting all your eggs in one basket. It can help you manage your overall exposure to investment risk because asset classes often react differently in different economic climates.

DIVERSIFY YOUR CUSTOMERS

The business version of diversification is also about reducing your exposure to risk, but here the strategy is to have a good mix of customers. If your company's sales are dominated by one or two large customers, your business might be in trouble if you lose one of them. Guard against becoming overly reliant on one major customer by adding new customers and increasing sales to existing ones.



**PULLEY &
ASSOCIATES, LLC**
*Certified Public Accountants
and Consultants*
9040 GARDEN ARBOR DR.
SUITE 201
GERMANTOWN, TN 38138
901-761-7874
FAX 901-761-9263

Family Finances

The Federal Reserve Board recently released the findings from its 2013 *Survey of Consumer Finances*. The study is conducted every three years to collect information about U.S. family incomes, net worth, use of credit, and other financial matters. Some highlights:

- Average (mean) family income rose 4% between 2010 and 2013 in real (after inflation) terms, but median income fell 5%.
- Overall, debt obligations fell during the three-year period.
- Fewer families held debt secured by a primary residence, and those who did have home-secured debt owed less.
- The fraction of families with credit card debt decreased, as did the average balance owed by those with credit cards.
- However, education debt increased, both in terms of the percentage of families having such debt and the average value of the debt.
- Both mean and median net worth remained largely static.

DISCOUNTING: It's Complicated

Things were considerably different ten years ago when Marty opened Widget World. She was the only game in town, and online shopping was still somewhat novel. Since then, a competitor has moved into a nearby shopping center and e-commerce has more than doubled. Marty is under pressure to raise revenue.

SOME PRICING STRATEGIES

Maybe Marty can boost revenue by lowering the prices on her widgets and increasing sales volume. She has several options. Discounting — a temporary price reduction — is a common “revenue management” strategy. She might also consider marking down her widget prices permanently. A customer reward or frequent buyer program is another possibility.

A SLIPPERY SLOPE?

If she opts for discounting, Marty needs to consider some additional points. Frequency is an important one. If Marty discounts her widgets too often, her customers may notice and stop buying between discounts. When that happens, the discount price becomes the normal price because customers are not willing to pay full price. And that could hurt, *not help, Marty's bottom line.*



OTHER ISSUES

Anticipated response is another point for Marty to ponder. Who will be attracted to a sale on widgets? If Marty's current customers are the only ones to respond, then nothing has been gained. If the sale brings in new customers and they remain customers, it's generally a plus.

But if new customers only come for the sale and never come back, there's limited benefit.

If Widget World is not currently profitable, Marty should be reasonably certain that offering discounts will result in a volume of sales that's high enough to have a positive impact on the bottom line. Otherwise, it may not be worth the gamble.

AND THEN THERE'S SOCIAL MEDIA

Online coupons offering deep discounts for short periods have been a disaster for many small businesses. Instead of generating positive buzz, businesses unprepared for the short-term response may suffer from bad reviews on social media. If Marty is considering a “daily deal” type of Internet promotion, she should look at logistics, operations, and inventory to be certain she and her staff can pull it off. Otherwise, there may be too much at stake.

Client PROFILE.....

Janelle offers her employees a benefits package. She's looking for a way to show them that benefits are part of their compensation.

Janelle's employees may not be aware of just how much she spends on their “hidden” compensation. Preparing a company-wide benefit statement showing how much the company spends on paid leave, health and other insurance, and contributions to a retirement and/or profit sharing plan can help give employees a better idea of the costs involved. Janelle may want to include legally required costs, such as Social Security, Medicare, workers' compensation, and unemployment insurance.

To make sure employees know what benefits are available to them, Janelle might consider redistributing benefit information or discussing benefits in employee meetings. There may be benefits her employees don't want or use. Janelle can use the

feedback she receives to better tailor her benefits package to her employees' needs.

Like many small business owners, Janelle may have to call upon her employees to pay a greater portion of their benefit costs. They're likely to be more sympathetic if she explains why she has made the decision. To help them see the big picture, Janelle should consider presenting cost comparisons for a number of years. Highlighting the costs she still plans to cover is also important.

An employee benefits package can be important for recruitment and retention. Good communications can help employees see the value of the benefits they receive.

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

ESTATE PLANNING

Is Still Important

Now that there's a \$5.34 million federal estate-tax exemption — and the exemption is portable between spouses — many people don't see a need to do estate planning.* But planning is important even if you don't expect the IRS to take a share of your estate. Here are some planning steps you should consider.

Make a will. Dying without a will ("intestate") can have unintended consequences. Most notably, your property may not pass to the people you would want to receive it. If you have a will, make sure it reflects your current situation and wishes.

Review asset titling. Know how key assets (home, bank and investment accounts, etc.) are titled and what it means for your estate plan. For example, your interest in property owned jointly with rights of survivorship passes to the surviving joint owner(s) on your death.

Check beneficiary designations. You may have named beneficiaries for

certain assets, such as retirement accounts and life insurance policies. Make sure these designations are up to date.

Consider the need for a trust. Living and/or testamentary trusts can serve a variety of purposes in an estate plan.

Plan for other taxes. Look at ways to minimize the taxes your heirs may owe after your death on capital gains and tax-deferred accounts. Depending on your situation, state estate taxes could be another consideration.

* The IRS periodically adjusts the exemption for inflation. \$5.34 million is the 2014 amount.

Plan Loan **PITFALL**

Before you borrow from your 401(k) plan account, it's important to understand what you might be up against if you leave your employer before you finish repaying the loan. A recent Tax Court case illustrates a potential pitfall.

A participant in a 401(k) plan left one job for another but was laid off within the year. When he left the first job, he had an outstanding 401(k) plan loan. Shortly after losing the second job, he requested a distribution from his 401(k) account. He understood that his loan would have to be repaid before he could receive a distribution from his account. But he didn't fully understand the tax consequences.

Since the participant didn't repay the loan out of pocket, the plan administrator reduced the amount distributed to him by the amount he still owed. This "plan loan offset amount" was taxable. Worse yet, because the participant was only 49 years old, he had to pay an additional 10% penalty on the amount. The court noted that there is no exception to the 10% penalty for general financial hardship.



... Q&A

Q I usually work at my employer's local headquarters but have been assigned to a satellite office for the holiday season. May I deduct the costs of driving to the satellite office?

A Generally, you aren't allowed to deduct transportation expenses incurred in going between your residence and workplace. However, there are a few exceptions. In your case, you normally work at your employer's headquarters (not at home), and your satellite office assignment is temporary and in the same business. Assuming your employer doesn't keep you at the satellite office for one year or longer, your commuting costs are potentially deductible. You must have adequate records. As unreimbursed employee business expenses, they're an itemized deduction (subject to the 2%-of-adjusted-gross-income floor on miscellaneous expenses).

Q My S corporation took a bank loan that I personally guaranteed. I recently had to repay the loan out of my own pocket because the company didn't have the funds. Will I receive a "basis" increase for tax purposes?

A An S corporation shareholder does not obtain basis merely by guaranteeing a loan. However, actually making payment on the bank loan personally in your capacity as guarantor does increase your basis by the amount of the payment. This can help you if you need additional basis in order to deduct your share of any losses passed through to you from the S corporation.

ClientLineITEMS....

> **IT'S BEEN 40 YEARS** since the Employee Retirement Income Security Act of 1974 (ERISA) was signed into law. When ERISA was enacted, only 300,000 retirement plans existed. Today, there are approximately 700,000 plans with over 85 million active participants.

> **KEEPING EMPLOYEES BUSY** may help productivity. A series of studies by the University of Pittsburgh, Columbia University, the University of Miami, and the University of Florida found that people who aren't busy and miss a deadline take

an additional 37 days to complete the task, whereas people who are busy take only 25 more days.

> **FORTY-NINE PERCENT OF SOCIAL SECURITY RECIPIENTS** will have to pay tax on their Social Security benefits in 2014, projects the Congressional Budget Office. In 2005, only 39% of beneficiaries were affected. According to the Congressional Research Service, the reason more Social Security beneficiaries have had to pay tax over time is that income thresholds aren't indexed for inflation or wage changes.

> **THE COST OF EMPLOYER-SPONSORED HEALTH COVERAGE** increased only slightly this year, according to an annual poll of employers by the Kaiser Family Foundation and the Health Research & Educational Trust. In 2014, average annual premiums were \$16,834 for family coverage and \$6,025 for single coverage, a 3% and 2% increase, respectively, from 2013. Employees contributed, on average, 29% (\$4,823) toward the premium for family coverage and 18% (\$1,081) toward the premium for single coverage, the same as last year.

The general information provided in this publication is not intended to be nor should it be treated as tax, legal, investment, accounting, or other professional advice. Before making any decision or taking any action, you should consult a qualified professional advisor who has been provided with all pertinent facts relevant to your particular situation.

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