ClientLine®

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Charting Your FINANCIAL PROGRESS

How are you doing financially? Are you getting ahead, treading water, or falling behind? The end of the year is a good time to review your financial picture and identify changes you may want to make going forward.

GETTING ORGANIZED

It can be tough to know exactly where you stand without having all your financial information in one place. File your December account statements as they arrive in the mail or your e-mail inbox so you'll have them to refer to when you're conducting your financial review.

YOUR YEAR-END BALANCE SHEET

When you're ready to start, make a list of all your assets. Include your retirement account balance, the market value of your home and any other real estate you own, and the value of your business interests. Add in the market value of your other investments, your bank account balances, and the cash value of your life insurance policies. Also include estimates of the value of your vehicles, appliances, jewelry, and other valuable personal possessions.

The next step is to tally up your liabilities: amounts you owe on your mortgage, credit cards, and any other debts. Figure your outstanding liabilities as of the same date you use for your asset values — December 31, 2015, for example.

Once you have itemized your assets and liabilities, you can calculate your net worth by subtracting total liabilities from total assets.

LOOK AT TRENDS

Make it a practice to track your net worth from year to year. Aim to grow your net worth during your working years by saving, investing, and not taking on more debt than you can handle comfortably. Managing your money wisely now can put you in a more secure financial position in retirement.

Giving Back

Small business owners often look for opportunities to get involved in their communities, and supporting local charities can be a way to do it. Here are some potential approaches:

Monetary donations. Always appreciated, a simple gift of cash is generally tax deductible if made to a qualified organization.

Inventory donations. In general, a tax deduction will be available for the inventory's cost. However, a regular C corporation that contributes inventory for use in aiding the ill, needy, or infants may receive an enhanced deduction.

Volunteering. Although you can't deduct the value of donated services, related out-of-pocket expenses are potentially deductible. Or consider giving employees a limited amount of paid time off to volunteer.

Sponsorships. Sponsoring a charity event offers public recognition of the company's charitable activities. This can help it attract new customers and enhance its reputation. Potential tax deductions depend on the specifics.

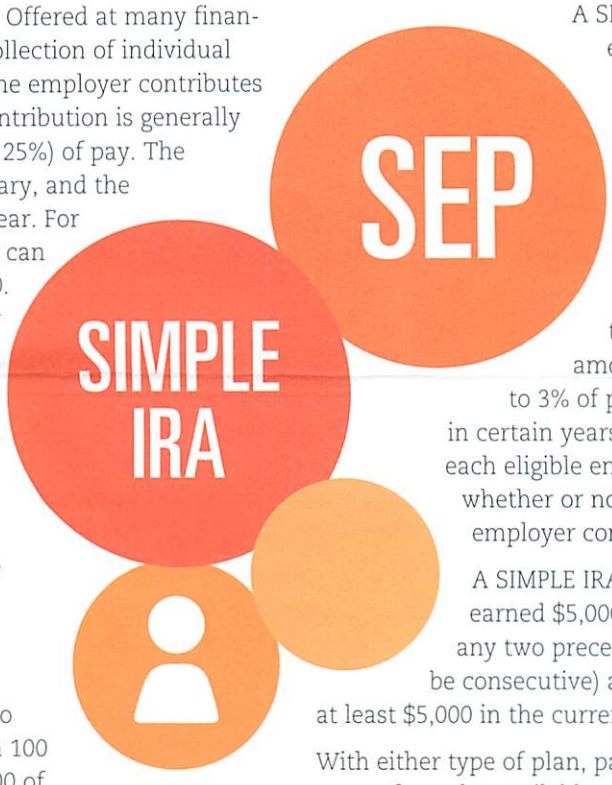
RETIREMENT PLANS Made Simple

By sponsoring a retirement plan, a business can obtain significant tax benefits while also gaining a competitive advantage in employee recruitment and retention. Small employers looking for a plan that is relatively easy to operate and maintain might consider one of the options described below.

Simplified Employee Pension (SEP). Offered at many financial institutions, a SEP is basically a collection of individual retirement accounts (IRAs) to which the employer contributes for each participant. The employer contribution is generally based on a uniform percentage (up to 25%) of pay. The annual contribution percentage can vary, and the employer need not contribute every year. For 2015, the maximum contribution that can be made for any participant is $53,000. (The IRS adjusts this limit periodically for inflation. Special contribution calculations are required for self-employed individuals.)

A SEP must cover all employees who have reached age 21, worked for the employer in three out of the last five years, and earned $600 or more in the current year (amount is periodically inflation adjusted).

SIMPLE IRA. Like a SEP, this type of plan is also IRA based. It is available to small employers having no more than 100 employees who received at least $5,000 of compensation from the employer in the preceding year. The employer generally may not have another retirement plan in place.



A SIMPLE IRA gives participating employees the option of making pretax contributions from their paychecks. For 2015, these contributions are limited to $12,500, or $15,500 if an employee is age 50 or over (limits are periodically inflation adjusted).

The employer also contributes to the plan by either (1) matching the amount the employee contributes, up to 3% of pay (may be reduced to 1% of pay in certain years), or (2) contributing 2% of pay for each eligible employee who earns at least $5,000, whether or not the employee contributes. An employer contribution is required each year.

A SIMPLE IRA must cover all employees who earned $5,000 or more from the employer in any two preceding calendar years (they need not be consecutive) and are reasonably expected to earn at least $5,000 in the current year.

With either type of plan, participants select their own investments from the available choices and may withdraw money from their accounts at any time.*

* Taxes and a potential early withdrawal penalty apply.

Client PROFILE....

Robert has heard stories about employees stealing from their companies but doubts his own business is at risk. Unfortunately, that mindset can be dangerous if it means that internal controls are being neglected.

According to the Association of Certified Fraud Examiners (ACFE), small businesses are particularly vulnerable to occupational fraud, and a primary contributing factor is inadequate internal controls. The median loss in small business fraud cases reported in the ACFE's 2014 study was $154,000.

If he has not focused on internal controls in the past, Robert may want to look at how he can institute some checks and balances. Separation of duties is key. This means involving more than one person in financial functions. For instance, one person might open the mail and another person might prepare the bank deposits. This may not prevent all problems — but it *will* make it more difficult for any one individual to mishandle the money.

Another safeguard: Have someone reconcile bank statement balances to the cash balances in the company's books. Any discrepancies should be investigated. They could be the result of errors — or signs of a problem, such as fraud. Since reviewing the bank statements will give Robert a good overview, he should have them mailed directly to him. After he reviews the statements for unusual activity, the reconciliation can be prepared.

Even small companies are vulnerable to fraud. Although not a panacea, putting various internal controls in place can help prevent small businesses from becoming victims.

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

Protecting YOUR NET WORTH

You read about calculating your net worth on page one. Now consider whether you are taking the steps necessary to *protect* the assets you've worked so hard to build.

GOT IT COVERED?

Consider carrying the maximum liability coverage available on your homeowners and automobile insurance policies. You may also want to have umbrella coverage for additional protection should the amount of a claim against you exceed the limit on the underlying home or auto policy. You'll also need adequate professional liability insurance to protect against malpractice claims if you are an attorney, doctor, engineer, or other practicing professional.

IN BUSINESS

For business and real estate ventures, using an entity that offers some form of limited liability can reduce your personal exposure to the claims of business creditors. Possibilities to consider include a corporation (regular or Subchapter S), a limited liability company (LLC), or a limited partnership.

A standard business owners policy (BOP) combines property, commercial liability, and business interruption insurance. (Separate policies are also available.) A BOP does not include workers' compensation or auto coverage. If you own a business, review your coverage to make sure there are no gaps.

YOUR NEST EGG

Investing in a 401(k) or other qualified retirement plan is a helpful wealth-protection strategy. Plan assets are generally protected from creditors under ERISA (the federal pension law).

FAMILY TRUSTS

Trusts are often used to help protect assets earmarked for children and grandchildren. Consult an estate planning attorney if you are interested in creating a trust.

FINANCIAL AID
Application Changes

President Obama recently announced changes in the process for filing the Free Application for Federal Student Aid (FAFSA), the form submitted by students seeking federal student loans, grants, and work-study jobs. Effective with FAFSAs submitted for the 2017-2018 and later school years:

> Students will be able to submit their FAFSA as early as October 1 of the current school year instead of having to wait until the following January.

> The FAFSA will require income information from the "prior-prior" tax year (rather than the prior tax year).

These changes mean that families will be able to fill out FAFSAs for the 2017-2018 school year beginning October 1, 2016, using income data from their 2015 tax returns.

FAFSAs for the 2016-2017 school year will continue to be administered under the former rules. The FAFSA form will be made available on January 1, 2016, and will require 2015 tax return data.

Q&A

Q **I own a small company that typically is modestly profitable. But 2015 is looking like a very good year. If the company pays me a dividend, will it be tax deductible? The firm is a regular "C" corporation.**

A The corporation would not be able to deduct the dividend payment. Also, the dividend would generally represent taxable income to you. On the plus side, assuming certain tax law conditions are satisfied, you'd pay a relatively low rate of tax on the dividend (generally, 15% or 20%). However, the income would still be taxed twice — once to the corporation and again to you. To avoid this double taxation, you might consider taking a bonus instead. The corporation can deduct reasonable compensation paid to you for services rendered. Of course, this approach *would have a tax cost to you.*

Q **Earlier this year, I converted my traditional individual retirement account (IRA) to a Roth IRA. Will the taxable amount be based on the IRA's value on the conversion date or at year-end?**

A The taxable amount is figured on the conversion date. If your IRA has lost value since then, you may be reluctant to pay income taxes on the higher value. You have the option of recharacterizing the conversion (treating it as if it never happened). If you recharacterize by the due date of your 2015 tax return (including any extension), you'd avoid the conversion taxes and go back to having a traditional IRA.

ClientLine ITEMS ....

> **A NEW ONLINE TOOL FROM THE U.S. CENSUS BUREAU** called *Census Business Builder: Small Business Edition* is designed to help entrepreneurs and business owners easily navigate and use key demographic and economic data when they're researching, opening, or expanding a business. The tool combines third-party data on consumer spending with data collected by the Census Bureau.

> **IN 2015, ANNUAL HEALTH INSURANCE PREMIUMS** for employer-sponsored health insurance average $6,251 for single coverage and $17,545 for family coverage, according to a survey conducted by the Kaiser Family Foundation and the Health Research & Educational Trust. The average premium contribution by workers is $1,071 (single) and $4,955 (family). The majority of covered workers (81%) also must meet an annual deductible when they use health care services, and copayments are commonly required for physician office visits.

> **A 1976 TAX LAW** requires the IRS to publish annual data regarding individual income-tax returns reporting incomes of $200,000 or more. For 2012, there were nearly 5.3 million such returns. In its recent report, the IRS observes that a taxpayer would have needed $807,009 of income in 2012 to have the same purchasing power as $200,000 in 1976.

> **LONG-TERM CARE COSTS CONTINUE TO RISE.** The *Genworth 2015 Cost of Care Survey* finds that the median national rate for an assisted living facility is $3,600 a month, up 2.86% over 2014, and the median rate for a private room in a nursing home is $250 a day, 4.17% higher than in 2014. Charges for home health aide services have risen more slowly, up 1.27% from 2014 to $20 an hour.