

# ClientLine®

December 2016

## MONEY RESOLUTIONS for 2017

It won't be long before we welcome in 2017. The start of a new year is always a good time to think about your goals and what you need to do to accomplish them. If one of your goals for 2017 is to improve your financial health, here are a few suggestions that may help you put your finances on a firmer footing.

### REDUCE EXPENSES

Keep track of where your money goes by creating a budget. List your basic monthly expenses — rent, mortgage, other loan payments, utility bills, etc., and subtract the total from your monthly net pay and/or other monthly income. The difference is the amount you have left for discretionary spending and saving. Is that amount less than you expected? Reducing expenses is the simplest way to find more money to save or invest. For example, you may be able to purchase comparable auto, homeowners, or life insurance coverage at a lower price. And by comparing cell phone and cable providers, you may discover a better deal.

### SAVE MORE

With a budget in place, you can see how much money you have available for saving. Try to increase that amount every year — or more often, if possible. Consider putting part or all of any pay raise or bonus you receive



into a savings or investment account. And having money automatically deposited into your account on a regular basis can make it easier to save and less likely that you'll be tempted to spend all of your extra cash.

### REDUCE TAXES

For many people, the easiest way to reduce taxes is to participate in a 401(k) or other tax-deferred retirement savings plan through work. You won't have to pay federal (and often state) income taxes on your pretax contributions to the plan until you withdraw them.

### IMPROVE YOUR CREDIT SCORE

A good credit score increases the likelihood of obtaining a loan at a competitive interest rate. If your credit score is not as good as you would like it to be, the following steps can help improve it. First, pay your bills on time. Second, pay at least the minimum amount due on a loan. Third, do not take on additional debt until you've paid off your current debt.

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## It's Deductible

If you are self-employed, you may qualify to deduct up to 100% of the premiums you pay to provide health insurance for yourself and your family. The deduction is available for medical, dental, or long-term care insurance premiums.

You can potentially qualify for the deduction if you are a sole proprietor, a general partner, a limited partner receiving guaranteed payments, or a more-than-2% S corporation shareholder receiving wages from the corporation. The health insurance plan must be established under your business. However, IRS rules do allow sole proprietors, partners, and 2% shareholders to purchase the policy in either their own or the business's name. (Additional requirements apply.) The deduction cannot be greater than the earned income you receive from the trade or business for which the health plan was established.



# Will You Fall into **THE AMT TRAP?**

Originally introduced in the 1980s, the alternative minimum tax (AMT) system was designed to prevent higher income taxpayers from avoiding federal income taxes through the use of various exclusions, deductions, and credits. However, taxpayers who have a large number of personal exemptions, take large itemized deductions for state and local taxes, or have a spike in capital gains, among other things, may find themselves subject to the AMT.

Determining whether you will be subject to the AMT requires a thorough review of your tax situation, but here are the general rules.

## HOW IT WORKS

Generally, the AMT calculation starts with your regular taxable income and requires you to make revisions for certain "tax preferences" and "adjustments" to arrive at alternative minimum taxable income (AMTI). Some of the more common adjustment and preference items relate to interest on certain tax-exempt bonds, personal and dependency exemptions, the exercise of incentive stock options, and itemized deductions for certain types of home equity loan interest, state and local income taxes, and medical expenses.

## EXEMPTION AMOUNTS

Once AMTI has been calculated, an AMT exemption amount is subtracted from it to determine the final taxable figure.

For 2016, the AMT exemption amounts are \$83,800 (married filing jointly), \$53,900 (single), and \$41,900 (married filing separately). A 26% tax rate is applied to the first \$186,300 of the resulting income, while a 28% tax rate is applied to any amounts above \$186,300. For married persons who file separately, the rate changes at \$93,150 in 2016.

Taxpayers with AMTI over a certain threshold do not qualify for the AMT exemption. For example, individuals in

2016 will have their exemption reduced by 25% of the amount by which their AMTI exceeds \$119,700, which means that their exemption equals zero at AMTI of \$335,300 or more.

## PLANNING

Taxpayers who expect a potential AMT problem may be able to use certain strategies to reduce their taxes. For example, if a tax projection indicates that you may be subject to AMT this year but not next year, it may be helpful to delay prepaying certain expenses, such as state and local income taxes.



## Client PROFILE.....

One of the graphic designers at Clayton's company is about to go out on maternity leave. Clayton plans to hire an independent contractor to handle the extra workload while she's gone.

Before Clayton goes any further, he has to be certain he understands how the IRS differentiates between independent contractors and employees. Otherwise, he could incur costly tax penalties. Generally, if Clayton directs only the result of the work, the worker is probably an independent contractor. However, if he directs the work and how it is done, the worker is probably an employee.

When determining whether a worker is an employee or an independent contractor, the IRS considers the extent of direction and control the company exercises. For example, the IRS might look at whether Clayton provides training and gives detailed instructions on how the work is to be done. Also important would be whether the worker pays business expenses without reimbursement and if he or she is in a position to realize a profit or incur a loss from the business

relationship with Clayton's company. And, if Clayton and his new worker have a written contract, the IRS may review it to determine both parties' intentions.

The distinction between the two classifications is important for employment-tax reasons. Clayton is required to withhold and pay certain federal taxes on wages paid to employees but not on payments to independent contractors. Also, independent contractors are not subject to state and federal laws governing areas such as employee benefit plans and overtime pay.

An annual review of your worker classifications can help you avoid misclassifications and potential tax and penalty assessments.

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



# The **RIGHT MOVES**

Are you thinking of relocating to another part of the country? Don't make a move until you've had time to thoroughly vet your destination.

## **JOB OPPORTUNITIES**

Check on the demand for your particular job skills in the area where you plan to relocate. Salaries can vary significantly from state to state, so it makes sense to research job opportunities and how much workers in your profession earn in the location you're considering.

## **LIVING COSTS**

Compare your current costs for housing, food, gas, and utilities with the costs for the same necessities in the area you're interested in. You may or may not come out ahead financially if you are moving from a high-cost urban location to a region of the country that's typically less expensive.

## **TAX ISSUES**

Taxes can be a major consideration in your decision to relocate. Some states

don't tax wages or self-employment income at the state level. Other states don't charge sales tax on some or all items. And certain states tax retirement income. Property and school taxes are another expense to consider. In some areas, senior homeowners may receive some form of property tax exemption, credit, abatement, tax deferral, refund, or other benefit.

## **HEALTH CARE ACCESS**

The quality of health care and the availability of medical specialists should be a concern for anyone planning a move to a new location. Find out if there are quality hospitals in the area and whether local physicians will take you on as a patient.

Relocating can be an exciting experience, but be sure you know what to expect before you make a commitment.

# A Way to **EQUALIZE INHERITANCES**

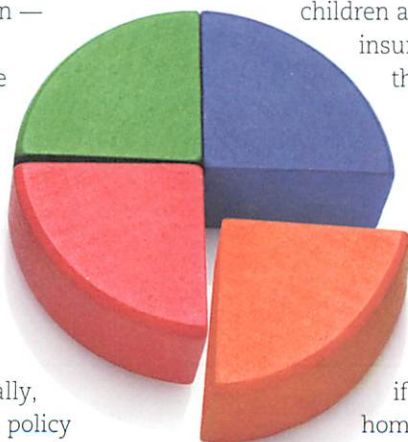
Most parents want their children to share equally in their estates. But what can parents do to equalize inheritances when they expect only one of their children to take over the family business?

It's not an unusual scenario. It often happens that one child wants to work in — and eventually run — the business, while the other children are more interested in pursuing different careers.

Buying a life insurance policy can be a solution for parents who want to ensure that all of their children are treated equally in their estate plan. Very generally, one parent would buy a policy with a large enough death benefit to make up for the likely market value of

the property the parents wish to leave to one child. By naming their other children as beneficiaries of a life insurance policy that has the appropriate death benefit, parents can ensure that all of their children will receive approximately equal inheritances.

Life insurance can be also used to equalize inheritances if there is a farm, family home, or vacation property that parents wish to leave to one child.



## ....**Q&A**

**Q** What is the difference between a C corporation and an S corporation from a federal income tax perspective?

**A** One of the most significant differences is that a C corporation's income is potentially taxed twice — once to the corporation (at the applicable corporate tax rates) and again to the owners of the company (the shareholders) if the income is distributed to them as dividends. An S corporation, however, generally is not taxed on its income at the federal level. Instead, all corporate income, deductions, losses, and credits pass through the corporation to the shareholders and are reported by the shareholders. There are also other differences that you will want to know about if you are thinking of incorporating a business.

**Q** I am planning to retire within the next five years. What can I expect my biggest expenses will be in retirement?

**A** Based on government statistics, housing, food, transportation, and health care could be among your largest expenses. The good news is that household expenditures generally decline with age. Data from the U.S. Bureau of Labor Statistics show that annual housing expenditures peaked at \$20,619 for the 35–44 age group in 2013 and declined for those in older age groups — \$15,639 for people ages 65–74 and \$12,314 for those ages 75 or older. Health care was the only expenditure that increased with age. People between the ages of 65 and 74 spent \$5,188 annually for out-of-pocket health care expenses.



## ClientLine ITEMS....

**> THE UNITED STATES HAS THE HIGHEST CORPORATE INCOME TAX RATE** among the 34 industrialized nations of the Organisation for Economic Co-operation and Development, according to research conducted by the Tax Foundation. The U.S.'s general top marginal corporate income tax rate is well above the worldwide average of 22.9%.

**> SIGNIFICANTLY FEWER 30-YEAR-OLDS OWN HOMES TODAY** compared to 40 years ago. According to the U.S. Census Bureau, only 33% of 30-year-olds are currently homeowners, down from 56% in 1975. Moreover, only 55%

of 30-year-olds earn a "moderate" income today, compared to 71% in 1975. The data should interest business owners who are involved in building and selling homes, as well as anyone engaged in the manufacture and sale of home-related goods.

**> IDENTITY THEFT REMAINS A SERIOUS ISSUE FOR CONSUMERS.**

Recent data from a survey conducted by the American Institute of Certified Public Accountants reveal that 21% of Americans say they have been victims of identity theft or attempted identity theft. The survey found that 93% of identity theft

victims took steps to minimize the impact of the crime on their finances or to protect their identity afterward.

**> A GALLUP POLL ON THE SPENDING HABITS OF MILLENNIALS SHOWS THAT THEY DISPLAY THRIFTY AND NON-THRIFTY SHOPPING HABITS SIMULTANEOUSLY.**

The poll found that while 71% of Millennials went online to check prices and find the best deal, 47% made an impulse purchase, compared with 55% and 34% of all other consumers, respectively.

*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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