

ClientLine®

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Paying for COLLEGE

If you have children, it's never too early to think about ways you can set money aside for their education. There are several college savings options available for parents, and some of them offer attractive tax advantages.

COVERDELL EDUCATION SAVINGS ACCOUNTS

You can contribute up to \$2,000 per year for any one child into this tax-favored account. Contributions accumulate tax deferred at the federal level, and earnings are tax free when used for qualified educational expenses, such as tuition, fees, books, supplies, and certain room and board charges. The \$2,000 maximum contribution is reduced once modified adjusted gross income exceeds \$95,000 (or \$190,000 if married filing jointly).

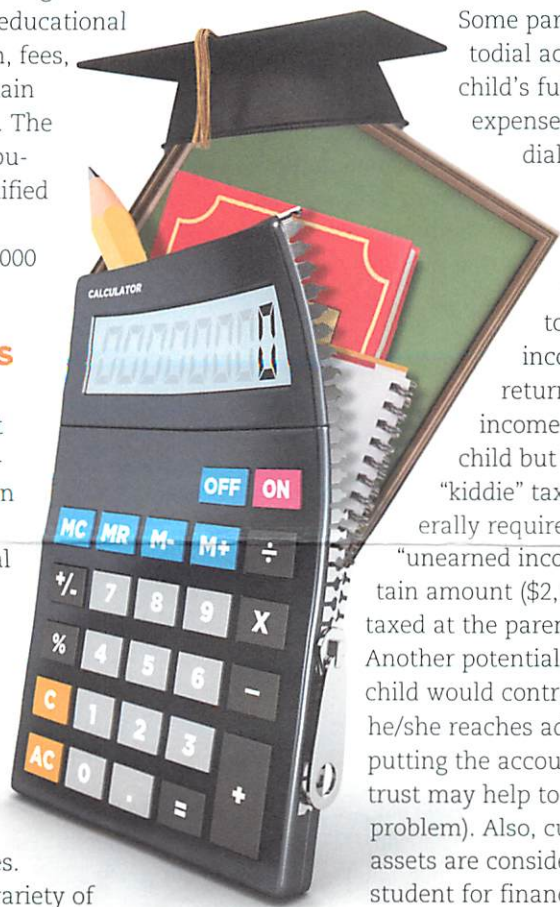
SECTION 529 PLANS

A Section 529 plan is a college savings plan that offers flexibility and tax-favored features. You can contribute to a 529 plan regardless of your annual income or your age. 529 plans allow investment earnings to accumulate on a tax-deferred basis. Earnings won't be subject to federal income taxes when withdrawn to cover a child's qualified educational expenses. You can choose from a variety of

states' plans, since many 529 plans are open to nonresidents. In addition, certain states offer tax incentives to their residents for investing in their in-state plan.

CUSTODIAL ACCOUNTS

Some parents open a custodial account for their child's future education expenses. With a custodial account, income is reported on the child's tax return (unless the parents elect to include the income on their own return). As a result, the income is taxed to the child but is subject to the "kiddie" tax rules, which generally require that the child's "unearned income" over a certain amount (\$2,100 for 2017) be taxed at the parents' highest rate. Another potential drawback: Your child would control the assets when he/she reaches adulthood (though putting the account in a Crummey trust may help to address this problem). Also, custodial account assets are considered assets of the student for financial aid purposes.



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More Time Needed?

The last day for filing your personal income tax return is fast approaching. If you don't think you'll be able to file your 2016 federal return by the April 18 deadline, you can request an automatic filing extension from the IRS.

Generally, an extension gives you an *additional six months to file* (until October 16, 2017, for a 2016 return).

However, you should understand that an extension of time to file your return *does not give you any* extension of time to *pay* your taxes. April 18 is the deadline for most people to pay taxes owed. You will generally owe interest and penalties on any tax not paid by the regular return due date (even if you file on time).

BATTLING

Big Box Competitors

Running a small business isn't easy. You probably wouldn't have it any other way. The ability to survive and thrive is a source of great pride for small business owners. However, it's natural to feel concern and a degree of trepidation when a competitor moves in to your neighborhood, especially if that competitor is a national chain with deep pockets and a monstrous marketing budget. How do you compete?



SHARPEN YOUR EDGE

Before you do anything, accept the fact that you can't compete on the same level as a large national chain. But that doesn't mean you can't win the battle. Study what the competition does and how they do it. Then use that information to define — and sharpen — your company's competitive edge.

A large competitor will almost certainly have lower prices and a deeper inventory. But you can connect with customers in ways the competition can't. You can add value to every customer interaction by being attentive and providing expertise and personalized service.

Perhaps your biggest edge is your size. Being small means you can respond to market trends and customer requests more quickly. You can also change and adapt policies and procedures faster.

RALLY THE TROOPS

You have another big advantage; you have an established customer base and you know what they need. Establish a timeline to reach out to your customers directly via snail mail or email (or both) with special offers. If you have a loyalty program, consider doubling rewards for a period of time that overlaps with the competition's opening.

LOOK FOR ADVANTAGES

Having a big competitor move in may have some unexpected benefits. The new company validates the need for what your business offers and may do a fair amount of advertising. If your marketing budget allows, this could be a good time to do some strategic advertising of your own.

The competition also may create some unexpected opportunities in the future. The new company will change the dynamics of the marketplace, which may lead you to steer your business in a new direction.

Client PROFILE.....

Alan has run a hardware store for the past 20 years. With retirement only five years away, he is beginning to prepare for the sale of his business.

Planning for the sale of a business is a smart move. Alan should have plenty of time to clean, paint, and get things in order for the sale. And to make his business more financially attractive, there are several steps he can take as well.

The first step is to focus on the profitability of the store. Prospective buyers will want to see at least three years of financial statements, so Alan has some time to try to improve the store's financial results. To potentially increase sales, he may want to consider expanding the number of hours the store is open. Concentrating only on products with healthy profit margins that sell quickly and disposing of any slow-moving inventory may also enhance his bottom line.

The next step is to review vendor contracts, especially those that are exclusive agreements. It's important for Alan to maintain good relationships with his suppliers — without interruption — until the store is sold. The loss of an exclusive line of products could cause a prospective buyer to think twice about purchasing the business.

There are many details that need to be considered before you sell your business. Planning in advance can help put you in a better position to command top dollar for your company.

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

NOW WHAT?

You have just received notification that you have been automatically enrolled in your employer's retirement savings plan. Your employer will automatically take a set percentage of your salary and invest that money in the plan's default investment option on your behalf. Now what?

Do you sit back and do nothing? You could, but there are important steps you should take after you've been automatically enrolled.

GET THE FACTS

Your employer is required to send you information about the plan and

your investment options, as well as instructions about how to opt out if you choose not to participate in the plan. Read these documents carefully, ask questions about material you don't understand, and don't make any investment decisions until you've had your questions answered.

ASSESS THE SITUATION

If you choose to participate in the plan, consider whether the default contribution rate is likely to be sufficient to meet your goals — you may want to consider an increased percentage. And keep in mind that you don't have to stick with the default investment option if other choices would better suit your circumstances.

PROTECTION for the Business Owner

If you couldn't work, how would you pay the bills? If you are a self-employed person or a business owner, it's a critical question since so much hinges on you. In essence, an unexpected injury or serious illness could rob you of your ability to earn a living.

Disability insurance policies are designed to replace a portion of your income until you are back on your feet. The coverage can vary considerably, so you'll want to scrutinize the terms carefully if you are considering purchasing a policy.

What constitutes disability? Look for a policy that classifies you as disabled if you're unable to work in your own occupation. This protects you if you can't perform your regular work but could do another type of work.

Partial vs. total disability. Many policies require total disability before they will pay. Thus, if you can function on a part-time basis at your regular occupation, you won't be able to collect any benefits. A "proportional disability"

contract offers coverage even if you can still earn some income.

Benefit amount. This is the monthly policy payment. Some policies also offer inflation protection or allow for projected earnings increases.



Waiting period. This is how long you must wait after becoming disabled before benefits start. Consider your other financial resources when selecting this feature.

Benefit period. This is the maximum period that benefits will be paid, typically until age 65. Adding a rider to your policy can extend your coverage.

Return to work. Some policies continue to pay a benefit after you return to work.

....Q&A

Q I will receive severance payments from my soon-to-be former employer. Will I have to pay Social Security and Medicare (FICA) taxes on these payments?

A Unfortunately, yes. The United States Supreme Court ruled in 2014 that severance payments fall under the broad definition of wages in FICA and are subject to FICA taxation. What that means is that 6.2% of your severance payment will be withheld for the Old Age, Survivors, and Disability Insurance (OASDI) tax and 1.45% will be withheld for the Medicare Hospital Insurance tax just as they are for your wages.

Q Can I deduct the cost of achievement awards I plan to give my top-performing employees?

A The tax law does allow a deduction for the cost of employee achievement awards, generally defined as items of tangible personal property awarded to employees because of length of service or safety achievement. Tangible personal property does not include cash or a gift certificate, unless it is a non-negotiable gift certificate that simply confers the right to receive tangible personal property. The maximum deduction for achievement awards made to one employee is \$400 per year (\$1,600 if the award is a qualified plan award). A qualified plan award is something awarded as part of a permanent, written, nondiscriminatory plan of the employer.

ClientLine ITEMS...

> WHILE MANY PEOPLE LOOK FORWARD TO RETIREMENT, an increasing number of seniors are ready to write the next chapter in their lives by starting their own business. Recent research from the U.S. Small Business Administration's Office of Advocacy found that the percentage of individuals age 62 and over who were self-employed increased from 4.2% in 1988 to 5.4% in 2015.

> THE NUMBER OF CONTINGENT WORKERS AS A SHARE OF THE U.S. LABOR FORCE HAS INCREASED significantly over the last decade. According to a study by Harvard and Princeton University economists, the contingent labor

force (independent contractors, temp-agency workers, freelancers, and on-call workers) increased from 10% of all U.S. workers in 2005 to nearly 16% in 2016. The study found that most contingent workers earn lower weekly wages than similar workers in traditional employment situations.

> MILLENNIALS BEGAN INVESTING IN MUTUAL FUNDS AT AN EARLIER AGE than prior generations, according to data from the Investment Company Institute (ICI). The ICI survey revealed that each successive generation began investing in mutual funds at an earlier age. The median age at which adult Millennials, born between 1981 and 1998,

first purchased mutual funds was 23 years old. Members of Generation X, born between 1965 and 1980, bought their first mutual fund at age 27.

> WHILE INCOME IS IMPORTANT, WOMEN PLACE A HIGH EMPHASIS ON OTHER CONSIDERATIONS WHEN CONSIDERING A NEW JOB OFFER, according to the Gallup report *Women in America: Work and Life Well-Lived*. Gallup's research found that when considering a new job, women placed the highest importance on the ability to do what they do best, followed by greater work-life balance and better personal well-being, and greater stability and job security.

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