

ClientLine®

June 2014

DEDUCTING Meal and Entertainment Expenses

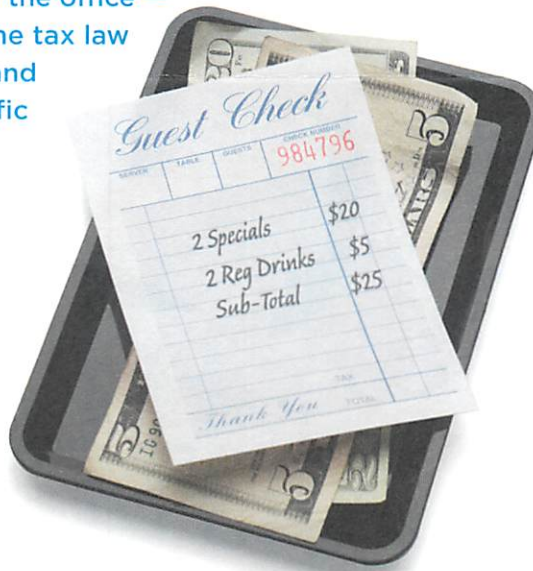
A lot of business gets done outside of the office — over lunch, on the golf course, etc. The tax law allows deductions for business meal and entertainment expenses only if specific requirements are met. Even then, deductions are generally limited to 50% of the cost.

GENERAL RULES

Meal and entertainment expenses can qualify for the 50% tax deduction if they are *directly related* to business. Example: You have a dinner meeting with your customer to discuss the schedule for a new project. Because the purpose of the meeting is to talk about the project — a revenue generating activity for your firm — the meal is directly related to your business.

What if you don't "talk business" while you are entertaining a customer, client, or prospect? The expense may still qualify for a deduction if a substantial, bona fide business discussion takes place before or after (on the same day as) the meal or entertainment activity. Example: You and your client meet at your office to discuss a business matter. Afterward, you treat the client to lunch and a ball game. In this case, 50% of your expenses are potentially deductible because they are associated with the active conduct of your business.

To support your deduction, you should have records of the time, place, and business purpose of the activity; who attended and their business relationship; and the amount spent.



WHEN THE 50% LIMIT DOES NOT APPLY

In some cases, meal and entertainment expenses are fully deductible. Expenses that may qualify for a 100% deduction include:

- > The cost of occasional recreational and social activities primarily for the benefit of nonhighly compensated employees, such as an annual summer picnic
- > Amounts treated as employee compensation (for example, the cost of an all-expenses-paid vacation for your company's top-grossing salesperson)
- > Amounts paid for tickets to charitable sporting events, such as a golf fundraiser

Taxpayers must meet various requirements to qualify for these deductions.

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Rollover Timing

Taxpayers have long been allowed to roll over funds from one individual retirement account (IRA) to another tax free, provided the funds are deposited in the second IRA within 60 days of withdrawal from the first IRA. However, the tax law allows only one nontaxable rollover per one-year period.

Question: Is a taxpayer limited to only one rollover per year from all the taxpayer's IRAs? Or is the limit one rollover per year from each of the taxpayer's IRAs?

In a recent decision, the Tax Court held that the once-per-year rollover limit applies to all of a taxpayer's IRAs. The IRS, which previously applied the rollover limit on an IRA-by-IRA basis, now says it will follow the Tax Court's stricter interpretation of the law. To give financial institutions time to adjust their rollover processing, the IRS will not apply the new decision to IRA distributions occurring before 2015.

What You Don't Know **CAN HURT YOU**

How much do you know about investment fees? The U.S. Securities and Exchange Commission (SEC) has published a bulletin on the topic* to help ensure that investors understand the impact investment fees and expenses can have on savings.

OUCH!

The message is simple but dramatic: Investment fees and expenses can lower your return, eat away at your savings, and possibly prevent you from reaching your financial goals. The SEC illustrates the point by showing the impact fees have on a hypothetical \$100,000 portfolio earning a 4% annual return. After 20 years:

- An investment portfolio with an ongoing annual fee of 0.50% is worth \$10,000 less than a portfolio with an annual fee of 0.25%.
- An investment portfolio with an ongoing annual fee of 1.00% is worth almost \$30,000 less than a portfolio with an annual fee of 0.25%.

Fees pack a double whammy: Your investment balance is reduced by the fee. And you lose any return you would have earned on the amount taken out for the fee. So if you're paying \$1,000 in fees, that's \$1,000 that isn't invested and potentially earning money.

PROSPECTING FOR INFORMATION

Actively managed mutual funds generally have higher expense ratios than passively managed mutual funds that track an index. But don't make assumptions. Check the fund's prospectus or find an

Internet source for information about an investment's expense ratio. Exchange-traded funds (ETFs) also charge fees and expenses.

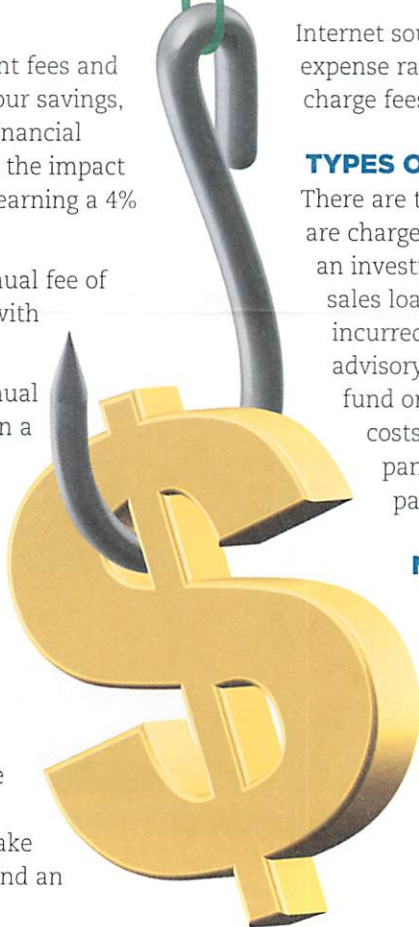
TYPES OF FEES

There are two general types of fees. *Transaction fees* are charged at the time you buy, sell, or exchange an investment. Examples include commissions, sales loads, and surrender charges. *Ongoing fees* are incurred on a regular basis, such as investment advisory fees, the operating expenses of a mutual fund or ETF, and any 401(k) plan administration costs that are passed along to the plan's participants. With some investment products, you pay both types of fees.

NOW YOU KNOW

Before you invest, you'll want to make sure you understand what fees and expenses apply so you can weigh their potential impact on your ability to reach your goal.

* "How Fees and Expenses Affect Your Investment Portfolio," U.S. Securities and Exchange Commission



Client PROFILE....

The summer months are typically slow for Gwen's business. She's wondering how she can use the slow time to her advantage.

With many of her customers away on vacation, Gwen may be able to take a vacation of her own. Small business owners often find it hard to take time off, but the summer slowdown gives Gwen the perfect excuse to take a few days off to relax and recharge.

Vacation is probably on the minds of Gwen's staff, too. Gwen requires her employees to put in their vacation requests well in advance. This allows her to plan for their absences and make sure that she has adequate coverage for critical job functions. Since several employees have training needs, Gwen will encourage them to attend the training this summer while business is slow.

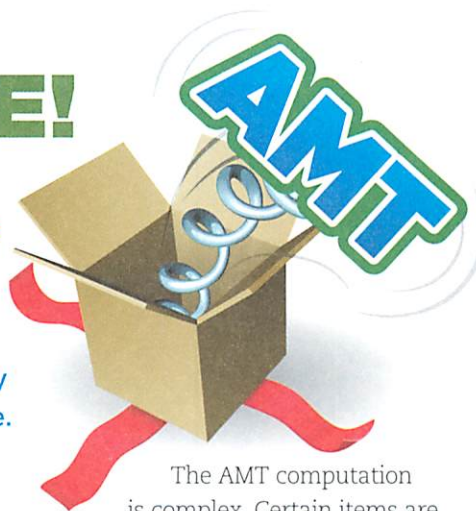
Now may be a perfect time for Gwen to focus on financial matters. Perhaps there are strategies she can implement that will cut her taxes or steps she can take to improve her company's cash flow situation. Gwen has been thinking about introducing a new product line but wants to do more research first. She may finally have a chance to gather the information over the next month or so.

A slow period can be a great time for business owners to take stock of their business and tackle the tasks that they may be too busy to handle during the rest of the year.

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

SURPRISE!

Presents, parties, prizes — these are the types of surprises people tend to like. But unless it's an unexpected refund or something that saves them taxes, most people aren't happy when they receive a tax surprise.



The federal alternative minimum tax (AMT) often comes as a big surprise to the taxpayers who have to pay it. Individual taxpayers are supposed to do both a regular-tax calculation and an AMT calculation every year. If the AMT turns out to be higher than the regular tax, the taxpayer has to pay the extra amount. When it's due, the AMT can be substantial — an average of \$7,212 in 2011, according to the most recent IRS data.

The AMT computation is complex. Certain items are not deductible, such as state and local taxes, home equity loan interest (unless the loan was for home improvements), and personal exemptions. And there are other intricacies involved.

A tax projection can reveal your potential AMT exposure for 2014 and help you plan — so you won't be caught by surprise.

Manage(r) EXPECTATIONS

When you need a manager, it's not unusual to promote a trusted employee, both as a reward and because you're confident the person can handle the job. But the transition from star employee to managing peers isn't easy. Many new managers struggle.

MANAGER IN THE MIDDLE

First-time managers frequently have an unrealistic picture of the role they're expected to play. They assume they'll have more authority. What they get is more pressure — and from more people. One of a new manager's top challenges is responding to the needs and demands of former peers and other direct reports, supervisors and bosses, and outsiders.

CAN'T GET NO RESPECT

New managers often assume that the people who report to them will automatically respect their authority. Another unrealistic picture. Respect and trust must be earned over time. Subordinates will only respect a manager's authority when they are

convinced the person is competent, capable, and trustworthy.

LET'S BE FRIENDS

Some new managers think being friends with their direct reports is a good way to start. But that's typically not a good strategy. Being friends can make it difficult for a new manager to establish his or her authority and may complicate workplace relationships in other ways. Perhaps most importantly, individual relationships can stand in the way of building a strong team.

PROMOTING SUCCESS

New managers often face unexpected challenges. Training and mentoring can help make them easier to overcome.

... Q&A

Q I'm covered under a group disability insurance policy at work. Do I need to supplement that coverage with a policy of my own?

A It depends on your situation. The way disability insurance benefits are calculated can be confusing, so your first step is to determine how much the group policy would pay if you become disabled. For example, a common disability benefit is 60% of salary. Bonus income is often not included in the calculation. Is 60% of base salary enough to live on should the need arise? If your annual compensation includes a large bonus, then it probably wouldn't be adequate. Adding a second policy would protect more of your income.

Q I didn't file a federal estate-tax return for my husband's estate because the estate's value was below the filing threshold (which is generally equal to the federal exclusion amount in effect for the year). But I've been told it would have been better to file a return in order to make a "portability" election. Is it too late? He died in 2011.

A Unless the portability election is made, your estate won't get any tax benefit from your husband's unused exclusion amount. Fortunately, the IRS has given executors of spouses dying in 2011, 2012, and 2013 more time to make the portability election. It can be made on a complete and properly prepared federal estate-tax return (Form 706) filed on or before December 31, 2014.

ClientLine ITEMS.....

> **OBTAINING A LOAN** may now be less expensive thanks to two recent Small Business Administration (SBA) initiatives. The SBA has set borrower fees in its 7(a) Loan Program to zero on all 7(a) loans of \$150,000 and under originated on or after October 1, 2013. The second initiative, SBA Veterans Advantage, has zero borrower fees on all loans of \$350,000 and under made through the program. Seventy-three percent of all SBA loans made to veterans during the last five years were under \$350,000. Both initiatives are scheduled to expire on September 30, 2014.

> **WHAT DO AMERICANS STRESS OUT ABOUT THE MOST?** According to the American Psychological Association's annual Stress in America report, 71% of adults said money was their biggest source of stress. Work came in a close second (69%), followed by the economy (59%).

> **EMPLOYEE COMPENSATION COSTS** in private industry averaged \$29.63 per hour worked in December 2013, according to the U.S. Bureau of Labor Statistics. Benefits averaged \$8.87 per hour worked and accounted for 29.9% of these costs. For state and local

government workers, total compensation costs averaged \$42.89 per hour worked.

> **WHEN IT COMES TO SAVING, PARTICIPATING IN A RETIREMENT PLAN MATTERS.** The Employee Benefit Research Institute's *2014 Retirement Confidence Survey* found that 90% of workers participating in a retirement plan had saved for retirement, compared with just 20% of those without a plan. And of the 36% who reported they had less than \$1,000 in savings, 73% said neither they nor their spouses participate in a retirement plan.

The general information in this publication is not intended to be nor should it be treated as tax, legal, or accounting advice. Additional issues could exist that would affect the tax treatment of a specific transaction and, therefore, taxpayers should seek advice from an independent tax advisor based on their particular circumstances before acting on any information presented. This information is not intended to be nor can it be used by any taxpayer for the purpose of avoiding tax penalties.

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