

ClientLine®

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Shop Around for Tax Breaks on **COLLEGE EXPENSES**

Until you have a child applying for or attending college, the high costs may not seem real. That changes quickly when paying for college becomes personal. The following tax breaks can help.

TAX CREDITS

There are two tax credits for qualified higher education expenses (tuition and certain related expenses). The American Opportunity Tax Credit can be as much as \$2,500 per student and is available for any of a student's first four years of college. The Lifetime Learning Credit is available for each year of post-secondary education, including graduate school and eligible job training. The maximum credit is \$2,000 per taxpayer return (not per student).

You cannot claim both credits for the same student's expenses for the year. And the credits are reduced or unavailable if adjusted gross income (AGI) exceeds specified limits.

SCHOLARSHIPS

Scholarship money is generally tax free as long as certain conditions are met. Most importantly, the scholarship must not be compensation for services your student performs (exceptions apply). Also, the money must be used for tuition, fees, books, supplies, and equipment required for coursework.

GIFTS

Grandparents are sometimes in a good position to help with college costs. A grandparent can give a grandchild up to \$14,000 this year without having to file a federal gift-tax return.* Or, tuition payments (any amount) could be made directly to the college with no gift-tax consequences.

LOANS

The interest on qualified education loans is tax deductible up to a maximum of \$2,500 annually. The deduction phases out when AGI exceeds specified limits.

RETIREMENT ACCOUNTS

You can withdraw money from individual retirement accounts (IRAs) to pay for college without having to pay the 10% early withdrawal penalty that usually applies before age 59½. However, distributions from traditional IRAs are subject to income tax.

* Assumes a return is not required for another reason



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Pay as You Go

The IRS collects federal income tax throughout the year, basically on a pay-as-you-go basis. If you're an employee, you probably pay your taxes through payroll withholding. If you're self-employed or have substantial taxable income from investments, you probably pay quarterly estimated taxes.

It's important to make sure you're on track with your 2015 payments. Underpaying could lead to a big tax bill when you file your return. Worse, you might be liable for an underpayment penalty.

Individual estimated payments generally are due on April 15, June 15, and September 15 of the current tax year and on January 15 of the following year.

You can change your withholding by filling out a new Form W-4 and giving it to your employer.

Why BUSINESS STRUCTURE MATTERS

When you start a business, there are endless decisions to make. One of the most important is how to structure your business. Why is it so significant? Because the structure you choose will affect how your business is taxed and the degree to which you (and other owners) can be held personally liable. Here's an overview of the various structures.

SOLE PROPRIETORSHIP

This is a popular structure for single-owner businesses. No separate business entity is formed, although the business may have a name (often referred to as a DBA, short for "doing business as"). A sole proprietorship does not limit liability, but insurance may be purchased.

You report your business income and expenses on Schedule C, an attachment to your personal income-tax return (Form 1040). Net earnings the business generates are subject to both self-employment taxes and income taxes. Sole proprietors may have employees but don't take paychecks themselves.

LLC

If you want protection for your personal assets in the event your business is sued, you might prefer a limited liability company (LLC). An LLC is a separate legal entity that can have one or more owners (called "members"). Usually, income is taxed to the owners individually, and earnings are subject to self-employment taxes.

Note: It's not unusual for lenders to require a *small LLC's* owners to personally guarantee any business loans.

CORPORATION

A corporation is a separate legal entity that can transact business in its own name and files corporate income-tax returns. Like an LLC, a corporation can have one or more owners (shareholders). Shareholders generally are protected from personal liability but can be held responsible for repaying any business debts they've personally guaranteed.

If you make a "Subchapter S" election, shareholders will be taxed individually on their share of corporate income. This structure generally avoids federal income taxes at the corporate level.

PARTNERSHIP

In certain respects, a partnership is similar to an LLC or an S corp. However, partnerships must have at least one general partner who is personally liable for the partnership's debts and obligations. Profits and losses are divided among the partners and taxed to them individually.



Client PROFILE.....

Recent flooding destroyed many businesses in AI's town. Luckily, his firm wasn't among them. But the close call has convinced AI that a disaster recovery plan is a necessity.

The physical damage that nearby businesses suffered, along with the financial losses the owners incurred, has prompted AI to complete a written disaster plan. He wants his firm to be as prepared as possible for future emergency situations.

As a first step, AI initiated a risk assessment to identify potential risks to the firm's staff and physical assets. AI's disaster plan will include detailed procedures for his employees to follow in emergencies. Once the procedures are developed, he'll distribute them internally and keep one or two copies where they can be accessed quickly.

AI intends to review his firm's insurance policies to identify any gaps in coverage. One thing he wants

to find out is whether his policy includes business interruption insurance.

AI also wants to ensure that critical business records are protected from potential destruction. AI is going to meet with an information technology consultant soon to discuss data backup and IT recovery. AI is thinking about arranging for alternative office space and equipment the firm can use in case of an emergency.

No one can predict when a disaster will happen. A business or professional practice can help prepare for the unexpected with an up-to-date disaster plan.

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

Your **ATTENTION** Please

Arnie decided it would be fun to have a potluck luncheon at work. But the first time he talked with his employees about getting involved, it was a total bust.

People didn't seem interested, and only two people signed up to help. Determined to achieve a better outcome, Arnie did his homework. The next time he met with his employees, he:

- Made a point of speaking with — not to — his audience
- Handed out a list of volunteer opportunities as people arrived so they could be thinking about what tasks they would sign up for
- Told a couple of stories that he knew would appeal to his audience

➤ Looked around the room as he spoke, making eye contact with the people who were looking back

➤ Got the audience involved by asking for their suggestions, which he recorded on a whiteboard

This time, Arnie got all the volunteers he needed and the potluck was a success. Maybe Arnie's tips can help your next speaking engagement be more . . . engaging.

Their Own **DEVICES**

So if 80% of your work force already owns a smartphone or tablet, should you let them use their devices for work? There are some good reasons to ponder the decision.

PROS AND CONS

A BYOD (bring-your-own-device) arrangement introduces some significant challenges, including lack of control and oversight, increased potential for security breaches, and any number of liability issues. On the other hand, the ability to work anywhere, anytime is a significant benefit. Younger employees in particular demand a high degree of flexibility. Preventing them from using their own devices could be a turnoff.

POLICY ISSUES

The BYOD trend seems to be gaining momentum. If you think it's the right move for your company, plan to revisit and revise your IT policy. In a BYOD world, you need a policy that balances your right to protect your company's business interests and your employees' right to privacy.

Once your policy is set, take these additional steps:

- Educate employees. Set clear expectations and make sure they understand how critical it is that they follow procedures.
- Establish guidelines to determine what devices are acceptable.
- Have employees' devices checked to ensure they meet established requirements and are safe to use in the workplace.
- Maintain a current inventory of all employee devices.
- Use mobile device management (MDM) software to increase security, monitor compliance, provide remote "wipe" capabilities, etc.
- Require password protection on all devices.
- Anticipate that devices will be lost or stolen and prepare a response plan.



.... **Q&A**

Q I wasn't able to claim the full amount of my itemized deductions or personal exemptions on my 2014 federal income-tax return because my income was more than a specified amount. Are these rules still in effect for 2015?

A The income thresholds have gone up a little, but yes, the limitations still apply and are something to be aware of in your tax planning. For 2015, the limitations will start to kick in for single filers with adjusted gross income (AGI) over \$258,250 and for married taxpayers filing jointly with AGI over \$309,900. The AGI thresholds are \$284,050 for head-of-household filers and \$154,950 for married taxpayers filing separately. Once your AGI exceeds the threshold for your filing status, you begin to lose the benefit of your exemptions and of certain itemized deductions (e.g., charitable contributions and state and local taxes).

Q We recently set up a simplified employee pension (SEP) plan for our small business and are trying to budget for our 2015 contribution. Is there a contribution limit?

A The maximum deductible 2015 SEP contribution for each participant is the *lesser of* (1) 25% of compensation or (2) \$53,000. The \$53,000 limit is indexed for inflation, so it will likely be higher in the future. (Regarding the first prong of the test, there's also a limit on the amount of compensation you can consider. For 2015, it's \$265,000.)

ClientLine ITEMS.....

> WHAT IS THE LARGEST FEDERAL TAX BREAK FOR INDIVIDUALS?

According to a Congressional Research Service report, the biggest break is the home mortgage deduction, which is expected to cost the government an estimated \$74.8 billion in fiscal year 2015.

> **AN ESTIMATED \$51 BILLION** in income taxes was paid on Social Security benefits in 2014, according to a Congressional Budget Office report. About half of the people who received Social Security benefits in 2014 owed some income

tax on them. And, because the income thresholds above which Social Security benefits are taxable are not indexed for inflation, the shares of benefits subject to the tax are expected to continue to grow.

> WHAT KEEPS AMERICANS UP AT NIGHT?

Worries about their financial situation. A recent survey by the American Psychological Association found money (64%) was the number one stressor for Americans, followed by work (60%). Money has been the top source of stress since 2008.

> RETIREES MAY HAVE MORE FREE TIME DURING RETIREMENT,

but that doesn't mean they're spending more money. A survey published in the *Journal of Financial Planning* found that retirees spend more time on inexpensive leisure activities, such as watching television and reading for personal interest, than non-retirees. Retirees also devote more hours to household production activities, such as preparing meals at home and cleaning.

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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