

ClientLine®

June 2016

Midyear **TAX STRATEGIES**

The midpoint of the year is a good time to look for ways to defer, manage, and reduce the income taxes you pay. Last year's federal income-tax return can serve as a starting point for identifying areas where you may be able to lower your 2016 taxes. Read on for some strategies that may be helpful.

MAXIMIZE RETIREMENT PLAN CONTRIBUTIONS

Are you paying high taxes on your salary? If you participate in a 401(k) or similar retirement savings plan at work, increasing your pretax salary deferrals to the plan can help reduce your income-tax liability for the rest of this year. Although you'll eventually be taxed when you take plan distributions, by then you may be retired and in a lower tax bracket.

If you are self-employed and don't have a retirement plan, consider establishing one this year. There are several options available, and plan contributions are tax deductible (within limits).

LOOK INTO HIGHER EDUCATION TAX BREAKS

Are you earmarking some of your savings for a child's future college education? A Section 529 college savings plan offers tax advantages that aren't available with a regular savings account. Earnings on 529 plan investments accumulate tax free, and account withdrawals are not taxed when used for

the account beneficiary's qualified higher education expenses.

CONSIDER AFTER-TAX INVESTMENT RETURNS

For investments held outside of tax-favored accounts, there may be steps you can take to lower your tax burden on portfolio gains and earnings. For example, where it otherwise makes sense from an investment standpoint, holding appreciated securities for longer than a year before selling them allows you to take advantage of the lower tax rate on long-term capital gains. Or consider investing in municipal bonds, since interest is generally exempt from federal income taxes (and possibly state and local taxes). Owning dividend-paying stocks also may allow you to keep more of your earnings, since qualified dividends are currently taxed at the long-term capital gains rates.*

* Taxpayers with adjusted gross income exceeding a threshold amount may owe an additional 3.8% tax on capital gains, dividends, and certain other taxable investment income.



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WOTC Dead- line Extended

The work opportunity tax credit (WOTC) allows employers who hire members of certain "targeted groups" to get a credit against income taxes of 40% of first-year wages up to a maximum amount.

To qualify for the credit, employers must obtain certification from a designated local agency (DLA) as to the hired person's membership in a targeted group. Form 8850, *Pre-Screening Notice and Certification Request for the Work Opportunity Credit*, is used for this purpose and generally must be filed no later than 28 days after the employee begins work.

The IRS has given employers additional time to file the necessary paperwork with their DLA for employees hired on or after January 1, 2015, and on or before May 31, 2016. Employers now have until June 29, 2016, to file. The same filing deadline applies for long-term unemployment recipients hired on or after January 1, 2016, and on or before May 31, 2016.

Planning for the **MEDICARE PREMIUM SURCHARGE**

Some 70% of Medicare recipients are paying a \$104.90 monthly premium for Medicare Part B coverage in 2016, the same as last year's premium. However, the remaining 30% are dealing with a 16% price increase that brings the cost of their base premium to \$121.80 per month.

Among others, the group paying the higher base premium includes individuals who enroll in Medicare Part B for the first time in 2016 and individuals required to pay an additional "income-related monthly adjustment amount," or IRMAA. With the IRMAA, the total monthly Medicare Part B premium can be as high as \$389.80 this year.

HOW THE IRMAA WORKS

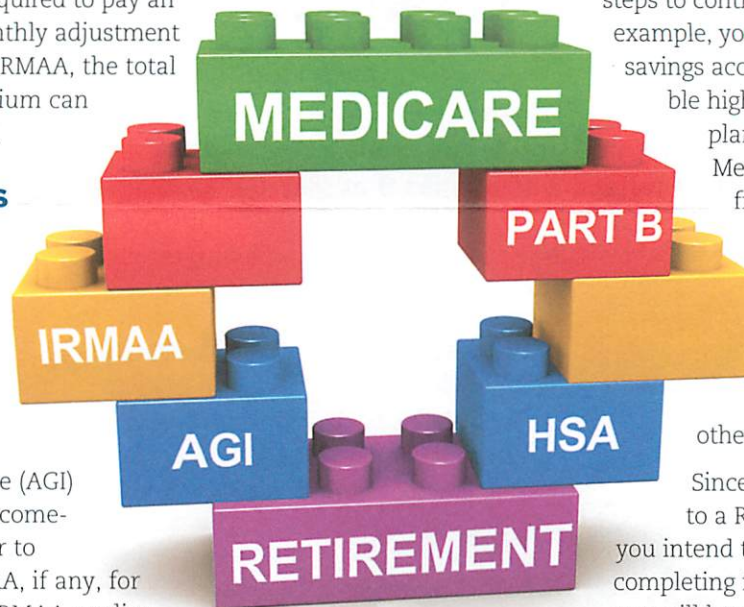
The IRMAA has been a factor for higher income Medicare recipients since 2007. The more a beneficiary's annual income, the higher the potential IRMAA.

Generally, Medicare uses the modified adjusted gross income (AGI) shown on a person's federal income-tax return from two years prior to determine the applicable IRMAA, if any, for the current year. In 2016, the IRMAA applies once AGI is more than \$85,000 (single/head of household/married separate filers) or \$170,000 (married joint filers). The IRMAA ranges from \$48.70 a month to \$268.00, depending on AGI.

MINIMIZING THE BITE

If you anticipate that the IRMAA will affect you, consider taking steps to control your AGI in retirement. For example, you might want to fund a health savings account (HSA) if you have an eligible high deductible health insurance plan and are not yet enrolled in Medicare. You could then use tax-free HSA money to pay your out-of-pocket retirement health care expenses, including Medicare premiums. Having the HSA available may mean you can take less in taxable withdrawals from other retirement accounts.

Since converting a traditional IRA to a Roth IRA is a taxable event, if you intend to do a conversion, consider completing it well in advance of the year you will become eligible for Medicare. And once you are on Medicare, look into potential strategies for bunching income into one year to help reduce your AGI — and the IRMAA — the following year.



Client PROFILE....

Ellen is ready for more free time away from her business, but she worries about handing over the reins to someone else.

For small business owners like Ellen, making the switch from full-time to part-time involvement in the day-to-day operations of their companies can be difficult. Even tougher issues can emerge when weighing an eventual transfer of leadership and control. If Ellen would like to see her business continue its success without her at the helm someday, she needs to address succession planning.

The first thing to consider is the company's management as it exists today. If any of Ellen's children are working in the business, she should evaluate their current roles, their strengths and weaknesses, and what additional responsibilities they can take on. She also should consider non-family members and children who are not involved now and what their roles might be in the future.

Once she has a plan, Ellen should let selected individuals know about her choice for her successor. Good communication can reveal potential problems with the plan and allow Ellen to address them up front.

Ellen may want to have her eventual successor rotate from position to position within the company to learn all aspects of the business. For a smoother transition, Ellen should gradually introduce her successor to key customers, suppliers, and other contacts well before her departure.

Taking the time now to address business succession planning can help eliminate uncertainties and future difficulties.

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

NEW LEASE

Accounting Standards

The Financial Accounting Standards Board (FASB) recently issued a new Accounting Standards Update (ASU) designed to improve financial reporting about leasing transactions. Businesses and nonprofit organizations that lease assets, such as real estate and construction and manufacturing equipment, will be affected.

The ASU will require organizations that lease assets to recognize on the balance sheet the assets and liabilities for the rights and obligations these leases create. All leases with lease terms of more than 12 months, both finance and operating leases, will have to be recognized on the balance sheet. The new ASU also calls for certain disclosures to help investors and other financial statement users understand the amount, timing,

and uncertainty of cash flows arising from leases.

For public companies, the ASU is effective for fiscal years (and interim periods within those fiscal years) beginning after December 15, 2018. The ASU is effective for all other organizations for fiscal years beginning after December 15, 2019, and for interim periods within fiscal years beginning after December 15, 2020.

FLYING SOLO

with a 401(k) Plan

An individual (also known as a solo or one-participant) 401(k) plan may be a suitable choice if you are self-employed or own a small business with no employees (other than your spouse) and want to establish a tax-favored retirement plan. Below are some pros and cons associated with an individual 401(k) plan.

GENEROUS CONTRIBUTION LIMITS

An individual 401(k) plan allows you to defer up to \$18,000 of compensation (or "earned income" if you are self-employed) for 2016, plus an additional \$6,000 if you are age 50 or older. On top of that, your business can make a tax-deductible profit sharing contribution to the plan of up to 25% of your annual compensation (25% of "earned income" if you are self-employed). Total contributions to an individual 401(k) plan account, not counting catch-up contributions, cannot exceed \$53,000 for 2016.

FEWER ADMINISTRATIVE HEADACHES

Since the plan covers only you (and

potentially your spouse), the issue of disparate benefits doesn't arise, so you won't need to perform the type of non-discrimination testing typically required of 401(k) plans. However, an individual 401(k) plan generally has to file an annual report on Form 5500-SF if it has \$250,000 or more in assets at the end of the year. Plans with fewer assets may be exempt from the filing requirement.

LESS ROOM TO GROW

One potential drawback: If you hire employees in the future, those individuals will generally need to be included in your plan. Your individual 401(k) plan will become a regular 401(k) plan, and you will no longer benefit from the simplified administration rules.

...Q&A

Q

My son is drowning in federal student debt. His payments eat up a big chunk of his salary. What options does he have?

A

He should look into the federal government's income-driven repayment plans. There are four plans available, and each is designed to help make federal student loan debt more manageable by capping the borrower's monthly loan payments according to income. The plans also forgive any remaining loan balance at the end of the applicable repayment period. Borrowers who qualify for public service loan forgiveness can have their remaining loan balances forgiven after 10 years of payments instead of 20 or 25 years. Your son can get the details on these plans and can also access a handy repayment estimator by going to studentaid.ed.gov/sa/repay-loans/understand/plans/income-driven.

Q

I'm self-employed and recently leased a new car that I intend to use only for business purposes. Will my lease payments be tax deductible?

A

Lease payments are deductible if you use the actual expense method to figure your deduction for business use of the auto. But you're generally required to reduce your deduction if the car's fair market value when the lease began was more than an IRS-specified amount. The amount of the required reduction varies each year. The greater the car's fair market value in the year it is first leased, the greater the reduction.



ClientLine ITEMS.....

> SIXTY PERCENT OF ALL U.S. HOUSEHOLDS HAD RETIREMENT PLANS through work or individual retirement accounts (IRAs) in 2015.

Nearly one quarter of households owned traditional IRAs, and about half of the traditional IRA-owning households said their IRAs contained rollovers from employer-sponsored retirement plans. (Source: Investment Company Institute)

> SLIPS, TRIPS, AND FALLS IN THE WORKPLACE accounted for about 27% of cases involving days away from work in 2014, according to the U.S. Bureau of

Labor Statistics. Overexertion, such as straining to lift, accounted for 33% of cases, while contact — being hit by a piece of equipment, for example — accounted for 22% of cases involving days away from work.

> THE IRS COLLECTS 93% OF FEDERAL REVENUE, and 70% of that amount is withheld — or is supposed to be withheld — by employers, according to the director of field collections for the Internal Revenue Service. The amount of unpaid taxes related to Form 941, *Employer's Quarterly Federal Tax*

Return, was around \$59 billion as of September 15, 2015.

> LOW-WAGE JOBHOLDERS ARE IN DANGER OF BEING REPLACED BY ROBOTS, according to the White House in its annual *Economic Report of the President*. The report states that there is an 83% chance that automation will take a job with an hourly wage below \$20 and a 31% chance automation will take a job with an hourly wage between \$20 and \$40. There is just a 4% chance that automation will take a job with an hourly wage above \$40.

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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