

ClientLine®

October 2016

On **AUTOPILOT**

Making it as convenient and as simple as possible for employees to save can increase the chances that they'll set money aside for retirement. Here's a brief overview of two 401(k) plan features that help employees put their retirement savings on autopilot.

AUTOMATIC ENROLLMENT

Employees who are eligible to enroll in their employer's 401(k) plan are typically given the choice of whether or not they want to join. If they opt in, they must indicate what percentage of their pay they wish to contribute and how they want their contributions invested. Unfortunately, many employees who are eligible to participate in a plan don't take advantage of the opportunity.

With an automatic enrollment feature, eligible employees are enrolled in the employer's 401(k) plan unless they affirmatively elect otherwise. The employer then automatically reduces the employee's wages by an amount, known as the default percentage, that's stated in the plan document and contributes that amount to the employee's 401(k) account. The employee is free to choose another contribution amount or to not contribute at all.

Additionally, there are laws that govern the proper investment of contributions in the absence of direction by the

participant. Plan sponsors can choose from four types of investment alternatives for employees' automatic contributions, known as qualified default investment alternatives, or QDIAs.

AUTOMATIC CONTRIBUTION ESCALATION

Automatic enrollment helps solve the problem of getting employees to save for their retirements but generally does little to get them to save *more* over time. With automatic contribution escalation, a plan participant's deferral rate is automatically increased with no proactive involvement on the part of the employee. Employees must receive appropriate notice of the amount of the deferral increases and when the increases will occur. Employees must also be given the opportunity to opt out or to change the contribution increase.

The decision to offer automatic enrollment or automatic contribution escalation is at the discretion of the employer.



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Returns Reminder

Partnerships and C corporations take note: The due dates for federal income tax returns have changed, starting with returns filed for the 2016 tax year.

For tax years beginning after December 31, 2015, partnerships will have to file their returns by the **15th day of the third month** after the end of the tax year, a month earlier than under prior law. This means that partnerships using a calendar year generally will have to file by March 15 of the following year.

The filing deadline for C corporations is deferred for one month. Thus, C corporations will have to file by the **15th day of the fourth month** after the end of the tax year. So, C corporations that use a calendar year will generally have to file by April 15 of the following year. Note that the filing deadline change won't apply to C corporations with a June 30 fiscal year-end until the 2026 tax year.

Map Out **YOUR JOURNEY**

Much like a map or a GPS provides clear directions to your destination, a business plan can help define your goals and spell out the steps your business must take to achieve them. It can also establish a set of benchmarks to measure your progress. A business plan is critically important when it comes to obtaining financing. Here are the key sections that a business plan should include.



EXECUTIVE SUMMARY

Your executive summary outlines the primary points in the subsequent sections and touches on your company profile and goals.



COMPANY GOALS/MISSION STATEMENT

This section summarizes your company's purposes and goals. It defines who you are and what you want to achieve.



MARKET ANALYSIS

Here you can demonstrate your industry knowledge and present conclusions based on your assessment of the industry, your potential market and its demographics, and your main competitors.



COMPANY DESCRIPTION

Provide information on what you do, how you do it, the markets your business serves, and what differentiates your business from the competition. You can include examples of recent projects that were completed and, if advisable, the names of some of your major clients.



ORGANIZATION AND MANAGEMENT

Here you can outline your business's organizational structure and identify the company owners, management team, and board of directors.



SERVICE OR PRODUCT LINE

This section provides the opportunity to explain what you sell and how your products or services benefit customers.



STRATEGY AND IMPLEMENTATION

It's important to summarize how you plan to market your business and what your sales strategy is. This section should include information on how you will reach target customers and penetrate the market and should provide details about pricing, promotions, and distribution.



FINANCIAL PLAN

This is where you present an overview of your finances. It is where you lay out your assumptions about revenue growth, operating costs, and cash flows. Include balance sheets, income statements, and cash flow schedules as well as details about capital requirements.

Client PROFILE.....

Oscar recently applied for a new business loan. The lender intends to include certain loan covenants in the agreement. Oscar has concerns that his company will not be able to comply.

Oscar's concerns are valid since lenders are very serious about loan covenants. Basically, loan covenants are requirements and/or restrictions that a lender imposes as part of a business loan agreement.

There are several types of loan covenants. *Affirmative covenants* are requirements that a business must fulfill, such as submitting periodic financial statements to the lender. *Negative covenants* are restrictions designed to limit a business from taking certain actions without first obtaining the lender's approval, such as making management changes. And *financial covenants* require a business to maintain various financial ratios related to items such as working capital.

Oscar's lender will periodically review his financial statements, tax filings, and other reports to check for

compliance with the covenants. His lender may even conduct occasional on-site field audits to verify that he has the assets serving as collateral for his loan.

If the lender finds that Oscar is noncompliant with respect to the loan covenants, the lender could accelerate the maturity of the loan and/or enforce default provisions allowing for such things as an increase in the interest rate, seizure of collateral, or imposition of monetary penalties. Oscar may have an opportunity to "fix" the problem before his lender takes action against him — or he may not.

A careful review of any covenants included in your business loan agreements can help you evaluate whether your company will be able to comply.

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

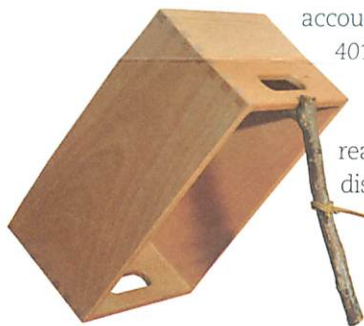
Distribution **TAX TRAPS**

Mutual funds are required to pay out the majority of their capital gains and dividends to shareholders each year. Unfortunately, these distributions could result in surprise tax bills in the following circumstances.

HELD IN A TAXABLE ACCOUNT

If your mutual funds are in a taxable account, your funds' annual distributions are therefore taxable, even if you have your dividends reinvested automatically. If a fund typically makes large annual distributions, you may want to hold your fund shares in a tax-advantaged account, such as an individual retirement

account or a 401(k), to defer taxes until you are ready to take distributions.



HELD PRIOR TO YEAR-END DISTRIBUTION

Let's say you buy shares in a fund at year-end for \$30 per share just prior to the fund issuing a \$2 year-end distribution. The distribution reduces the net asset value of the fund to \$28. When you reinvest the \$2 distribution, you bring the total value of your investment back to \$30 per share. However, you will owe capital gains taxes on the \$2 distribution even though you have not actually earned any gains. You can avoid this scenario by carefully timing your fund purchases.

TAX BREAKS for Hiring New Employees

Adding new employees is often a calculated risk for employers. However, various tax breaks can help mitigate the financial risk.

WORK OPPORTUNITY TAX CREDIT

The Work Opportunity Tax Credit allows employers to get a credit against income taxes for a percentage (generally 40%) of first-year wages* up to a maximum amount if they hire members of certain "targeted groups," including:

- > Certain veterans
- > Long-term unemployed (unemployed for at least 27 weeks)
- > Supplemental Security Income recipients
- > Former felons
- > Long-term family assistance recipients*
- > Designated community residents
- > Vocational rehabilitation-referred individuals
- > Summer youth employees

To qualify for the credit, employers must obtain certification from a designated state agency as to the hired person's membership in a targeted group. Form 8850 is used for this purpose and generally must be filed no later than 28 days after the employee begins work.

EMPOWERMENT ZONE EMPLOYMENT CREDIT

Before 2017, businesses within certain "empowerment zones" can claim a tax credit of 20% of the qualified wages paid to the new employee up to \$15,000, to a maximum credit of \$3,000. The IRS has a list of designated empowerment zones at www.irs.gov.

* Employment of qualified long-term family assistance recipients may also allow the employer to claim a credit for an additional 50% of qualified second-year wages.

... **Q&A**

Q

I've come up with a great name for my new business. How do I register a trademark for my company's name?

A

You can file an application online at the U.S. Patent and Trademark Office's website (www.uspto.gov) to register a trademark for your company's name. Just in case the name you've chosen is not as original as you'd thought, check to confirm that another company has not registered an identical or similar mark for the same goods or services you offer. The website has a Trademark Electronic Search System database that allows you to carry out this search. As always, consult an attorney for assistance with legal matters.

Q

Is it true that I can exclude from my income any distributions I make to charity from my IRA?

A

It depends. Congress has permanently extended the law allowing taxpayers 70½ or older to exclude from their gross income distributions of as much as \$100,000 annually from their individual retirement accounts, *provided* those distributions are made *directly* to qualifying charities. If all requirements are met, these contributions will also count toward the taxpayer's required minimum distributions. For some taxpayers, this can be a win-win action — they can help a favorite charity while avoiding various negative tax implications that come with an increase in their adjusted gross income.

ClientLine ITEMS.....

> **THE TWO MOST COMMONLY OUTSOURCED FUNCTIONS IN U.S. BUSINESSES ARE PAYROLL (43%) AND TAX (42%),** according to the annual benchmarking report by Robert Half and the Financial Executives Research Foundation.

> **THE UNITED STATES HAS ALWAYS HAD A ROBUST CIVIC LIFE,** and recent data from *Volunteering and Civic Life in America*, issued by the Corporation for National & Community Service and the National Conference on Citizenship, says that the tradition is still going strong. The report found that nearly

63 million adults (25.3%) volunteered through an organization in 2014, contributing a total of 7.9 billion volunteer hours of labor. The total value of these volunteer hours has been estimated at \$184 billion.

> **FORTY-ONE PERCENT OF RESPONDENTS IN A RECENT STUDY SAID THEY HAD TAKEN ON STUDENT LOANS TO PAY FOR AN UNDERGRADUATE DEGREE,** 26% said they had assumed the loans to pay for graduate school, while 10% noted they went into debt to acquire a professional degree. The survey, *How Americans Manage their Finances*, was conducted

by the University of Southern California Dornsife Center for Economic and Social Research and the Leonard D. Schaeffer Center for Health Policy and Analysis.

> **THE NATIONAL TAXPAYER ADVOCATE IN HER 2016 MIDYEAR REPORT TO CONGRESS** noted that IRS funding has been reduced by about 19% on an inflation-adjusted basis since 2010. The report also noted that funding shortfalls mean that IRS staffers only answer "basic" questions during the filing season and do not answer any tax law questions after the end of the filing season.

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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