ClientLine®

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Federal TAX BREAKS RESTORED

Individual and business taxpayers can benefit from a variety of federal tax breaks that were extended or made permanent by the Protecting America from Tax Hikes (PATH) Act and the Consolidated Appropriations Act, 2016. Here are selected highlights.

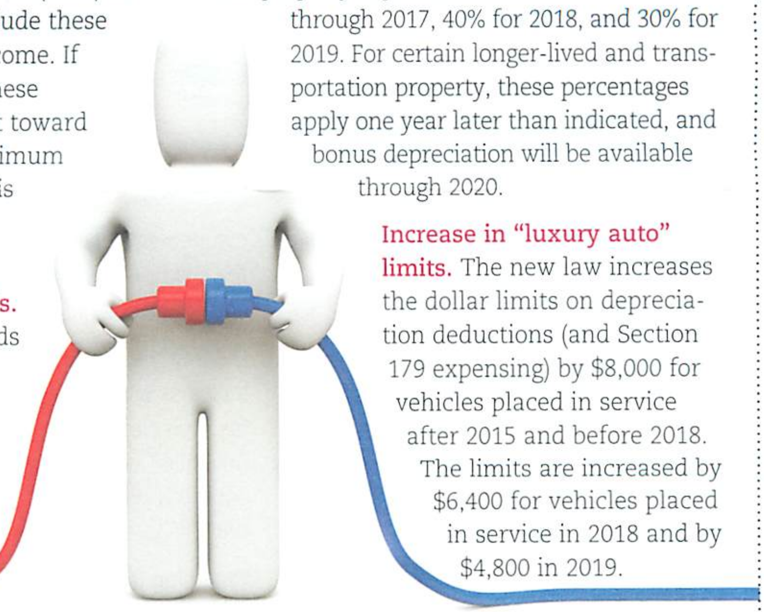
State and local sales tax deduction. The law gives individuals who itemize their deductions the option of deducting state and local *sales* taxes instead of state and local *income* taxes. Taxpayers who elect to do so may deduct the actual amount of sales taxes paid during the year or a preset amount from an IRS table. This provision has been made permanent.

Nontaxable IRA transfers to charities. Taxpayers age 70½ or older who directly transfer up to $100,000 annually from their individual retirement accounts (IRAs) to qualifying charities can exclude these contributions from gross income. If all qualifications are met, these contributions will still count toward the taxpayer's required minimum distribution for the year. This provision has been made permanent.

Increase in expensing limits. The law permanently extends the increased Section 179 expensing limit, allowing eligible businesses to expense, rather than depreciate, up to $500,000 per year of the cost of equipment and other eligible property placed in service during the tax year. The election is subject to a dollar-for-dollar phaseout as the cost of expensing-eligible property rises from $2 million to $2.5 million. The IRS will adjust the 179 limits for inflation.

First-year bonus depreciation. Eligible businesses may claim bonus depreciation for qualifying property acquired and placed in service during 2015 through 2019. The available bonus depreciation percentage depends on the year the property is placed in service: 50% for 2015 through 2017, 40% for 2018, and 30% for 2019. For certain longer-lived and transportation property, these percentages apply one year later than indicated, and bonus depreciation will be available through 2020.

Increase in "luxury auto" limits. The new law increases the dollar limits on depreciation deductions (and Section 179 expensing) by $8,000 for vehicles placed in service after 2015 and before 2018. The limits are increased by $6,400 for vehicles placed in service in 2018 and by $4,800 in 2019.



What Workers Want

Given the time and expense involved in hiring new employees, employers often focus on retaining the capable employees they already have. A competitive salary and good benefits are important retention tools. But which elements of a compensation package do employees value most?

According to Mercer's *2015 Inside Employees' Minds* survey, the answer depends in part on the age of the employee.

All ages. Base pay was ranked as the most important element across all age groups.

Ages 34 and under. Younger employees cited career opportunities as the second most valued element and a retirement plan as the third.

Age groups 35 to 49 and 50 to 64. For older workers, a retirement plan was the second most important element, while low health care costs ranked third.

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All in the FAMILY

As summer approaches, you may be thinking about hiring one or more of your children to work in the family business. It can be a good move for both you and your child. You could benefit from a reduction in taxes, while your child has a chance to earn a paycheck and develop valuable workplace skills.

SAVING TAXES

Hiring your child to work in the family business is a smart strategy from a tax perspective. The wages you pay your minor child can qualify as a deduction from your business income, which would otherwise be taxed at your own rates.

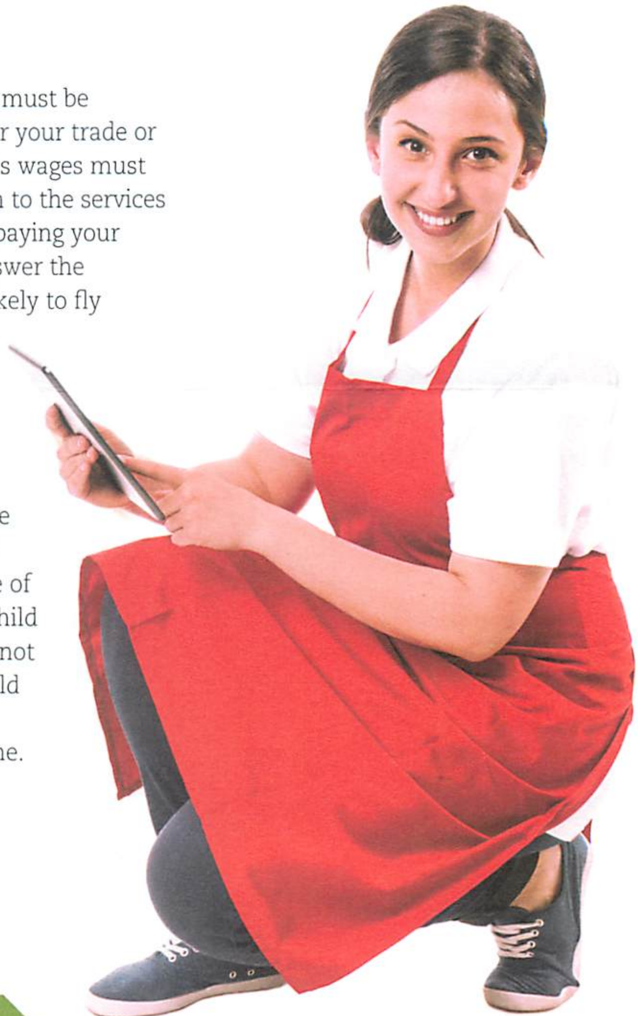
If you are a sole proprietor — or operate a partnership with only your spouse — wages paid to your child would be exempt from Social Security and Medicare (FICA) taxes until your child turns 18 and from federal unemployment taxes until age 21.

Your child can offset what wages he or she earns with the standard deduction, which is $6,300 for 2016. Moreover, wages your child earns beyond the standard deduction will be taxed at his or her lower rates. Most likely, your child's taxable income would fall in the 10% bracket, which applies to taxable income of $9,275 or less (in 2016).

UNDERSTAND THE REQUIREMENTS

Any work your child does must be ordinary and necessary for your trade or business. Also, your child's wages must be "reasonable" in relation to the services performed. For example, paying your child $2,500 a week to answer the company's phones is unlikely to fly with the IRS.

Have your child sign a written employment agreement that specifies his or her duties, hours, and wages. You then have documentation if the IRS ever questions the nature of your child's work. Your child should be paid by check, not cash, and the check should be deposited in a bank account in his or her name.



Client PROFILE

Lisa has to replace several pieces of equipment at her place of business. Usually, she buys equipment, but Lisa wonders if leasing the equipment would be a better option.

Lisa should first consider cost. She generally will not need as much money up front to lease equipment as she will to purchase it. Leasing may leave Lisa's company in a better cash position.

She also needs to think about the length of time she'll need the equipment. If the equipment will fill only a short-term need, leasing might be the better choice. However, if Lisa knows she'll be able to resell the equipment for a good price, purchasing it may be a better option.

Lisa also needs to determine the time frame for upgrading or replacing the equipment. If the equipment will become obsolete quickly, leasing may give her more options. Depending on her lease agreement, maintenance may be included, and she could have the choice at the end of her lease to either buy the equipment she has or lease newer equipment.

Owning the equipment and using it in her trade or business will generally entitle Lisa to tax deductions for depreciation (or a first-year write-off under Internal Revenue Code Section 179). Lease payments generally will be tax deductible unless the transaction is characterized as a sale instead of a lease.

Weighing the pros and cons of leasing versus buying can help owners decide which option is best for their businesses.

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

Filling a COVERAGE GAP

If your vehicle is damaged beyond repair, you may assume that your auto insurance will cover your loss in full and satisfy any outstanding loan on the vehicle. But that may not be the case if you have just bought or recently leased your car.

The money you receive from your auto insurance carrier may not be enough to pay off the balance of your auto loan. The reason? Your collision coverage will only pay you the current market value of your vehicle and may not cover what remains on the loan balance. Your vehicle's value will typically depreciate faster than your loan balance declines during the first two or three years you own it.

Guaranteed auto protection (GAP) insurance pays the difference between what you owe on your car loan or lease and what your auto insurance covers. However, GAP insurance does not cover any interest charged by the lender or any late fees or missed loan payments.

Standard MILEAGE RATES for 2016

If you use a car for business purposes and figure your tax deduction using the IRS's standard mileage rate, you won't be able to deduct as much for the miles you drive in 2016 as you could in 2015.

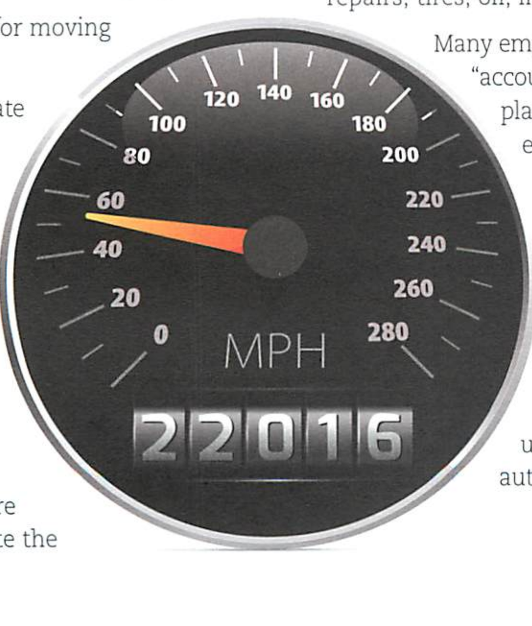
NEW RATES

As of January 1, 2016, the IRS set the standard mileage rate for business use of an owned or leased auto at 54¢ per mile (3.5¢ lower than the 2015 rate). Other IRS optional standard mileage rates for the use of a car (or van, pickup, or panel truck) are:

> 19¢ per mile for medical purposes

> 19¢ per mile for moving purposes

Additionally, a rate of 14¢ per mile, which is set by statute, applies to the use of a vehicle for charitable purposes.



SOME DETAILS

The standard mileage rates are used to calculate the deductible costs of operating an auto for business, charitable, medical, or moving purposes. Alternatively, taxpayers may claim deductions based on the actual costs of using a vehicle. However, use of the standard mileage rate is simpler because it does not require the taxpayer to keep track of specific costs for maintenance, repairs, tires, oil, insurance, etc.

Many employers have an "accountable plan" in place to reimburse employees for their business expenses on a tax-free basis. The standard mileage rate may be used to reimburse employees who use their personal autos for business.

····Q&A

Q **I'm fairly new to my 401(k) plan. Will I have to pay capital gains taxes on any profits made by the funds I own in my plan?**

A If you invest in mutual funds through a 401(k) retirement plan, any investment earnings are tax deferred.* So you won't pay income taxes on any capital gains, interest, or dividends you earn as long as your earnings remain in your retirement plan. You will only have to pay taxes when you receive a distribution.

* Some retirement plans also offer a Roth contribution option. Unlike pretax contributions, Roth contributions do not offer immediate tax savings. Distributions are not taxed when all requirements are met.

Q **I plan on hiring my first employee. What type of regulatory paperwork will I have to deal with?**

A Key items you'll need to include:

> An *Employer Identification Number* (EIN). Your EIN identifies your business to the IRS.

> IRS Form W-4, *Employee's Withholding Allowance Certificate*. You use this to determine how much federal income tax to withhold from your employee's pay.

> Form I-9, *Employment Eligibility Verification*. You are required to verify your employee's eligibility to legally work in the United States.

In addition, you will have to comply with your state's new-hire reporting rules, and your state may require you to buy workers' compensation insurance.

ClientLine ITEMS

> **TWENTY-THREE PERCENT OF EMPLOYEES WHOSE HEALTH CARE COSTS INCREASED IN THE PAST YEAR** said they decreased their contributions to their retirement plans in response, and 43% reported decreasing their contributions to other savings, according to the Employee Benefit Research Institute's *2015 Health and Voluntary Workplace Benefits Survey*.

> **IT'S HARD TO FIND ANYONE WHO ISN'T ONLINE THESE DAYS.** Seventy-three percent of Americans go online daily, according to data from the Pew Research Center. Twenty-eight percent of 30- to 49-year-olds and 12% of 50- to 64-year-olds are online "almost constantly." However, younger adults are the most connected. Thirty-six percent of 18- to 29-year-olds are online almost constantly, while 50% go online multiple times a day.

> **MORE THAN ONE THIRD (37%) OF WORKING AMERICANS** ages 50 to 64 anticipate working for pay in their post-retirement years, according to AARP's Post Retirement Career Study.

> **AMERICAN COMPANIES SPENT AN AVERAGE OF $31.53 PER HOUR** per employee in wages and benefits in September 2015, according to data released by the U.S. Department of Labor's Bureau of Labor Statistics. Wages and salaries accounted for 69.7% of total hourly compensation, while benefits accounted for 30.3% of the total. Benefits include paid leave, supplemental pay, insurance, retirement and savings, and legally required benefits.