Cirimelli, Pyle & Associates LLP
Certified Public Accountants

Online Advisor – November 2016

Major Tax Deadlines
For November 2016

* **During November:** Estimate your 2016 income tax liability and review your options for minimizing your 2016 taxes. Plan withdrawals from your retirement accounts, consider wash sale rules when making stock sales, and update your annual gift-giving program to take advantage of the annual exclusion. Call us to schedule a tax-planning session to discuss these and other strategies.

Note: Businesses are required to make federal tax deposits on dates determined by various factors that differ from business to business.

Payroll tax deposits: Employers generally must deposit Form 941 payroll taxes (income tax withheld from employees' pay and both the employer's and employees' share of FICA taxes) on either a monthly or semiweekly deposit schedule. There are exceptions if you owe $100,000 or more on any day during a deposit period, if you owe $2,500 or less for the calendar quarter, or if your estimated annual liability is $1,000 or less.

* Monthly depositors are required to deposit payroll taxes accumulated within a calendar month by the fifteenth of the following month.

* Semiweekly depositors generally must deposit payroll taxes on Wednesdays or Fridays, depending on when wages are paid.

For more information on tax deadlines that apply to you or your business, contact our office.

What's New in Taxes

Health insurance penalties are higher this year

From November through January 31, 2017, you can sign up for a health insurance policy on the government Marketplace. You can also change or renew the policy you purchased during the last enrollment period. Even if your current policy has an automatic renewal feature, you'll want to verify that you're getting the best deal, and that you are still eligible for the federal premium tax credit.

What if you didn't sign up last winter and didn't have health insurance coverage in 2016? Unless you qualify for an exemption, you may owe a penalty on your 2016 federal income tax return. The penalty is calculated two different ways: as a percentage of your income, and on a per-person basis. You pay whichever is higher.

For 2016, the penalty is 2.5% of your annual household income, up to a maximum of the national average premium for a Bronze plan. The national average premium amount used for the penalty calculation is $223 per individual per month, with a cap of $1,115 for a family of five or more.
The per-person penalty is $695 per adult and $347.50 per child under 18. The maximum penalty is $2,085.

Health insurance tax law: Will you owe the shared responsibility payment?

The individual shared responsibility payment is a penalty for not obtaining and maintaining a minimum level of health insurance, and can apply no matter your age. The good news is that when you buy a health insurance policy meeting minimum requirements and you maintain coverage for the entire year, no penalty is due. That's true even if you experience a gap in coverage of less than three months.

Otherwise, unless you qualify for an exemption, such as unaffordable coverage or a specified hardship, you'll owe the penalty, and you'll calculate your payment when you complete your federal income tax return. For example, if you chose to not sign up for health insurance during 2016, you'll pay the penalty with your tax return next April. How much will the penalty be? That depends on how long you were without coverage, as well as your income and the number of people in your family. The penalty has an upper limit that is adjusted each year.

If you're expecting a refund on your tax return, be aware the amount you're expecting to receive can be reduced when you owe a penalty. Though the IRS is prohibited from garnishing your wages or filing a lien for an unpaid penalty, interest will accrue on the balance.

The individual shared responsibility payment is scheduled to increase over time. Give us a call to discuss whether the penalty or one of the exemptions will apply to you

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New Business

Are all your workers in the office?

A recent survey by the McKinsey Global Institute found that 20-30% of the working age population in the U.S. and Europe no longer work in a traditional office setting. Instead, these freelancers, also called "gig" workers, are location-independent, choose which jobs they want to accept, are paid by the task, and generally perform short-term assignments. Gig workers can provide a valuable benefit to your company, allowing you to budget your expenses and target your hiring for special projects. If you decide to use independent workers for some or all of your business activities, remember that you'll need to file tax forms for the payments you make to the workers. Contact us for details.

Are your workers independent contractors or employees?

If you're a business owner, you have financial incentive to want to classify workers as independent contractors rather than as employees. Why? One reason is that you're required to withhold and pay taxes on employee wages, and you may need to offer employee benefits such as paid time off and pension contributions. None of these are required with independent contractors.

While the IRS generally scrutinizes worker classification closely, you may have legitimate reasons for hiring independent contractors. The facts and circumstances decide the proper treatment of your workers – and getting the classification right will help you avoid the prospect of back payroll taxes, penalties, and interest.

So how do you go about getting the classification right? Start by reviewing the degree of control your business has over the worker and the job function. For example, your company may have the right to control how and when the worker does a job. That's called behavioral control, and can mean the worker is an employee.

How do you pay the worker – by the hour or by the job? Who provides the tools and supplies for the job? The answers to these questions indicate the level of financial control you exert over the worker. The more control, the more likely the worker is your employee.

What sort of relationship does your business have with the worker? Is there a written contract between your business and the worker spelling out the division of rights and responsibilities? Is the job for your company ongoing, or does the worker perform services for other customers? Those factors can separate workers from independent contractors.

Arriving at the proper classification requires examining all aspects of your business relationship with the worker. If you need assistance, give us a call. We'll help you review the facts and explain your options.

What's New in Finances

Review your retirement paycheck

If you worked in a traditional job before retirement, you may have had an annual discussion with your manager about your performance and changes to your paycheck. After you retire, you'll be the one who determines how much your "paycheck" will be, based on your assets and how you choose to invest them. A standard method of calculating the amount to withdraw from your accounts has been to use a flat 4% of your initial asset balance and adjust for inflation each year.

These days, continued low interest rates may mean you'll need to consider other strategies. For example, you could choose to follow the IRS life expectancy tables, which are typically used to calculate distributions from IRAs. More complex methods are also available. Whatever technique you use, keep the ultimate goal in mind: making your assets last as long as you need them.

What's your retirement plan withdrawal strategy?

Planning for retirement doesn’t end when you stop working. Instead, the questions shift from how to save for retirement to how to begin withdrawing from your accounts. Here are tips for making the most of retirement plan withdrawals.

* **Know the basic rules.** When you withdraw funds from a regular IRA or 401(k), you'll pay federal income tax at the same rate as your other ordinary income, which could lead to a surprising tax bill come April 15th. Worse, you can only put off withdrawals from these accounts until age 70½, when required minimum distributions kick in. (An exception is if you have a 401(k) and are still working for the company where you have the account. In that case, you can delay withdrawals from that plan.) Withdrawals from a Roth IRA are tax-free and are not subject to required minimum distribution rules.

* **Consider delaying withdrawals.** In the years prior to age 70½, you might consider keeping your retirement accounts untapped and instead live off capital gains within a taxable account. The advantage: the tax rate on long-term capital gains is likely lower than your marginal rate.

*** Remember the fundamentals.** No matter when you begin withdrawing funds, you will have a portfolio of securities to monitor and decisions to make regarding what to sell. Consider selling volatile securities first, leaving safer investments for later in life when you have less time to recover from a mistake. At the same time, avoid being too conservative, especially in the early years of retirement.

Your retirement plan withdrawal strategy could impact the taxation of your social security benefits as well as your eligibility for certain deductions. Contact us for additional suggestions for tax-efficient retirement account withdrawals.