Online Advisor – July 2017

Major Tax Deadlines For July 2017

For JULY2017

* **July 31 -** Due date for filing retirement or employee plan benefit returns (5500 series) for plans on a calendar year

* **July 31 -** Due date for filing second Quarterly Federal Excise Tax Return, Form 720

* **July 31 -** Due date for filing Employer's Quarterly Federal Tax Return, Form 941

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

Tax-free income

Yes, that's correct, there are some forms of income you receive that may be tax-free. Here is a list of ten common sources of tax-free income.

1. Gifts. Gifts you receive are not taxable income to you. In fact, they are not subject to gift tax to the person giving the gift as long as the gifts received in one year from one person do not exceed $14,000.

2. Rental income. If you rent your home or vacation cottage for up to 14 days, that rental income does not need to be reported. Homeowners often can earn some tax-free income by renting out a home while a large sporting event (Superbowl or a golf event) is in town.

3. Child's income. Up to the standard deduction amount ($6,350 in 2017) in earned income (wages) and $1,050 in unearned income (interest) for children is not taxed. Excess earnings above these amounts could be taxed and $2,100 in unearned income is taxed at the parent's higher tax rate.

4. Inheritance. In most states, beneficiaries typically do not pay tax on the value of what they inherit. When inherited property is sold by the beneficiary, however, there may be a capital gains tax obligation.

5. Roth IRA earnings. As long as you meet this retirement account type's rules, earnings in a Roth IRA are not taxed.

6. Life insurance received. The full value of life insurance received is not taxable income. However, the proceeds may be taxable within the estate of the deceased policy holder.

7. Child support revenue. Income you receive as child support is not deemed to be taxable income. On the other hand alimony received is taxable income.

8. Home sales gains. Up to $250,000 ($500,000 for married filing jointly) in gains on the sale of a qualified principal residence is not taxable.

9. Scholarships/fellowships. Money received to cover tuition, fees, and books for degree candidates is not generally taxable.

10. Refunds. Federal refunds (technically you've already accounted for this income) and most state refunds for non-itemizers are also tax-free.

This is by no means a complete list of tax-free income, but it's nice to know that some areas of tax law still benefit taxpayers.

A marriage penalty lingers in the tax code

A marriage is worth celebrating, but bringing up the marriage penalty may bring *down* the celebration. The marriage penalty occurs in the tax code when you pay more tax as a married couple than you would as two single filers making the same amount of money. This occurs throughout the federal tax code.

The tax rate problem
If the tax tables did not differentiate between single and married, you could assume the married income required to move to the next highest tax rate would always be double that of a single filer. This is not the case.

> *As an example, when you're a single filer, income above $91,901 is taxed at 28%. When you file a joint return with your spouse, the 28% rate starts at $153,101. You will notice that the beginning of the 28% tax bracket for married couples ($153,101) is not twice the $91,901 amount applied to each of you when you were single. The outcome is an increase in tax on your combined income over what you would have paid individually.*

Accelerating the phase-outs
Another example of the marriage penalty occurs in the acceleration of phase-outs of personal exemptions and itemized deductions for married couples versus single filers. These deductions begin when your adjusted gross income (AGI) is greater than $313,800 if you're married filing a joint return and $261,500 when you're single. Think the marriage penalty only impacts upper income? Even the Earned Income Tax Credit (EITC) phase-outs favor single taxpayers over married taxpayers. A single mother of three can qualify for the EITC with income less than $48,340, where a married couple loses the EITC with combined income over $53,930.

ACA piles onto the marriage penalty
In addition, under the Affordable Care Act (ACA) taxpayers can face a 0.9% surtax on wages and other earned income and a 3.8% tax on investment income. The income thresholds for these surtaxes are $200,000 for single filers and $250,000 for married couples filing jointly. As a result, singles who each earn $125,000 to $200,000 can get hit with the extra tax after they marry.

Not surprisingly, there are some couples who simply decide not to marry to avoid the penalty, but obviously this option isn't right for all couples. If you are planning to marry in the near future, do not be caught by surprise with a larger than expected tax bill. Call to review your situation.

What's New in Business

Reap the benefits of hiring your child for the summer

Hiring your children to work in your business can be a win-win situation for everyone. Your kids will earn money, gain real-life experience in the workplace, and learn what you do every day. And, you will reap a few tax benefits in the process. Before you decide if hiring your child is the right thing for your business, learn if it can work for you.

Generally, if your child is doing a legitimate job and the pay is reasonable for the work, his or her salary can be a tax-deductible business expense. Your child's income can be tax-free to them up to the standard deduction amount for a single taxpayer ($6,350 in 2017). Wages earned in excess of this amount is typically taxed at your child's rate, which is likely lower than your rate.

The following guidelines will help you determine if the arrangement will work in your situation:

- Make sure your child works a real job that he or she can reasonably handle, no matter how basic or simple. Consider tasks like office filing, packing orders, or customer service.
- Treat your child like any other employee. Expect regular hours and appropriate behavior. If you are lenient with your child, you risk upsetting other employees.
- To avoid questions from the IRS, make sure the pay is reasonable for the duties performed. It's not a bad idea to prepare a written job description for your files. Include a W-2 at year-end.
- Record hours worked just as you would for any employee. Pay your child using the normal payroll system and procedures your other employees use.
- Hiring your children works best if you are a sole proprietor. It has additional tax benefits not available if your business is organized as a C corporation or an S corporation.

If you have questions, give us a call. Together we can determine if hiring your child is the right course of action for your business and your family.

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Common mistakes to avoid in buying or selling a business

It is said with every major purchase there's some kind of remorse - either on the part of the buyer or the seller. This can be especially true when buying or selling a business. No matter which side of the negotiating table you sit on, there are some critical areas that could leave you with feelings of regret. Avoid these mistakes to make an easier, more efficient sale.

SELLER MISTAKES		BUYER MISTAKES
• Not researching the value of similar businesses within the industry • Overestimating the value of the company and losing a well-qualified buyer • Insisting on cash only terms	**Selling price**	• Overpaying based on emotion • Stretching personal resources too thin
• Maintaining sloppy financial records that potential buyers cannot trust	**Accounting records**	• Relying on company financials not prepared by a third-party accounting professional • Not requesting payroll returns and other tax filings in the financial review
• Agreeing to seller financing without proper vetting of the buyer's creditworthiness	**Financing**	• Settling for a high-interest loan, or one with too short a maturity
• Selling the assets of the	**Assets**	• Purchasing less than all of

business when it would have been more tax efficient to sell the corporate shares instead		the assets used in the business, overlooking items such as licenses, patents or important contractual arrangements
• Neglecting to check the background of the buyer and assessing their ability to run a business. • Failing to verify the buyer’s liquid assets	**Due diligence**	• Not asking why the business is for sale. • Conducting too little research into the competition or overall industry trends. • Not searching for the existence of company loans and other liabilities
• Signing a non-compete agreement that is too restrictive in scope or time frame	**Non-compete**	• Failing to require a non-compete clause from the seller, especially in a service industry business
• Leaving too much of the sale price dependent on the ongoing success of the company	**Transition**	• Having unclear expectations for seller participation in the business after the sale
• Not positioning the business to sell well in advance of the first offer • Requesting professional help too late in the sales process.	**Expert help**	• Not assembling a team of legal, tax, and insurance experts before agreeing to terms

Buying or selling a business is likely one of the most important transactions an entrepreneur faces. Let’s have a discussion to help you through the process. Call today.

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What's New in Finances

How Much Do You Need to Retire?

Most Americans simply don’t save enough for retirement.

Nearly half (45 percent) of working-age households don’t have *any* retirement assets, according to the National Institute on Retirement Security. Of those working-age households close to retirement (age 55 and older), nearly two-thirds have less than one-year’s worth of their annual salary in retirement savings.

The goal
So how much do you actually need to retire comfortably? There are many variables to consider, including retirement age, available pensions, and investment return assumptions. Mutual fund broker, Fidelity, estimates you need enough savings to replace roughly 85 percent of your pre-retirement income. Many experts estimate you will have to save between 8 and 12 times your pre-retirement annual income to reach this goal.

But the amount needed depends on when you plan to retire. For example, Fidelity estimates a person planning on retiring at age 65 will need to save 12 times their pre-retirement income. By delaying retirement by just five years, to age 70, your savings estimate lowers to eight times your annual income.

This may be why an increasing number of Americans plan on delaying retirement or working during retirement. A majority (51%) of workers surveyed in 2016 by the Transamerica Center for Retirement Studies said they plan on working during retirement.

Some ideas to consider now

These are sobering realities, but there are actions you can take to put you in a better position during your golden years.

1. Contribute as much as possible every year to your employer provided retirement plans. With a 401(k) pre-tax retirement plan, for instance, up to $18,000 can be contributed each year, or $24,000 if you are age 50 or older.

2. Contribute as much as possible to a Traditional or Roth IRA every year, up to the $5,500 maximum, or $6,500 if you are age 50 or older.

3. If available, contribute as much as possible to a health savings account (HSA), which can be used to offset medical expenses, up to $3,400 a year, or $4,400 if you are age 55 or older.

If you’d like to review your tax-advantaged retirement strategy, call to schedule an appointment.

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Zombie payer – Keep your automatic payments in control

When it comes to paying bills, many people can't imagine returning to paying and sending bills via the U.S. Postal Service. But, the "turn it on and forget it" nature of automatic payments can create zombie payers where the details and amounts of bills are no longer reviewed or challenged. Here are some ideas to keep this from happening to you.

Create a list. Make a list of the companies you authorized to use automatic payments to pay your bills. Include in the list the card or account each company uses for the automatic payments, as well as payment amounts and frequency. If you use credit and debit cards to pay companies, record the expiration dates, in case you need to update any company that has your card on file. When there's a change in a card or bank account, you will be able to consult the list to find the companies you need to notify.

Watch for fees. Make sure the bill payment system you're using is low cost or no cost. Some companies will charge you a fee for automatic payments. If your biller wants to charge you, pay them with a traditional check. Consider consolidating all your automatic payments within one bill paying service. Your bank may offer online bill payment with no fee.

Beware of price creep. Paying for a product or service automatically can create a situation where you do not notice when your price changes. Monitor your ongoing payment amounts so you are able to question any price increase or discontinue service (if applicable).

Review underlying bills. Along with automated bill paying is the vendor's desire to stop sending hard copies of your bill. However, because you're not receiving a bill, you may be unaware of changes. If possible, opt to continue receiving email or paper billing statements. Review statements monthly to verify that your payment has not changed and there are no additional fees or errors.

Automatic bill pay is meant to simplify your life, but if you allow it to turn into zombie paying, it will have an opposite affect. Take care to review your accounts and statements to protect yourself and keep your finances in your control.

The information contained in this newsletter is of a general nature and should not be acted upon in your specific situation without further details and/or professional assistance. For more information on anything in the Online Advisor, or for assistance with any of your tax or business concerns, contact our office.

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