Quarterly Report

Fall 2016

NOLAN | GIERE
CERTIFIED PUBLIC ACCOUNTANTS

Save yourself some stress. Start your year-end tax review now.

An important part of our service to you is to help identify actions you can take before year-end to minimize your personal 2016 federal income tax bill. Accelerating or delaying income and deductions, contributing to retirement plans, and taking investment losses are just a few of the strategies you might want to consider. Here is a checklist to help you get started.

- Max out your 401(k) before year-end. For 2016, you can set aside $18,000 if you are under age 50. If you are 50 or older, you can contribute $24,000.
- Get your investment planning in order. Year-end sell decisions, either to rebalance your portfolio at the lowest tax cost or to offset gains and losses, are only one aspect of investment planning. Another is keeping good records for the reinvested dividends of stocks you sell in 2016. Reinvested dividends add to your cost basis and reduce taxable gain or increase the deductible loss on the sale. Finally, consider the wash sale rule. This rule disallows a current-year loss when you purchase substantially identical securities within a 61-day period. If you plan to sell stocks to secure a loss, and intend to buy the stock back, do not wait until the last moment.
- Make gifts before year-end. The use-it-or-lose-it tax-free gifting allowance is $14,000 per donee for 2016. Remember, gifts to individuals are not tax-deductible.
- Contribute to your Health Savings Account. Within limits, contributions are tax-deductible and can be used tax-free to pay unreimbursed medical expenses.
- Keep an eye on the “kiddie tax.” This tax on your dependent child’s unearned income in excess of certain limits applies when your child is under age 19 (under age 24 if a full-time student).

We have more planning strategies to save you tax dollars. Contact us for a year-end review.

New procedure for 60-day rollover errors

Did you inadvertently miss the 60-day time limit for making an IRA or retirement plan rollover? You may be able to avoid taxes and possible penalties by notifying your account trustee with a “self-certification.”

When you take a distribution from your IRA or qualified plan with the intention of depositing it, or “rolling it over,” into another IRA or qualified plan, the 60-day rule says you are required to complete the rollover within 60 days of receiving the distribution. In the past, when you missed the deadline, you generally had to request relief from the IRS. That meant paying a fee and going through a process to obtain a written statement waiving the rule.

Now, the IRS says that in some cases you can “self-certify” by submitting a written letter to your financial institution or trustee explaining why you missed the 60-day deadline. Your error must be one of eleven allowable reasons, such as death or serious illness in your family, severe damage to your principal residence, or misplacing and never cashing the distribution check. Contact us for more information.

Perspective

An Inside View

Tom Giere

Dear Clients and Friends:

Recently I had the opportunity to visit a client in the downtown Dayton area. On this particular trip I was accompanied by one of our younger staff members—a member of the millennial generation.

After a successful meeting with the client and during our trip back to Troy I shared some knowledge of local history and mentioned several local companies including NCR Corporation, the iconic Dayton based cash register Company founded in the city in 1884. To my surprise, the staff member, who is highly intelligent and one of the up and coming stars in our firm, had no knowledge of the NCR connection to Dayton—a connection that has been in my conscious for as long as I can remember.

Giving the conversation more thought, I realized the issue was not necessarily a lack of local historical knowledge on the part of our young staff, but one of different experiences. The sprawling NCR manufacturing facility in Dayton I remember had all but vanished by the time the staff person was born, and the Company had relocated its headquarters from Dayton before he moved to the area. The staff person simply has had a different set of experiences than I have and therefore likely sees things differently than I do as well. For instance, his interpretations of the current state of the local economy or perhaps, the region's standing in the world, are probably different than mine.

The conversation about NCR made me think about how important it is to understand the experiences of others in order to gain an understanding of their perspective on issues and how they see the world. In his book "The Seven Habits of Highly Successful People", the late Stephen Covey expressed "Seek First To Understand, Then To Be Understood", as habit #5. In other words, try to understand the perspective of others, formed by their life experiences, before you attempt to express yourself and have them understand yours.

In today's interconnected world, I think this message is more important than ever. Understanding the position and perspective of others is paramount to meaningful dialogue that can lead to effective and constructive solutions to the problems we face in a complex world. What are your thoughts?

Happy Thanksgiving and enjoy the coming holiday season!

Sincerely,

Tom

FSA or HSA? Choosing between health accounts

Are you confused about your choices for paying medical expenses under your employer's benefit plan? Here are differences between two types of commonly offered accounts: a health savings account (HSA) and a health care flexible spending account (FSA).

Overview. An FSA is generally established under an employer's benefit plan. You can set aside a portion of your salary on a pretax basis to pay out-of-pocket medical expenses. An HSA is a combination of a high-deductible health plan and a savings account in which you save pretax dollars to pay medical expenses not covered by the insurance.

Contributions. For 2016, you can contribute up to a maximum of $2,550 to an FSA. Typically, you have to use the funds by the end of the year. Why? Unused amounts are forfeited under what is commonly called the "use it or lose it" rule. However, your employer can adopt one of two exceptions to the rule.

If you are single, the 2016 HSA contribution limit is $3,350 ($6,750 for a family). You can add a catch-up contribution of $1,000 if you are over age 55. You do not have to spend all the money you contribute to your HSA each year. You can leave the funds in the account and let the earnings grow.

Earnings. FSAs do not earn interest. Your employer holds your money until you request reimbursement for qualified expenses. HSAs are savings accounts, and the money in the account can be invested. Earnings held in the account are not included in your income.

Withdrawals. Distributions from both accounts are tax- and penalty-free as long as you use the funds for qualified medical expenses.

Portability. Normally, your FSA stays with your employer when you change jobs. Your HSA belongs to you, and you can take the account funds with you from job to job. That is true even if your employer makes contributions to your HSA for you.

Because you generally can not contribute to both accounts in the same year, understanding the differences can help you make a decision that best fits your circumstances. Contact us for help as you consider your benefit choices.

Business Solutions

Can your business survive these seven potential disasters?

Disasters, natural or otherwise, could ultimately lead to your company's demise. Fortunately, advance planning can keep you on track. Here are seven scenarios to be prepared for.

1. **A natural disaster**. To paraphrase the old saying, you can talk about the weather, but there's not much you can do about it – except have a plan in place in the event a natural disaster damages your business premises. Two tips: Maintain adequate insurance and store valuable business data at a secure off-location site.
2. **A key employee quits**. Cross-training can avoid business interruptions if a key employee leaves unexpectedly. You might also want to consider asking key employees to sign a reasonable non-compete agreement to protect confidential information. Typically, these agreements prohibit an employee from working for a competitor for a certain period.
3. **An employee embezzles company funds**. To safeguard your business assets, divide responsibilities so one person doesn't have complete control over the books. Set up a system of checks and balances.
4. **Your biggest customer leaves**. To keep your business from going under, update your marketing plan, stay in touch with former customers, establish an emergency budget, and diversify your revenue stream.
5. **You become disabled**. "Key-person" disability insurance can provide funding to keep your business afloat. The policy may also cover employees who are vital to operations.
6. **Your company or partnership splits up**. Draft a buy-sell agreement to ensure a smooth transition due to the sale of a business interest, including a forced sale on the death of one of your shareholders or partners. The agreement can establish the terms of a buy-out and set a value for the respective business interests.
7. **Your computer system crashes**. Extra hardware, such as tablets or laptops, regular off-site backups, and cloud storage for important documents can avoid a crisis when your computer fails.

Plan ahead for year-end business tax savings

As the end of the year approaches, turn your attention to ways you can reduce your 2016 tax liability. Here are suggestions.

- **Business equipment.** Take advantage of end-of-year sales on business equipment. For 2016, a maximum Section 179 deduction of $500,000 and 50% bonus depreciation are generally available for qualified property placed in service anytime during the year. Be aware that special limits apply to vehicles.
- **Business trips.** When you travel to wrap up year-end business deals, you can write off your expenses – including airfare, lodging, and 50% of the cost of meals – if the primary motive of the trip is business-related. Costs attributable to personal side trips are nondeductible. If you travel by car, deduct actual business-related auto costs or a flat rate of 54 cents per mile (plus tolls and parking fees).
- **Entertainment and meals.** Generally, you can deduct 50% of the cost of entertainment and meals that precede or follow a "substantial business discussion." For example, you might treat a client to dinner and drinks after completing a contract earlier in the day. In this case, you can include 50% of the expenses for the client and yourself, as well as for spouses and significant others.
- **Company outings.** Generally, deductions for business entertainment and meals are limited to 50% of the cost. However, if you throw a company-wide holiday party before year-end, you might be able to deduct 100% of the cost when you meet certain requirements, such as inviting your entire staff.
- **Hire your child.** Does your teenaged child want a job to help pay for holiday gifts? If you hire your child, reasonable wages paid for actual services rendered are deductible, the same as wages of other employees. The wages will be taxable to your child at your child's tax rate, which may be lower than your rate or that of your business.
- **Job credits.** When your business hires workers from certain "targeted groups," such as veterans and food stamp recipients, you may be able to claim the Work Opportunity Tax Credit. The maximum credit is generally $2,400 per qualified worker.

Consider these financial tips in troubling economic times.

Reacting badly to bad national economic events can turn a challenging situation into a devastating one. When troubling headline news comes your way, consider these tips before making financial moves.

- *Don't be an average investor*. Economists have noted that even in good times average investors usually fail to benefit fully from a market upswing. The reason: not staying invested for the duration of the cycle. Average investors tend to bail out when the future looks troubling, in essence "locking in" losses. Good investing techniques can be as much about mental toughness as about financial acumen.
- *Focus on costs*. Periods of economic uncertainty are a good time to focus on costs, especially in a low-return environment. Make sure you are not overpaying for fund management or sales commissions. Be mindful of tax costs, which can have a negative effect on overall returns. If you decide to sell a stock in a taxable account, consider choosing one you have held for more than one year to qualify for the long-term capital gain tax rate. A market downturn might provide an opportunity to harvest capital losses to help offset previous gains.
- *Revisit your tax planning*. Unfavorable economic news might require a tweak to your tax planning. Lower anticipated income could justify reduced estimated tax payments or income tax withholding. If you are retired, consider deferring retirement account withdrawals or changing the type of investments you were planning to liquidate. A review of your tax situation is always a smart move.

The bottom line: Don't make a bad economic situation worse. Contact our office for help in navigating the current financial environment.

Insurance enrollment begins this month

Beginning this month, you can sign up for a new 2017 health insurance policy on the health insurance 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 will want to verify that you are getting the best deal, and that you are still eligible for the federal premium tax credit.

What if you did not sign up last winter and did not have health insurance coverage in 2016? You may owe a penalty on your 2016 federal income tax return. The penalty is calculated in one of two ways: as a percentage of your income, or 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 per-person penalty is $695 per adult and $347.50 per child under 18 (up to a maximum per-family penalty of $2,085).

Firm Highlights

We are pleased to announce Andrea Bolte has been hired as a staff accountant. She is a graduate of Franklin University, with honors of summa cum laude, achieving a bachelor's degree in accounting.

She joins Nolan Giere bringing more than 12 years of experience in accounting and tax. Andrea resides in Troy with her husband and daughter.

Nolan Giere got decked out in their black and white attire and attended the Black and White Affair to support Troy's St. Pat's Soup Kitchen.

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