Quarterly Report

Summer 2017

NOLAN | GIERE

CERTIFIED PUBLIC ACCOUNTANTS

Tax-free Income

Yes, that is correct, there are some forms of income you receive that may be tax-free. Here is a list of eight 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. **Roth IRA earnings.** As long as you meet this retirement account type's rules, earnings in a Roth IRA are not taxed.
5. **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.
6. **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.
7. **Scholarships/fellowships.** Money received to cover tuition, fees, and books for degree candidates is generally not taxable.
8. **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 is nice to know that some areas of tax law still benefit taxpayers.

Keep your audit fears in check

Getting audited by the IRS is no fun. However, your chances of being audited are probably lower than you think. A look at the latest IRS statistics for 2016 reveals some interesting and reassuring facts about the risk of an IRS audit.

Audits are becoming less common. The number of individual tax returns the IRS audited fell to a 12-year low last year, to just above 1 million. Audits have been steeply declining over the last five years, which the IRS commissioner said was due in part to declining budgets and a smaller workforce.

Audits target the rich. It's a fact: IRS audits target the super-rich. The statistical chance of being audited increases dramatically for people of higher income levels.

Missing data can get you audited. High income isn't the only thing that gets you audited. Any missing data on your return can also trigger an audit.

Standing out gets you audited. The IRS takes a close look at business expenses, charitable donations, and high-value itemized deductions. They have statistical data on what amounts are typical for various professions and income levels. If your return stands out from what is "normal," it may be flagged for review by the agency's computer system.

More audits are done by mail. If you face an audit, most likely it will be done by mail. Only about one in four IRS audits are field audits conducted in person by an IRS agent. The most common issues, such as math errors or missing data, are done through mail correspondence.

If your issues are more complicated, you may face a field audit – and you may owe more to the IRS. The average field audit recommended the individual pay an additional tax of nearly $19,000, while the average correspondence audit recommended a payment of less than $7,000.

Most audits end up costing you. You can fight the tax law, but the tax law usually wins. Most people audited by the IRS end up owing additional tax. Only 11 percent of correspondence audits and 8 percent of field audits concluded with a "no change" finding in favor of the taxpayer.

Perspective

An Inside View

Dear Clients and Friends:

Tom Giere

Summer is in full swing and I hope everyone has had an opportunity to enjoy the weather, outdoor activities, and maybe some vacation time with family and friends. One of my favorite summer activities is riding my bicycle. Every time I ride I am always amazed at what a simple yet beautiful machine a bicycle is and how different my neighborhood and the surrounding countryside look and feel from the seat of a bicycle. I highly recommend it.

Another activity that I have been able to engage in this summer is reading. At the suggestion of a friend, I picked up this hobby again after a long absence and have enjoyed it tremendously. There is something very relaxing about a good book on a summer's evening.

Two of the books I've read, *The Big Short* and *Boomerang*, are by author Michael Lewis and provide insight into the great financial crisis of 2008 and 2009. One of my takeaways from these two books is that certain economic principals are absolute and can't be changed no matter how they are repackaged, rebranded, or renamed. Another takeaway is that all successful human interactions, especially financial transactions, rely on honesty and integrity. If that fundamental principal is ignored or the violation of it left unchecked, damage is the likely outcome. In the case of the financial crisis, the damage was massive, widespread, and long lasting.

I have also read *The Sky Below*, the real-life story of Scott Parazynski, a man who turned his childhood dream of being an astronaut into realty, completing five missions aboard the Space Shuttle. Scott's career was topped off by a dramatic space-walk at the International Space Station to repair a damaged solar panel and keep the station operating. And just for good measure, when Scott retired from NASA, he climbed to the summit of Mount Everest!

The Sky Below got me thinking about how some people can realize their dreams while many others do not. I think the answer lies in tying your dreams to a plan. Having dreams is a wonderful thing but to realize them takes thought, preparation, and execution. I wonder how many unrealized dreams are in all of us? Enjoy the rest of the summer!

Sincerely,

Tom

Stay ahead of the deadline for 2017 required minimum distributions

If you are over 70½ and are required to take distributions from your IRA or other retirement account, remember that you must take your 2017 required minimum distribution by December 31. Due to year-end holidays and transfer time constraints, getting the process started now can avoid a last-minute rush, as well as a steep penalty of 50% of the amount not taken.

If this year's distribution is your first, you have a one-time option of waiting until the beginning of April 2018 to start taking withdrawals. Just remember, waiting means you will have two taxable distributions next year.

Contact us for details.

Have adult children? Take steps to avoid medical access denial

Imagine your college-aged daughter has an accident while away at school and ends up in the emergency room. When you call the hospital, you are denied information about her care because you do not have the proper forms signed. Under the Health Insurance Portability and Accountability Act (HIPAA), you do not have legal access to your child's health information after they reach age 18, even if your child is still your dependent and their health insurance coverage is in your name. To avoid this administrative nightmare, take the following steps.

1. Make sure your **health insurance coverage** will cover your child at his or her new campus home.

2. Have your son or daughter sign a **HIPAA authorization form** allowing you to access their information.

3. Create a **multipurpose medical power of attorney authorization**, which will not only give you authorization to help make medical decisions, it can also include an advance directive or living will.

4. Scan two copies of these documents—one for you and one for your child—and keep them in a secure place along with a copy of your student's insurance card.

Business Solutions

Learn from the "best places to work"

Google, Facebook, and Southwest Airlines are among the top five companies on job search site Indeed's "Best Places to Work 2017" list. You may not have the resources of these large companies, but you can incorporate some of their ideas into your company's culture.

Respect. The best companies cultivate a culture of respect, according to a poll conducted by the Society for Human Resource Management. Employees say they feel valued by their leaders and their coworkers regardless of their background, ethnicity, religion, sexual orientation, or gender.

Opportunities for growth. Leaders at the best companies evaluate staff regularly and look for ways to challenge them in new areas.

Communication is key. At the best companies, leaders and staff talk *constantly*. The organization regularly seeks feedback about its culture, practices, and operational challenges. Leaders are accessible and open to discussion about business problems and successes.

Clear goals. The best companies openly state well-defined objectives and the steps required to achieve them, according to *Fortune* magazine.

Accountability. The best companies make sure workers are confident they will be rewarded for performance and held responsible for achieving their objectives.

Bottom line: When you treat your employees with respect and keep challenging them, they are less likely to leave for greener pastures.

Check your basis in your S corporation before the end of the year

Losses can be hard to take – so if you think your S corporation will show a loss for 2017, now is the time to plan to make sure you will get the full tax benefit.

The problem. The amount of the business loss you can deduct on your individual income tax return is limited to your basis in your S corporation stock and certain corporate debt. This is true even if the loss reported to you on Schedule K-1 is greater than your basis.

Here is how basis works. Typically, stock basis in an S corporation begins with the capital contribution you make to get the company started. Note that when you receive stock as a gift, an inheritance, or in place of compensation, your initial basis is calculated differently.

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At the end of each taxable year, your stock basis is adjusted to reflect your business's operating results. Taxable income increases your basis, while losses reduce it. Basis is also increased by capital you put into your company and reduced by amounts you withdraw, such as distributions.

After your stock basis reaches zero, you may be able to deduct additional losses, up to the extent of your debt basis. That is the basis you have in loans you make to your company. However, once your stock and debt basis are both reduced to zero, losses incurred are suspended, which means you get no current tax benefit. You can generally take suspended losses in future years, when you again have basis.

The solution. You can increase your basis – and your ability to take losses – by adding capital or making loans to your business.

Please call to discuss how basis affects your individual income tax return. We can guide you through the rules.

Five home office deduction mistakes

Here are five common mistakes of those who deduct home office expenses.

1. Not taking it. Some believe the home office deduction is too complicated, while others believe taking the deduction increases your chance of being audited.

2. Not exclusive or regular. The space you use must be used *exclusively* and *regularly* for your business.

Exclusively: Your home office cannot be used for another purpose.

Regularly: It should be the primary place for conducting regular business activities, such as record-keeping and ordering.

3. Mixing up your other work. If you are an employee for someone else in addition to running your own business, be careful in using your home office to do work for your employer. Generally, IRS rules state you can only use a home office deduction as an employee if your employer doesn't provide you with a local office.

4. The recapture problem. When selling your home you will need to account for any home office depreciation. This depreciation recapture rule creates a possible tax liability for many unsuspecting home office users.

5. Not getting help. The home office deduction can be tricky, so ask for help, especially if you fall under one of these cases.

Your HSA as a retirement tool – the facts

Health Savings Accounts (HSAs) are a great way to pay for medical expenses, and since unused funds roll over from year to year, the account can also provide a source of retirement funds in addition to other plans like 401(k)s or IRAs. But be aware of how HSAs compare to other retirement investment tools.

- HSAs work best when they are used to pay for qualified medical expenses. Neither your original contributions to an HSA nor your investment earnings are taxed when used this way.

- There is no required minimum distribution after you reach age 70½, like there is with 401(k)s and IRAs.

- You can only contribute to an HSA if you have a high deductible health insurance plan. The downside of these plans is that you pay more out of pocket each year when you need to use health services.

- Annual contributions to HSAs are limited to $3,400 a year for individuals and $6,750 a year for families (add $1,000 for people aged 55 or older).

- HSAs typically have fewer investment options compared with other investment tools including 401(k)s and IRAs. They also often have high management and administrative fees.

- Before you reach age 65, non-medical withdrawals from HSAs come with a whopping 20 percent penalty, plus they are taxed as income.

Even after age 65, both contributions and earnings are taxed when they are withdrawn for non-medical expenses. In this way, HSAs compare unfavorably with 401(k)s and IRAs, which end their early withdrawal period earlier, at age 59½. They also have lower early withdrawal penalties of just 10 percent.

HSAs are a powerful tool to help manage the ever-rising costs of health care. Knowing the rules and the costs associated with them can help you position an HSA with your other retirement options.

If you have questions about HSA facts, please give us a call.

NOLAN | GIERE
CERTIFIED PUBLIC ACCOUNTANTS

206 W. Main Street Troy, OH 45373
Phone 937-339-3118 www.nolangiere.com

Firm Highlights

One of the things we like to do during the warmer weather is have lunch time cookouts. We enjoyed having our neighbors at Dungan & LeFevre join us for the mid-summer cookout.

We are getting ready to welcome a new member to the Nolan Giere family. Michelle is having a baby soon; join us in taking a guess at what she will have and the arrival date.

Our thanks goes out to the Troy Chamber of Commerce for selecting us as their July FEATURED MEMBER OF THE MONTH

Since their beginnings in the 1940s, Nolan, Giere & Company has earned recognition as a leading regional provider of accounting, tax, and business and personal financial consulting services. Staying true to their roots as a Troy, Ohio-based firm, Nolan Giere is dedicated to hands-on, personal service and the highest moral and ethical standards. They have built and maintained a talented staff that includes certified public accountants with international accounting firm experience and prestigious graduate degrees in corporate taxation and other business specialties.