Harris, Burnett & Schmiesing CPAs

7730 Olentangy River Road
Columbus, OH 43235
(614) 436-CPAS

A tax, business, and financial planning newsletter for our clients and friends

CLIENT'S tax & financial UPDATE

VOLUME **38** / NUMBER **3**

JANUARY – FEBRUARY 2016 ISSUE

What to Do Now to Save Taxes in 2016

Tax Points

Ten Sure Ways to Business Failure

Better Customer Service

Savings Bonds

Miscellaneous Deductions: Fully Deductible or Not?

Getting Around a Price Increase

Charitable Giving

Investment Tip: How to Tell When to Sell Stock

What to Do Now to Save Taxes in 2016

If you want to keep your 2016 taxes as low as possible, the best way to do it is to develop a tax plan early in the year. Here's how to do it.

- ***Establish your 2016 recordkeeping system now.*** If you fill out your 2015 tax return as soon as possible, you'll quickly see areas where you failed to keep adequate records to substantiate your deductions. By improving your recordkeeping system, you can satisfy your current needs so you'll be certain to get every deduction you deserve in 2016.
- ***Seek alternatives to personal interest loans.*** Personal interest is no longer deductible. The deduction for interest paid by individuals for personal use was eliminated years ago. However, the interest you pay on a home equity mortgage on your principal residence is still 100% deductible (within limits).
- ***Review your tax returns for the past three years*** to uncover tax planning moves that will cut your overall tax bill. Line by line, look for items that have changed and made a difference in your taxes. Watch for those items in the future.
- ***Re-examine your rental real estate investments.*** If your Adjusted Gross Income is $100,000 or less, you can deduct up to $25,000 of rental real estate losses. If your Adjusted Gross Income is $100,001 to $150,000, the $25,000 limitation on losses is gradually phased out. Reevaluate whether you should keep your rental real estate investments if you cannot currently deduct your losses.
- ***Contribute as much as you can to your company's 401(k) plan.*** Taxes on the amount you contribute and

CONTINUED ON PAGE **4**

taxPOINTS

Home office deductions are available to taxpayers for the business use of a home. The definition of principal place of business has been defined to include a home office used for administrative or management activities for which there is no other fixed location. Individuals, S corporations, partnerships, trusts and estates are all eligible under the rules. However, C corporations are not eligible.

Better estate planning. Transfer assets to your children and receive in return their assurance to pay you an annuity for life.

Property owners save all records that show what you paid for sewers, sidewalks, streets, etc. These assessments can be used when you sell your house to reduce your taxable gain.

Avoid capital gains tax through like-kind exchanges. In the event you have income-producing property with built-in gains that you want to sell to purchase another income-producing property, if you swap the properties, no capital gains tax will be due on the exchange.

Ten Sure Ways to Business Failure

Ambitious Americans start more than half a million new businesses every year. Yet every year, about four out of five of these new businesses fail. Most of the reasons why budding entrepreneurs don't succeed could have been avoided. Here are the ten most common.

1. Inadequate working capital.
2. Poor accounting records.
3. Inattention to controlling costs.
4. Weak understanding of financial statements.
5. Improper training of employees.
6. Failure to plan far enough ahead.
7. Weak internal controls that invite theft.
8. Not selling aggressively.
9. Carrying inadequate insurance
10. Failure to seek professional advice.

Better Customer Service

The purpose of good customer service is to get future sales. It's a mistake to think that customer service exists only to complete a sale. **For example,** if you are forced to wait too long in a check-out line, you'll probably put up with it the first time, but not the second. But if check-out service is fast, it's a good sign that a store cares about your convenience and you're likely to return to buy again.

Savings Bonds... Best Left to Charity

If you plan to make a charitable bequest through your will, consider funding it with US savings bonds that you own instead of cash.

Why: Series EE and I bonds appreciate in value rather than pay cash interest. But after their owner's death, previously untaxed appreciation in the value of both Series EE and I bonds and Series HH bonds (for which EE bonds may be exchanged on a tax-deferred basis to obtain a source of interest income) will be ordinary income taxed at top rates to the heirs who inherit the bonds.

Better: Leave cash to heirs and savings bonds to charity, instead of the reverse. Neither will owe tax on what you leave them, and you will disinherit the IRS.

Miscellaneous Deductions: Fully Deductible or Not?

Miscellaneous deductions are those deductible items which are not medical expenses, taxes, interest, charitable contributions, or casualty losses. Miscellaneous deductions fall into two groups. Some are fully deductible and some are deductible only to the extent that they exceed more than 2% of a taxpayer's Adjusted Gross Income (AGI).

Fully deductible

- Estate taxes which have already been imposed on the same taxable income.
- Employment-related moving expenses .
- Job-related expenses of handicapped persons such as personal aides, etc.
- Gambling losses, but only up to the amount of winnings.
- Money previously included in income, but which you have since repaid.

Subject to the 2% floor

- IRA or Keogh custodian fees
- The cost of a safe-deposit box
- Investment expenses
- Tax preparation costs
- Employee business expenses such as 50% of meals and entertainment, travel, supplies, business books and magazines, and home-office deductions.
- Depreciation on automobiles, tools, and other equipment purchased for business use.
- Education expenses that are job-related.
- Hobby expenses up to the amount of income derived from the activity
- Professional or union membership dues.

Getting Around a Price Increase

Most price increases are the legitimate result of rising costs. However, if you feel that a supplier's price increase is excessive or unwarranted, consider the following actions.

- Place your next order at the old price. Many suppliers will accept your order rather than risk losing you as a customer.
- Negotiate a reduced increase. A good rule of thumb is to ask for a one-third reduction in the increase.
- Refuse to accept the increase. Tell the supplier you'll order at the old price or not at all. This is a risky approach that might lead to the loss of a good vendor, so use good judgment.

Charitable Giving

Saving taxes is rarely the main motivation for making charitable contributions. Most people give out of a desire to benefit humankind, not to save taxes.

However, the tax savings generated by charitable contributions enables donors to give away more than they might otherwise have thought possible.

Examples…

- A donor in the 35% tax bracket who planned to give $10,000 cash, can actually give $15,385 and be out-of-pocket only $10,000 after factoring in the tax savings from the deduction.
- A donor in the 35% tax bracket who gives long-term stock worth $10,000 that has appreciated from $5,000, is really giving only $5,750 out-of-pocket. He's saving $4,250 in taxes.

There is a $3,500 tax savings from the donation ($10,000 x 35%), plus a capital gains tax avoidance of $750 (15% of the $5,000 of appreciation assuming your capital gains are taxed at 15% rate).

CONTINUED FROM PAGE 1

What to Do Now to Save Taxes in 2016 (continued)

on the plan earnings are deferred until you withdraw the money, just as they were on IRA contributions before tax reform. Begin making 401(k) contributions as soon as you can to maximize your tax deferred earnings.

There's another advantage to 401(k) plans, because your federal withholding tax is based on your salary minus your 401(k) contributions. **For example,** if you earn $100,000 a year and contribute $8,000 to a 401(k) plan, your withholding tax is based on a salary of $92,000, so less taxes are withheld from your paycheck.

- ***Start a Keogh plan now.*** Any individual who has self-employment income from a business, from freelancing, or from a sideline activity can establish a Keogh plan. You can contribute a sizable portion of self-employment income to a Keogh plan and defer taxes on both the contribution and its earnings until you actually withdraw the money. Make your Keogh contributions early in the year so you can begin to earn tax-deferred income as soon as possible.

- ***Review employee benefits.*** Does your company offer a range of benefits under a "cafeteria" plan? If you have young children, you may need employer-paid dependent care. If you are over age 50, you may prefer long-term care insurance.

  When both spouses work and have benefits, it's important to coordinate the selections to maximize the benefits.

  Example: The spouse with the better medical coverage should choose that benefit for the family, while the other spouse might opt for increased disability coverage from his/her plan.

- **Choose investments that let you defer interest until 2017.** You won't be taxed on that income until you file your return in April of 2018. One such possible investment is U.S. Treasury Bills which have a maturity date in 2017. Another is certificates of deposit that are due in 2017. Be sure, however, that the CD maturity date is one year or less because if the CD matures after one year, you'll have to pay taxes on the interest as it accrues rather than when the CD matures.

Investment Tip: How to Tell When to Sell Stock

Although many factors can lead you to sell a stock, it's a good idea to have some kind of numerical rule of thumb for ridding your portfolio of stocks that are losing or will become losers.

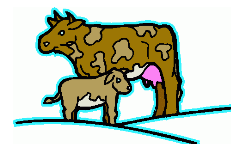
Many investors tend to sell a stock when it is high in value. If a stock starts falling in price, they hesitate, wanting to wait until it recovers. This strategy can leave an investor with a portfolio full of poor stocks.

A better strategy is to set guidelines for when you will sell, and stick to them. Decide ahead of time which contingencies will cause you to dispose of a stock. Two rules of thumb used by investors are: (1) sell when the company's earnings for a 12-month period go below the earnings for the previous 12-month period; and (2) sell when a stock's price falls by more than 10%.

Another contingency that might cause an investor to sell is that the reason a stock was bought no longer applies.

For instance, suppose you bought shares of Plum Software because it was launching a new product that promised growth for the company. You find out a few months down the road that Plum's plans have fallen through. That is the time to sell. You bought the stock for growth, and no growth is in the offing, so there's no reason to keep it.

Although rules of thumb cannot guide you unequivocally through the stock market, they may save you from taking some big losses.



CLIENT'S TAX & FINANCIAL UPDATE IS PUBLISHED AS A SERVICE TO OUR CLIENTS.
ALTHOUGH THE INFORMATION HEREIN IS GATHERED FROM RELIABLE SOURCES, READERS SHOULD NOT ACT UPON IT WITHOUT PROFESSIONAL ASSISTANCE.