

Memorandum

To: Clients, Associates & Friends of Pro@ctive CPA
From: Mark L. Wyssbrod, Managing Member
Date: October 6, 2014
Re: It's time to plan for the rest of the year

In this memorandum, you will receive information about the following:

- Revolutions in hindsight
- General tax planning items
- Deadline reminders
- Financial ration of the month

Please contact me should you have any questions. Keep focused on solutions!

Revolutions in hindsight

The 1950s and 1960s were revolutionary times in the United States. The 1960s is viewed for many major events in our society, including equal rights for all races and sexes. One revolution during this decade was the growing numbers of females in the workforce.

Female employment revolution took off in 1940s due to World War II. Male counterparts were enlisted in military services, and there was a huge void in manufacturing jobs. Females stepped up and filled the void. Since then women in the work force (ages 25-54) has steadily increased from ~35% in the late 1940s to ~72% in 2014 (peaking at ~76.8% in 1999). At the same time male employment (ages 25-54) started at ~96% in the late 1940s and declined to ~88% in 2014 (peaking at ~97% in the 1950).

The 1960s were known for the “sexual revolution”; however, the seed of women in the workforce was planted twenty years earlier during WWII and not necessarily recognized until the women’s rights revolution was realized. Because revolutions are sometimes only fully understood in hindsight, we have to ask ourselves an important question today: What trends are occurring today that may not be recognized by others, and how can your business take advantage of those current trends?

There are revolutions occurring all around us; can you see them?

Mark W.

Time to discuss tax planning for 2014

If you fail to plan, plan to fail. It is a great time to start tax planning with over two months remaining in the year. Planning will allow you to make the most of the evolving income tax code, as well as to plan for your cash outflow. Many small businesses remain in challenging financial positions and planning will assist them in reducing any income tax penalties and interest; additionally, small businesses can position their end of the year financial standing, which may help with loan applications through banks. Below I wanted to share with you some general guidance for individuals, businesses and s-corporations.

Individuals

- Review employee benefits and be certain they are structured in the most tax efficient way
- Saving more
 - Should you save inside a retirement or in a regular savings account?
 - Do you know the tax benefits of a Traditional Retirement Vehicle, Roth variation of a retirement vehicle and a regular investment account?
 - How should you allocate between these?
 - Liquidity
 - Current tax savings vs. future tax savings
- Be aware of changes to the tax rules!
- Purchase federal and state tax credits or invest in tax-favored investments (this may increase the complexity and risk to your tax returns)

General businesses

- Employee items
 - Review structure of employee benefit rules
 - The Affordable Care Act and ERISA changes require a small business owner to review and update plans
 - Prepare written documentation for employee benefit plans
 - You might have heard you can deduct certain expenses, but if you read the regulations, you will probably have to have a documented plan which is communicated to employees
 - Set up or change retirement plan type
- Shareholder items
 - Hold annual corporate meeting and update minutes
 - Renew your entity by filing your annual registration with the Secretary of State
- Management items

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- Review (or create) business plan and strategy
- Calculate cash flow projections and financial forecasts
- Review financial position and working capital requirements

S-corporations

- Officer compensation
 - Is your officer compensation to distributions reasonable?
 - Zero wages (i.e., no W-2) can lead to the IRS telling you what your wages should be
 - Officer compensation needs to be "reasonable"
 - Officer wages should be the same or greater than distributions
 - Officer wages should equal the same salary a third-party employer would have to pay an employee to retain their service
- Shareholder benefits: if you own more than 2% of an S-corporation
 - Employee benefits need to be reported on Officer's W-2s W-2
 - Health insurance, vision and long-term care insurance needs to be reported as officer compensation and shown as a part of taxable wages and in the information box on the Officer's W-2 (Box 1 and Box 14)
 - It must be an eligible group health insurance plan
- Related party and owner loans
 - Be certain all (especially with a related party) loans and equity distributions are documented

C-corporations

- Review bonuses for officers and owners
 - Which tax rates are more efficient; remitting corporate income tax or individual income tax (remember payroll taxes are remitted with compensations!)?
- Any retained earnings greater than \$250,000 need to be ear-marked for a specific use
 - The excess not ear-marked is subject to an excise tax if not distributed to owners via dividend distribution
- Be certain all (especially with a related party) loans and equity distributions are documented

Partnerships

- Be prepared for income to be subject to both income taxes as well as self-employment taxes
 - Individuals who are partners and are actively involved with the business operations should be aware their portion of income will be subject to income tax and self-employment tax

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- Self-employment tax is Social Security and Medicare. Since the partner is the employee and the employer, they are required to pay both the employee and the employer's portion
- Unreimbursed Partner Expenses (UPE)
 - Partners have the ability to deduct expenses they incurred for their business directly against their income
 - A written documentation at the partnership levels needs to be prepared in order allow UPE
- Retirement Plan Matches
 - The partnership needs to inform all partners the retirement match percentage
 - All partners need to contribute the same retirement match percentage
 - i.e. Johnny cannot contribute the maximum match of 25% if Susan is only contributing 5%

Of course there is much more to planning than these items! I encourage you to contact your tax advisor to make the most of the rules!

Deadline reminders

- November 15 - Final filing deadline for tax-exempt organizations with a calendar year-end
- December 31 - S-corporation owners must report health insurance in W-2 for favorable tax treatment
- December 31 - Deadline to set up SEP, 401(k) and other retirement plans. You may need to fund the plans by this date as well
- December 31 - Final day to set up a retirement plan for 2013 for small businesses and employee benefit plans for 2014

Financial ratio of the month – U-6

U – 6 = total unemployed, plus all person marginally attached to the labor force, plus total employed part time for economic reasons, as a percent of the civilian labor force plus all persons marginally attached to the labor force

The U-6 measures the under-utilization of labor in the

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