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Client Information Bulletin

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Seven Timely Tax Moves in 2016

Strategies for individual taxpayers

Undoubtedly, the national elections will have an impact on personal taxes for years to come. But it is unlikely that a lame-duck Congress will enact changes that will significantly affect tax planning for 2016. Accordingly, here are seven tax moves for individuals to consider at the end of this year.

1. Harvest capital gains or losses. Typically, you might realize capital gains or losses from sales of securities that can offset each other at year-end. The maximum tax rate on net long-term capital gain is only 15% (or 20% for those in the top 39.6% bracket). Conversely, capital losses offset gains plus up to $3,000 of ordinary income in 2016. Note that other tax provisions, including the 3.8% surtax on net investment income, may come into play.

2. Give to charitable causes. Generally, you deduct the full amount of cash or cash-equivalent of gifts made to qualified charitable organizations, as long as you keep the required records. Also, you may deduct the fair market value for gifts of appreciated property if certain requirements are met. However, special limits often apply, including a reduction in deductions for certain high-income taxpayers.

3. Sidestep the AMT. Despite repeated calls to repeal it, this "stealth tax" still traps millions of taxpayers. The alternative minimum tax (AMT) may apply if you have an overabundance of "tax preference items," especially if you reside in a high-tax state. Have your tax adviser conduct an AMT liability review to determine whether you should shift income items or deductions at year-end.

4. Bunch medical expenses. Under a recent legislative change, the threshold for deducting medical expenses for taxpayers was increased to 10% of adjusted gross income (AGI), although it remains at 7.5% of AGI for taxpayers age 65 or older through 2016. Thus, it may be advantageous to move elective expenses, such as dental cleanings and physical examinations, into this year. Try to bunch medical expenses in the tax year when they will do you the most good.

5. Share income with the family. When appropriate, transfer income-producing property to low-bracket family members. They may benefit from the 0% rate on long-term capital gains for taxpayers in the two lowest ordinary income tax brackets. **Caveat:** Under the "kiddie tax" for 2016, unearned income above $2,100 received by a dependent child younger than 24 is generally taxed at the parents' top tax rate.

6. Study college tax breaks. If your child is in college, you may be able to claim either one of two higher

Inside

education credits, subject to phaseouts at certain income levels. Alternatively, you may claim a tuition-and-fees deduction, also subject to a phaseout. Currently, this deduction is scheduled to expire after 2016. In any event, pay qualified expenses before 2017 to maximize any available tax break.

7. Take required minimum distributions. If you're older than age 70½, you must take annual required minimum distributions (RMDs) from your qualified plans and IRAs. The penalty for failing to take RMDs is equal to 50% of the required payment. Comply well before the January 1 deadline approaches.

Depending on your situation, one or more of these strategies for reducing personal income tax may work for you and your family. Schedule a year-end meeting with your adviser to discuss your personal needs.

Key Points About Key Person Insurance

Addressing the needs of a successful business

Virtually every business owner will tell you it takes more than one person to build up and maintain a profitable business. In fact, it is likely that several "key employees" have contributed to the success of any given operation. However, while a business owner may be careful to make sure that he or she is adequately insured, the need to protect the business against the loss of key employees is often ignored or disregarded, which is a mistake.

Fortunately, there is a relatively painless way to help safeguard the business. Appropriately enough, it is commonly referred to as "key person" insurance.

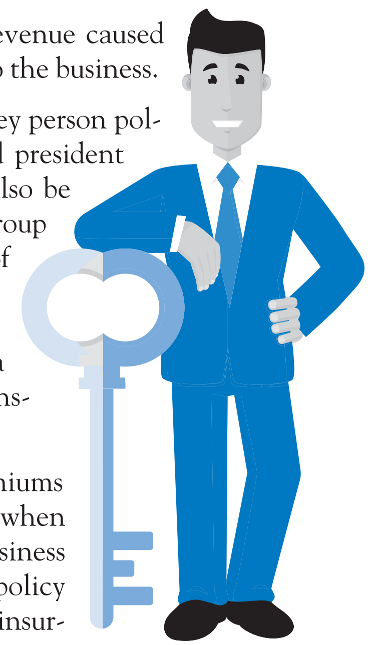
Typical situation: A company takes out a life insurance policy on someone whose presence is considered crucial to the business operation. In some cases, the proper insurance protection for the business can mean the difference between solvency and bankruptcy. The life insurance proceeds from the policy could be used for any or all of the following purposes:

♦ finding, hiring and training someone to take the place of a deceased worker;

♦ paying bills to maintain the company's good credit rating;

♦ paying off business loans, which lenders may demand after the death of an owner/officer; or

♦ making up for the loss of revenue caused by the subsequent disruption to the business.



Who should be covered by a key person policy? Start with the owner and president of the company (who might also be the founder). The rest of the group depends on the type and size of the business. For example, it may be worthwhile to insure a crackerjack salesperson, a creative talent or an indispensable manager.

Are the life insurance premiums tax-deductible? No. However, when the key person dies, the business receives the proceeds of the policy tax free. In addition, the life insurance proceeds are not generally part of the key person's estate. But if he or she is the sole or controlling shareholder, the proceeds may be taken into account for determining the value of the stock for estate-tax purposes.

Finally, as long as there is a legitimate business reason for the insurance, the business should be able to avoid any accumulated earnings tax problem.

What happens if the key person leaves the firm? Generally, there are three options: The company may (1) sell the policy to the ex-employee as a fringe benefit, (2) transfer the policy to another key person or (3) surrender the policy for its cash value.

With savvy planning, you should be able to cover all the insurance needs of the business, including any appropriate life insurance policies. Consider this an important aspect of the business-planning process.

Give Us A Call!

*Do you have any questions or comments about **Client Information Bulletin** or your individual situation? Please do not hesitate to contact our office. We would be glad to serve you in any way we can.*

Complying with the New Overtime Pay Rule

DOL regulations to take effect soon

The "final rule" on overtime pay, long anticipated by the business sector, was issued by the U.S. Department of Labor (DOL) this spring. However, changes in the regulations do not formally take effect until December 1, 2016. Because of that, employers still have time to make the adjustments necessary to be in full compliance.

The main rules for overtime pay are included in the Fair Labor Standards Act (FLSA). Notably, employees who are not exempt under the FLSA must be paid the overtime rate of one-and-a-half times their regular pay rate for hours worked in excess of 40 hours. Employers may be penalized for violating these rules.

Under long-standing regulations, the DOL generally requires each of these tests to be met for employees to be exempted from overtime pay:

♦ **The salary basis test:** The employee must be paid a predetermined salary that is not subject to reduction because of variations in the quality or quantity of work performed.

♦ **The salary level test:** The amount of salary paid must meet a minimum specified amount.

♦ **The duties test:** The employee's job duties must primarily involve executive, administrative or professional duties as defined by the DOL regulations.

Prior to issuing the new final rule, the DOL had last updated these regulations a dozen years ago. At that time, it established the weekly salary level at $455—which works out to $23,660 a year—in addition to other changes, including carving out an exemption for highly compensated employees.

The Obama administration had set a goal of increasing the salary level test threshold to the point where it would be if inflation adjustments had been made over time. Ultimately, the DOL raised the current weekly level to $913—or $47,476 a year—which is more than double the previous level. As things stand now, workers earning less than this amount will be entitled to overtime pay as nonexempt employees, regardless of their job responsibilities.

The new final overtime rule doesn't stop there. The threshold will be adjusted for inflation every three years, beginning January 1, 2020.

Under yet another change, the annual pay threshold for highly compensated employees was increased from $100,000 to $134,004. Employees earning above this threshold, regardless of whether their jobs would be classified as nonexempt under the "duties" test, may still be treated as exempt and are therefore ineligible for overtime pay.

Being forewarned is being forearmed: With the looming deadline of December 1, 2016, employers still have time to institute changes to bring their organizations into full compliance. Be mindful that a substantial number of workers who previously didn't qualify for overtime pay will be eligible going forward.

The new final rule may force employers to re-examine their payroll responsibilities and characterization of jobs. Rely on your professional business advisers for guidance.

Celebrate the Holidays in Tax Style

As a general rule, your deduction for business entertainment expenses is limited to 50% of the cost, no matter what the occasion. But there is an important exception for holiday parties or other corporate events. In this case, you may be able to write off 100% of the cost for a gathering held on the business premises or at an outside venue—even your own home.

However, there is one catch: To qualify for the 100% deduction, you must invite the entire staff. The party cannot be restricted to the company's top echelon.

Five Year-end Ideas for Your Business

Benefit from PATH Act extensions

Remember that year-end planning is not just for individuals (see page 1). In fact, your business operation may benefit from tax moves in 2016 in the wake of several key extensions in the Protecting Americans from Tax Hikes (PATH) Act of 2015. Here are five ideas for small-business owners to consider.

1. Max out on business equipment. Thanks to the PATH Act, the maximum Section 179 "expensing" deduction for qualified business property placed in service in 2016 is $500,000, subject to a phaseout threshold of $2 million. Furthermore, your business may benefit from a 50% bonus depreciation on qualified property. (This tax break is reduced to 40% in 2018 and 30% in 2019 before expiring in 2020.) Plan equipment purchases accordingly.

2. Hire target group workers. Through 2019, the PATH Act extends the Work Opportunity Tax Credit (WOTC) for hiring workers from certain "target" groups. Generally, the WOTC is equal to 40% of first-year wages up to $6,000, for a maximum credit of $2,400 per worker. There is no limit on the number of credits your business can claim for qualified workers.

3. Fix up the premises. Generally, expenses for minor repairs you make to the business building—for example, replacing a broken windowpane—are currently deductible. Conversely, the cost of a capital improvement, such as adding a new wing to a building, is added to your basis in the property. When possible, take care of repairs before year-end. Note that new regulations issued last year address several complex issues in this area. Current deductions may be available under a special safe harbor election. Contact your professional tax adviser for more information.

4. Salvage bad debt deductions. If you are not paid amounts owed to your business, at least you may be able to salvage a deduction for debts that are "worthless." But you must show that you have made good faith efforts to collect the debts. To secure a deduction for 2016, step up your collection activities before the end of the year. Remember to keep detailed records—including correspondence and e-mails with debtors—of your collection efforts.

5. Kick off a new venture. A special provision in the tax code allows you to deduct up to $5,000 of qualified startup expenses of a new business. Any excess must be amortized over 180 months. To qualify for the current tax write-off, the operation must be an ongoing activity, so make sure the doors are officially "open for business" before the end of the year.

This is just a brief overview of five year-end tax moves for small-business owners. Obtain guidance relating to the best approach for your small business.

Facts and Figures

Timely points of particular interest

➡ **Double Tax Pleasure**—Generally, you may deduct mortgage interest on up to $1 million of acquisition debt and $100,000 of home equity for your principal residence and one other home. In a recent case, the Ninth Circuit Court said that the limits applied separately to each of two unmarried homebuyers who owned two homes as joint tenants. Now the IRS has acquiesced in the case.

➡ **Winter Breaks**—If "summer hours" are popular at your workplace, you might consider a longer-than-usual winter break. Even when employees are "off," they are often working at least part time, answering e-mails and putting out fires. Having an extended break around the winter holidays allows them to recharge their batteries and head into the new year with renewed energy.