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# Client Information Bulletin

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## A Tale of Two Business Structures *Comparing C corporations with S corporations*

If you are organizing a new business structure, you may prefer to set up a small company as a traditional C corporation or an S corporation. Alternatively, you might switch from one to the other for an existing business. Before you make your final decision, be aware that there are certain similarities, as well as differences, between the two popular business forms. The following is a brief overview of the two formats.

### The Similarities

- ♦ Each structure offers certain liability protection, so individuals with ownership interests generally will not be held personally liable for business debts and liabilities. This is often called the "corporate shield" or "corporate veil."
- ♦ Both corporations are separate legal entities governed by state law. For example, documents establishing a C corporation or S corporation—often called "articles of incorporation"—must be filed with the state. These documents are essentially the same for C and S corporations.
- ♦ C corporations and S corporations have shareholders, directors and officers. Shareholders elect a board of directors that has oversight of the business. The board chooses the officers to manage the day-to-day affairs of the business.

- ♦ Comparable corporate formalities must be observed such as adopting bylaws, issuing stock, holding shareholder and director meetings, and filing annual reports.
- ♦ With either type of corporation, personal income tax is due on any compensation or dividends received by the owners or shareholders.

### The Differences

- ♦ Generally, the C corporation format is standard, while a special election for S corporations must be filed with the IRS. The S corporation election must be made by the 15th day of the third month of the year to be valid for that year (e.g., March 15, 2017, for the 2017 calendar year).
- ♦ Other special requirements apply to S corporations. For instance, the number of shareholders cannot exceed 100, and the shareholders must be U.S. citizens or residents. These restrictions do not apply to C corporations.
- ♦ The main difference is taxation. With a C corporation, income is taxed first to the entity and then on amounts paid to owners as compensation, and dividends are personally taxable, thus resulting in "double taxation." Conversely, with an S corporation, there is no tax on the entity level. Profits and losses are passed through to shareholders.

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and reflected on their personal income tax returns. For many entrepreneurs, this becomes a prime consideration.

A long trend toward switching from the C corporation format to S corporation status has somewhat abated because the highest individual tax rate of 39.6% currently exceeds the top corporate tax rate of 35% (38% on certain income). Nevertheless, this remains a viable option for some business owners. The decision about a business structure should take all the relevant factors into account.

*Reminder: Another option, the limited liability company (LLC), is available to business owners and has been gaining in popularity in recent years. (This publication will cover LLCs in more detail in an upcoming issue.) When considering all your options, seek guidance from your tax and professional advisers.*

## New "Fiduciary Rule" Arrives

After years of debate, the Department of Labor (DOL) approved a controversial fiduciary rule for advisers to participants in retirement plans and IRAs. Under the final rule released earlier this year, firms providing investment advice must meet certain fiduciary standards, based primarily on acting in the best interests of clients. Essentially, the rule establishes a contractual duty between investors and their advisers.

However, the new final fiduciary rule does not take effect until April 10, 2017, with certain transitional relief available until January 1, 2018. More details are available upon request.

## Five Steps to Manage Remote Employees

*Ideas on the work-from-home trend*

For employees, working from home may fit into a hectic lifestyle. For instance, you can roll out of bed, log onto your personal computer or laptop, and attend a meeting, all while you are still in your robe and slippers. Many employees seem to quickly adapt to telecommuting, although some may miss the social aspects of going to an office. And hardly anyone misses the daily commute.

Conversely, there are potential distractions at home, such as time spent cooking and cleaning, and carpooling the children. Also, is this trend as beneficial for the employer as it is for the employee? Management may be concerned that these "remote employees" are not as productive as they would be if they were working regular hours at an office. Every situation is different, but here are five steps that address telecommuting.

**1. Plan ahead.** Whether employees are allowed to work from home for either one or two days or the entire week, it is important to develop a plan. Typically, the first step is to determine which activities can be done at home and which should stay in the office. For instance, it may be feasible to have salespeople working off-site, especially if they do not require supervision, but you might keep human resources personnel at the company location.



**2. Understand the technology.** After choosing the software and tools that employees will need for their daily activities, find out how often they will use them and to what extent security risks are involved. Try to circumvent technical glitches and data leaks. Typically, a company may use a VPN (virtual private network) to provide encryption between employees working at home on their own connections and the company's internal network. Additional security measures may have to be adopted.

**3. Monitor the proceedings.** Although you do not necessarily have to account for every minute spent on the job, it is a good idea to lay some basic ground rules. You do not want employees skipping work to take in movie matinees or attend after-school athletic events—not to mention wasting time in front of the television. Note that most remote office and telecommuting packages have built-in auditing features. **Caution:** Check state laws concerning the rights of employees in this area. Based on your findings, you may have employees sign a waiver allowing them to be monitored.

**4. Hold teleconferences.** Naturally, "reading into" facial expressions and hearing vocal intonations is preferable to e-mail, which is easy to misconstrue. If the staff is working remotely, a teleconference is the next best thing to actually being there. Providers may offer secure options at little or no cost.

**5. Keep records.** Project management software can make tracking productivity easy. It enables you to view tasks, deadlines, status and expected completion dates, and it allows the entire group to share documents online.

Of course, telecommuting is not the best approach for every business. If you decide to try it, develop a plan that utilizes technology, but remains secure. Finally, make an assessment of the impact on productivity and go from there.

## Crash Course on Education Tax Breaks

### Choose one of three tax-savers

Now that your children are back in school, you might consider the available tax breaks for higher education expenses. Following extensions and modifications under the Protecting Americans from Tax Hikes (PATH) Act of 2015, there are three primary tax provisions that may benefit parents: the American Opportunity Tax Credit (AOTC), the Lifetime Learning Credit (LLC) and the tuition deduction.

The catch is that you may not be eligible for any or all of the three tax breaks. What's more, no matter how many you qualify for, you can generally only claim just one on your tax return. Here is a brief overview.

**1. AOTC:** The enhanced version of the AOTC, previously called the Hope Scholarship credit, was permanently adopted by the PATH Act. The maximum annual credit is \$2,500. **Key point:** The AOTC may be claimed for every student in the family. For example, if you have two children attending college in 2016, the maximum credit is doubled to \$5,000. Furthermore, the credit is now available for four years of college, having recently been raised from two years of study.

Unfortunately, however, the AOTC is phased out for many parents. The phaseout occurs between \$80,000 and \$90,000 of modified adjusted gross income (MAGI) for single filers; \$160,000 and \$180,000 of MAGI for joint filers. Once you exceed the upper threshold, you cannot claim the AOTC.

**2. LLC:** The LLC was already permanent before the PATH Act. But this maximum credit is \$2,000, as opposed to the \$2,500 AOTC. Unlike the AOTC, the LLC credit applies to each taxpayer. Thus, if you have two children in school this year, the maximum credit remains \$2,000.

The LLC is subject to phaseout rules at even lower levels than the AOTC. The phaseout range for 2016 ranges from \$55,000 to \$65,000 of MAGI for single filers, and \$111,000 to \$131,000 for joint filers. Again, no credit is available above the upper thresholds. Although these

limits are subject to inflation indexing, recent increases have been minimal.

#### 3. Tuition deduction:

Finally, you may be able to claim an above-the-line deduction for tuition and related fees. A \$4,000 deduction is available for single filers with a MAGI up to \$65,000, while a \$2,000 deduction may be claimed for a MAGI between \$65,000 and \$80,000. For joint filers, the \$4,000 deduction is available for a MAGI up to \$130,000 and the \$2,000 deduction for those with a MAGI between \$130,000 and \$160,000. Higher-income taxpayers cannot claim a deduction.

This deduction, which has expired and been extended numerous times, was again extended through 2016 by the PATH Act. Its future is uncertain.

Remember that you generally may claim one of the two credits—the AOTC or the LLC—or the tuition deduction, but not any combination of the three tax breaks.

*Year-end tax planning: If your child's next college semester begins in January 2017, you may pay the tuition for that semester in December and claim the appropriate credit or deduction on your 2016 return. Keep this in mind as the end of the year approaches.*



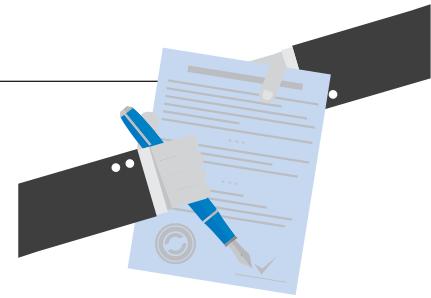
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# Have You Designated Your Beneficiaries?

## *A key component of estate planning*



Most of us lead hectic lives, but as part of an estate plan, it is important to take time to designate or update beneficiaries for all your assets. Notably, you should be aware that designations for retirement plans and life insurance policies supersede beneficiary dispositions in your will. Keeping that in mind, here are several practical suggestions.

**Don't leave the beneficiary lines blank.** If you don't name specific beneficiaries for your accounts, or if you name your estate as the beneficiary, your heirs will likely end up in probate court. This can be both time-consuming and costly. If assets go to your estate, they are subject to creditors. Your best option is to choose individual beneficiaries and list them on the forms.

**Use trusts for beneficiaries who are minors.** In some states, minors face restrictions until they turn age 18 or 21. If you designate a minor as a beneficiary, a court will appoint a guardian to manage the funds until the child reaches the age of majority. Alternatively, you might establish a trust to handle the funds and name the trust as the beneficiary. Thus, you maintain control now and provide asset protection for minors when you're gone.

**Understand the key rules.** Other than your spouse, beneficiary designations on retirement accounts and insurance contracts will override your will. If you want someone besides your spouse to inherit assets, your spouse must sign a written waiver. Without the waiver, a non-spouse beneficiary designation will be invalid upon your death.

**Inform your beneficiaries.** Do not keep your designations a secret. Also, let them know where to find important documents and contact information for your professional advisers. On the other end, make sure your advisers have the vital contact information.

**Double-check names and numbers.** Make sure they are spelled correctly and that figures are accurate. This is particularly important when listing Social Security numbers, telephone numbers and addresses.

**Use percentages instead of dollar amounts.** For example, suppose you have an IRA worth \$100,000, and you designate a niece as beneficiary of \$75,000 of that amount. If the IRA drops in value to \$75,000 or below at your death, your niece gets the entire amount—any remainder beneficiaries receive zero. Perhaps a better way to meet your objectives is to give your niece 75% of the overall account value.

**Name contingent beneficiaries.** If your primary beneficiary has died and you haven't named a replacement, the assets would go to your contingent (or "secondary") beneficiaries. Without a contingent beneficiary, the assets are transferred to your estate (see above). Avoid potential problems by indicating contingent beneficiaries in appropriate places.

*Don't just stuff all the paperwork in a desk or drawer and forget about it. Review your beneficiary designations periodically to ensure that they remain up to date. Finally, make whatever revisions are needed.*

## Facts and Figures

### *Timely points of particular interest*

► **Joining the Crowd**—With crowdfunding, an increasingly popular technique, a business project is funded through online contributions from many supporters. Now, in a new information letter, the IRS says that money received from crowdfunding that is not a capital contribution in exchange for an interest or a gift is generally treated as taxable income. But there are certain exceptions (e.g., where a loan is involved).

► **To-do List**—Do you want to be a more successful manager? Try meeting these three goals each day. (1) Get three things done before noon. That will create a positive attitude for the rest of the day. (2) Break down projects into parts. Do the hardest parts first. (3) Tackle similar tasks at the same time. You are likely to produce more if you remain in the same general mode.