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Mid-Year Tax Planning Checklist
Article Highlights:

- Fall tax planning
- Changes that can impact your tax liability

All too often, taxpayers wait until after the close of the tax year to worry about their taxes, missing opportunities that could reduce their tax liability or help them financially. Fall is the perfect time for tax planning. The following are some events that can affect your tax return; you may need to take steps to mitigate their impact and thus avoid unpleasant surprises after it is too late to address them.

☐ Did you get married, divorced, or become widowed?
☐ Did you change jobs or has your spouse started working?
☐ Did you have a substantial increase or decrease in income?
☐ Did you have a substantial gain from the sale of stocks or bonds?
☐ Did you buy or sell rental property?
☐ Did you start, acquire, or sell a business?
☐ Did you buy or sell a home?
☐ Did you retire this year?
☐ Are you on track to withdraw the required amount from your IRA (age 70.5 or older)?
☐ Did you refinance your home or take out a second home mortgage this year?
☐ Were you the beneficiary of an inheritance this year?
☐ Did you have a child? Time to start a tax-advantaged savings plan!
☐ Are you taking advantage of tax-advantaged retirement savings?
☐ Have you made any significant equipment purchases for your business?
☐ Are your cash and non-cash charitable contributions adequately documented?
☐ Are you keeping up with your estimated tax payments or do they need adjusting?
☐ Are you aware of and prepared for the 3.8% surtax on net investment income?
☐ Did you make any unplanned withdrawals from an IRA or pension plan?
☐ Have you updated your income and other information with your Health Marketplace?
☐ Have you stayed abreast of every new tax law change?

If you anticipate or have already encountered any of the above events, it may be appropriate to consult with this office, preferably before the event, and definitely before the end of the year.

Beware of Draconian Penalties for Health Reimbursement Plans
Article Highlights:

- Employer health insurance requirements
- Reimbursement plans and Obamacare
- Temporary penalty relief through June 30, 2015
- Penalty

Beginning in 2015, large employers (those with 100 or more full-time equivalent employees) must begin offering health insurance coverage to their employees. Then, in 2016, employers with 50 or more equivalent full-time employees must do the same or face penalties, called the “large employer health coverage excise tax.”

Employers with fewer than 50 full-time equivalent employees are never required to offer their employees an insurance plan, but qualified small employers who do provide coverage may qualify for the small business health insurance credit.

In the past, many smaller employers have simply reimbursed their employees for the cost of insurance. They found it less expensive and had fewer administrative costs than having a group insurance plan. However, under the Affordable Care Act (ACA, or Obamacare for short), a group health plan that reimburses employees for the employees' substantiated individual insurance policy premiums must satisfy the market reforms for group health plans. However, most commentators believe an employer payment plan will fail to comply with the ACA annual dollar limit prohibition because an employer payment plan is considered to impose an annual limit up to the cost of the individual market coverage purchased through the arrangement, and an employer payment plan cannot be integrated with any individual health insurance policy purchased under the arrangement. Thus, reimbursement plans may be subject to a very draconian penalty.

Back in February, the IRS issued Notice 2015-17, which provides small employers limited relief from the stiff $100 per day, per participant, penalties under IRC §4980D for health insurance reimbursement plans that had been addressed in Notice 2013-54. In particular, that notice provided:

- Transitional relief for employers that do not meet the definition of large employers (i.e., employers with 50 or more employees). This relief is granted for all of 2014 and for January 1 through June 30, 2015; and
- Relief for S corporations that pay for or reimburse premiums for individual health insurance coverage for 2% shareholders, as previously addressed in Notice 2008-1. The relief period is indefinite, and the IRS states that taxpayers may continue to rely on Notice 2008-1 "unless and until additional guidance" is provided.

Well, June 30, 2015 has come and gone … and so has the small employer relief. Therefore, employers who still reimburse employees for their medical expenses are in danger of being subject to the $100 per day ($36,500 a year) per employee penalty. Compared to the annual $2,000 penalty that large employers face for not providing insurance to their full-time employees, the penalties on small employers are substantial enough to bankrupt them. So, the large employer who fails to provide any insurance pays a penalty of only $2,000 per year per employee while the employer who helps employees by reimbursing them for the cost of insurance gets hit with an up to $36,500-per-employee penalty.

This is true even if the employer is a small employer (50 or fewer equivalent full-time employees) who is under no legal obligation to provide health insurance plans for its employees, but makes reimbursements simply to help the employees. Does this seem fair? We will let you form your own opinion.

Will Congress step in to alleviate the problem? Maybe yes and maybe no, and employers must decide if it is worth the risk to depend on Congress to act.

There is one firm, Zane Benefits, which claims to have solved the problem with a reimbursement plan that complies with the code, while others argue that it does not.

Bottom line: understand your risks if your business has a medical reimbursement plan and perhaps consider other options. Please give this office a call if you have questions.

Now That Same-Sex Marriage Is Legal In All States, What Are The Tax Implications?

Article Highlights:

- All states are required to recognize and allow same-sex marriage
- Married tax filing requirements

- Potential tax benefits
- Negative tax aspects

On June 26, the Supreme Court ruled that the Fourteenth Amendment to the Constitution requires all states to license marriages between two people of the same sex and to recognize same-sex marriages performed in other states. This comes approximately two years after the Supreme Court overturned the Defense of Marriage Act (DOMA) enacted by Congress and signed by then President Bill Clinton. DOMA defined marriage as "legal union between one man and one woman as husband and wife."

This has wide-ranging implications for married individuals who reside in states that until now have not recognized same-sex marriage and for those who can now marry in their state, including employer-provided employee and spousal benefits, retirement issues, Social Security benefits, and of course tax issues.

Since DOMA was overturned, legally married same-sex couples have been required to file their federal returns as “married,” but they have had to file their state returns as single or head of household status if their state did not recognize their marriage as legal. That will now change, and they will be filing using the married status for their state returns as well.

Being married for tax purposes is not always beneficial, depending on a number of circumstances. The following are some of the tax breaks available to legally married same-sex couples:

- The right to file a joint return, which can produce a lower combined tax than the total tax paid by same-sex spouses filing as single persons (but this can also produce a higher tax, especially if both spouses are relatively high earners or one or both previously qualified to file as head of household);
- The opportunity to get tax-free employer-paid health coverage for the same-sex spouse;
- The opportunity for either spouse to utilize the marital deduction to transfer unlimited amounts during life to the other spouse, free of gift tax;
- The opportunity for the estate of the spouse who dies first to receive a marital deduction for amounts transferred to the surviving spouse;
- The opportunity for the estate of the spouse who dies first to transfer the deceased spouse's unused exclusion amount to the surviving spouse;
- The opportunity to consent to make "split" gifts (i.e., gifts to others treated as if made one-half by each); and
- The opportunity for a surviving spouse to stretch out distributions from a qualified retirement plan or IRA after the death of the first spouse under more favorable rules than apply for nonspousal beneficiaries.

There is a negative side as well. Many same-sex married couples, especially higher-income ones, may find that filing as married has unpleasant income tax ramifications. Divorcing before the end of the year can rectify that. However, before employing that strategy, a couple needs to consider the other financial benefits of being married. The following issues are commonly encountered by same-sex married couples.

- A taxpayer who is married and living with his or her spouse cannot file using head of household filing status. So a same-sex spouse (or both) who previously qualified for and filed a federal return using the head of household status will no longer file as head of household. Instead, the same-sex couple will file as married using the joint or separate status, which will generally result in higher taxes.
- When filing as unmarried, one individual can take the standard deduction and the

other can itemize. As married individuals, they must choose between the two, which could substantially reduce their overall deductions. If a same-sex couple files married separate returns and one spouse claims itemized deductions, the other spouse cannot use the standard deduction.

- As unmarried individuals, same-sex partners were able to adopt each other's children and claim the adoption credit. As married individuals they can no longer do that.

For those who are registered domestic partners (RDPs) in California, the Supreme Court's recent ruling does not address the IRS's position that these individuals are not legally married and therefore not eligible to file as married. Unless IRS changes its interpretation, RDPs will still not be able to file as married for federal purposes.

If you are contemplating a same-sex union or live in a state that previously did not recognize same-sex marriages and wish to explore the tax consequences of now filing as married individuals, please give the office a call.

Planning Your RMD and IRA Distributions For 2015
Article Highlights:

- Under Age 59.5 Penalty
- Age 70.5 Mandatory Distribution Age
- Impact on Social Security Income
- Required Minimum Distributions
- Under-Distribution Penalty
- Penalty Waiver
- Other Pension Plans

We spend most of our lives saving for retirement by putting funds away in tax-advantaged ways. But many of us forget about planning the withdrawals so that they are tax advantaged as well.

Although there are exceptions, retirement funds generally cannot be withdrawn until we are age 59.5. If taken out sooner there is a 10% penalty that applies in most cases (in addition there may be a state penalty).

A large number of taxpayers do not take distributions until they are forced to at age 70.5, not realizing they might benefit tax wise by taking money out sooner. For example, **i**f you are in a low or zero tax-bracket this year, you can take a certain amount out with no or minimal tax cost. That is where planning your distributions can save a significant amount of tax dollars.

Even if you are under 59.5, if your income for the year is such that it is below the taxable income limit, you can withdraw an amount that brings you up just short of the taxable income threshold and only pay the penalty.

If you receive Social Security benefits, keep in mind that Social Security income is tax-free for lower income retirees but becomes taxable as their income increases. IRA distributions can sometimes be planned in order to minimize the taxability of the Social Security income.

Once you reach age 70.5 you are required to begin taking the prescribed minimum distributions from your Traditional IRA and other qualified pension plans**.** But that does not mean you can't withdraw more than the required amount. If your income is low, it may be appropriate to take more than the minimum to save taxes in the future. Unfortunately all too many people simply take the IRS specified minimum amount without considering the tax planning aspects of the distribution.

The penalty for not taking the required minimum distribution (RMD) after reaching age 70.5 is an additional tax of 50% of the amount that should have been taken that year, based upon the RMD rules. The good news is that the IRS will generally, upon request, waive the penalty, provided that you show a corrective distribution was made in the subsequent year. So if you have missed an RMD for the prior year you should seek professional assistance right away with regard to taking corrective action.

The RMD is determined by taking the IRA balance on December 31 of the prior year and dividing that total by your remaining life expectancy from the IRS table. If you have more than one IRA, figure the RMD for each one and then combine them to get the total required distribution for the year. (An owner of a Roth IRA is not required to take distributions at any age.)

For purposes of determining the minimum distribution, all Traditional IRA accounts, including SEP-IRAs, owned by an individual are treated as one, but the actual minimum distribution can be taken from any combination of the accounts. If the owner chooses not to take the minimum distribution from each account, it is not uncommon for IRA trustees to require written certification that the owner took the minimum distribution from other accounts.

If you have other qualified plans besides Traditional IRA accounts, the RMD for those must be figured separately for each type and withdrawn from those plans and cannot be combined with the distributions from IRAs or other qualified plans to reach the RMD.

A taxpayer who fails to take a distribution in the year age 70.5 is reached can avoid a penalty by taking that distribution no later than April 1st of the following year. However, that means the IRA owner must take two distributions in the following year, one for the year in which age 70.5 is attained and one for the current year.

If an IRA owner dies after reaching age 70.5, but before April 1st of the next year, no minimum distribution is required because death occurred before the required beginning date.

Special Note: The provision allowing a direct transfer from an IRA to a qualified charity to be counted towards the RMD for the year and to be excluded from income expired at the end of 2014. However, it has been previously extended twice late in the year. Taxpayers age 70.5 and older with IRA accounts making a sizable charity donation may wish to make the donation via a direct transfer to the charity from their IRA account in case Congress extends this provision for yet another year.

As you can see, there is more to the required minimum distribution than meets the eye, and there are some significant planning opportunities. Give this office a call if you have questions or would like to schedule a planning appointment.

Plan for the Potential IRA-to-Charity Provision Extension
Article Highlights

- IRA-to-Charity Transfer Provision
- Required Minimum Distribution
- Expired in 2014
- May Be Extended to 2015
- What Should Be Done Now In Case It Is Extended

If you are 70.5 or over, have not taken all or any of your 2015 required minimum distribution (RMD) from your IRA, and plan to but have not yet made a significant charitable contribution, here is a tip that could save some tax dollars.

In previous years, there has been a tax provision allowing an individual age 70.5 or older to make a direct transfer of money, up to $100,000, from his or her IRA account to a qualified charity. That provision expired on December 31, 2014. However, Congress has extended that provision in the past, and there is a good chance it may be extended again. In fact, the Senate Finance Committee working group on individual tax reform, just recently, recommended extending the provision.

If Congress does not extend it, you will have still satisfied your minimum distribution requirement, and the amount transferred to the charity will still count as a charitable contribution. If Congress does extend it, you can take advantage of the tax benefits described later in this article.

If you wait to see whether the provision will be extended, and Congress waits until the last minute, like it did last year, you may not have time to take action, as was the case for most taxpayers last year, or you may have already taken your RMD or made that charitable contribution.

If the provision is extended, here is how it will play out on a tax return:

(1) The distribution is excluded from income;
(2) The distribution counts towards the taxpayer's Required Minimum Distribution for the year; and
(3) The distribution does NOT count as a charitable contribution.

At first glance, this may not appear to provide tax benefits. However, by excluding the distribution, a taxpayer lowers his or her income (AGI) for other tax breaks pegged at AGI levels such as medical expenses, passive losses, taxable Social Security, etc. Non-itemizers essentially receive the benefit of a charitable contribution to offset the IRA distribution.

If you think that this tax provision may affect you and you would like to explore the possibilities with some tax planning, please call this office.

Preventing Tax Problems When Employees Travel

Article Highlights:

- Employer Deduction for Travel Expenses
- How an Employee Treats Travel Expenses
- Employer Accountable Plans
- Lodging When Attending Local Employer Events
- Tax Home
- Temporary Work Location

Sending employees on business trips is essential for countless companies and can result in tax headaches for both the employer and the employee if the tax regulations are not adhered to. If the rules are followed, the cost of the employee's travel will be fully deductible to the employer, with the exception of meals, which are only 50% deductible, and tax-free reimbursement to the employee. In addition, the reimbursement is not subject to FICA or payroll withholding.

On the other hand, if the rules are not followed, the expenses are still deductible by the employer, but the reimbursement must be added to the employee's taxable wages, subject to both FICA and payroll withholding.

An employer is able to deduct ordinary and necessary business expenses, including an employee's job-related travel and lodging expenses that are not lavish or extravagant, and under the rules of working condition fringe benefits, any such item that is deductible by the employer is not includible in the employee's salary. In addition, an advance or reimbursement made to an employee under an "accountable plan," which requires the employee to adequately account for the expenses and return any excess advances, is deductible by the employer and not subject to FICA or income tax withholding.

Reimbursements not made under an accountable plan are fully taxable to the employee, and the only way for the employee to deduct the expenses is as a miscellaneous itemized deduction on his or her 1040. To do that, the employee must itemize his or her deductions on Schedule A, as opposed to taking the standard deduction. The employee business expense category on Schedule A is subject to a 2% of AGI nondeductible threshold, and this frequently results in the employee not being able to deduct any or only a portion of the expenses.

With the exception noted below, to deduct the cost of lodging and meals, the taxpayer must be away from home overnight. Any trip that is of such a length as to require sleep or rest to enable the taxpayer to continue working is considered "overnight."

Under an exception to the away-from-home rule, the cost of local lodging is deductible if the lodging is necessary for the individual to participate fully in or be available for a bona fide business meeting, conference, training activity, or other business function and the duration does not exceed five calendar days and does not recur more frequently than once per calendar quarter. For an employee, the employer must require the employee to remain at the activity or function overnight, the lodging must not be lavish or extravagant, and there can be no significant element of personal pleasure, recreation, or benefit.

A taxpayer's home, for purposes of determining if he or she is away from home and can deduct lodging and meals, is generally where the taxpayer normally lives and works, although that fact is sometimes difficult to determine, in which case the IRS has numerous special rules that apply.

Where an away-from-home assignment, at a single location, lasts for one year or less, it is "temporary," and the travel expenses are deductible. If the assignment is longer, there is a good chance the expenses will not be deductible based upon some complex rules.

The rules for the tax treatment of travel expenses and temporary away-from-home assignments can be complex. Please give this office a call for further details or assistance.

Receiving Social Security Can Be Taxing
Article Highlights:

- Social Security Taxability
- Taxability Thresholds
- Working and Drawing Social Security
- Pension Distributions and Social Security Taxability
- Planning Pension Distributions

Generally, your Social Security (SS) benefits are not taxable until your modified adjusted gross income (MAGI) is more than the base amount for your filing status. MAGI is your regular AGI (without Social Security income) plus 50% of your Social Security income plus tax-exempt interest income plus certain other infrequently encountered modifications.

The base amounts (threshold where the SS benefits become taxable) are:

- $25,000 if you are single, a head of household, a qualifying widow or widower with a dependent child, or married filing separately and did not live with your spouse at any time during the year;
- $32,000 if you are married and file a joint return;
- Zero if you are married filing separately and lived with your spouse at any time during the year.

Thus, if your only income were SS benefits, you would likely not be subject to income tax on those benefits. However, if you are filing a joint tax return and your MAGI exceeds $32,000, then some portion of the SS benefits will become taxable. The amount that is added to taxable income ranges from 50% to 85% of the SS benefits in excess of the threshold.

If you are drawing SS benefits and working, you may find that the added income from working will cause you to be subject to dual taxation. How can this be, you ask? Since your SS taxation is based upon your income, the additional income from working may cause some or a good portion of your SS benefits to be taxable. For example, take a married couple that has a small pension, some investment income, and SS income.

Retirement Income	Total	Without Work Income	With Work Income
Interest & Dividends	2,500	2,500	2,500
Pension & IRA Income	25,000	25,000	25,000
Social Security Benefits	**12,000**	**750**	**9,825**
Work Income			15,000
Total Income Subject to Tax		28,250	52,325
			<28,250>
Net Increase in Income Subject to Tax			**24,075**

In the example above, the $15,000 income from working caused an additional $9,075 ($9,825 - 750) of Social Security to become taxable, in effect causing the couple to be taxed on $1.61 for every $1 earned by working.

A similar issue can occur when withdrawing from an IRA or other retirement plan. Additional IRA withdrawals can have the same effect as working. For example: you decide you need a new car and take a larger than necessary withdrawal from your IRA account to pay for the vehicle. That extra IRA distribution could create an unpleasant surprise by causing more of your SS benefits to be taxable.

This also brings up another important fact. If you have an IRA account and your income is such that you are not required to file or are in an unusually low tax bracket, you might want to consider withdrawing as much as possible from your IRA without triggering any tax, causing any additional SS benefits to be taxable, or hitting the next tax bracket, even if you don’t need the funds.

Keep in mind that whether you are currently working and are about to receive Social Security benefits, already receiving SS benefits and planning on returning to work, or are planning to take an abnormally large IRA distribution, the tax implications can be substantial and require your timely attention.

Please contact this office for assistance in planning for the additional tax liability created from working, drawing Social Security, and taking IRA distributions.

Bunching Your Deductions Can Provide Big Tax Benefits
Article Highlights:

- Itemized Versus Standard Deductions
- Medical Expenses
- Taxes
- Charitable Contributions

If your tax deductions normally fall short of itemizing your deductions or even if you are able to itemize, but only marginally, you may benefit from using the "bunching" strategy.

The tax code allows most taxpayers to utilize the standard deduction or itemize their deductions if that provides a greater benefit. As a rule, most taxpayers just wait until tax time to add everything up and then use the higher of the standard deduction or their itemized deductions.

If you want to be more proactive, you can time the payments of tax-deductible items to maximize your itemized deductions in one year and take the standard deduction in the next.

For the most part, itemized deductions include medical expenses, property taxes, state and local income (or sales) taxes, home mortgage and investment interest, charitable deductions, unreimbursed job-related expenses, and casualty losses. The "bunching strategy" is more commonly associated with medical expenses, tax payments and charitable deductions, although there are circumstances in which the other deductions might come into play. There are many opportunities to bunch deductions, and the following are examples of the bunching strategies most commonly used:

• **Medical Expenses** – You contract with a dentist for your child's braces. The dentist may offer you an up-front, lump sum payment or a payment plan. By making the lump sum payment, the entire cost is credited in the year paid, thereby dramatically increasing your medical expenses for that year. If you do not have the cash available for the up-front payment, then you can pay by credit card, which is treated as a lump-sum payment for tax purposes. If you use a credit card, you must realize that the credit card interest is not deductible, and you need to determine if incurring the interest is worth the increased tax deduction. Another important issue with medical deductions is that only the amount of the total medical expenses that exceeds 10% of your adjusted gross income (AGI) is actually deductible. If you are 65 or over the medical deduction floor is 7.5% through 2016, unless you are caught by the Alternative Minimum Tax (AMT). Then only the amount that exceeds 10% of your AGI is actually deductible. So, there is no tax benefit in bunching medical deductions unless the expenses exceed these limitations.
If the current year is an abnormally high-income year, you may, where possible, wish to put off making medical expense payments until the subsequent year when the 10% (7.5% threshold is less.

• **Taxes** – Property taxes on real estate are generally billed annually at mid-year, and most locales allow the tax bill to be paid in semi-annual or quarterly installments. Thus, you have the option of paying it all at once or paying in installments. This provides the opportunity to bunch the tax payments by paying one semi-annual installment or two quarterly installments and a full year's tax liability in one year and only paying one semi-annual installment or two quarterly installments in the other year. In doing so, you are able to

deduct 1-½ year's taxes in one year and 50% of a year's taxes in the other. If you are thinking of making the property tax payments late as a way to accomplish bunching, you should be cautious. The late payment penalty will probably wipe out any potential tax savings.
If you reside in a state that has state income tax, the state income tax paid or withheld during the year is deductible as a federal itemized deduction. So, for instance, if you are paying state estimated tax in quarterly installments, the fourth-quarter estimate is generally due in January of the subsequent year. This gives you the opportunity to either make that payment before December 31st, and be able to deduct the payment on the current year's return, or pay it in January before the January due date and use it as a deduction in the subsequent year.

A word of caution about the itemized deduction for taxes! Taxes are only deductible for regular tax purposes. So, to the extent you are taxed by the AMT, you derive no benefits from the itemized deduction for taxes.

• **Charitable Contributions** – Charitable contributions are a nice fit for "bunching" because they are entirely payable at the taxpayer's discretion. For example, if you normally tithe at your church, you could make your normal contributions during the year and then prepay the entire subsequent year's tithing in a lump sum in December of the current year, thereby doubling up on the church contribution one year and having no charity deduction for church in the other year. Normally, charities are very active with their solicitations during the holiday season, giving you the opportunity to make the contributions at the end of the current year or simply wait a short time and make them after the end of the year. Be sure you get a receipt or acknowledgment letter from the organization that clearly shows in which year the contribution was made. If you think a "bunching" strategy might benefit you, please call this office to discuss the issue and set up an appointment for some in-depth strategizing.

3 Ways to Improve Your Budgeting and Forecasting
Budgeting and forecasting are two of the most important financial exercises performed by businesses, regardless of their size. Unfortunately, they are also two exercises that many businesses fail to perform accurately or efficiently.
The biggest common problem is that most budgets and forecasts are created without any room for flexibility. Managers are told at the end of the year to make projections for revenue and spending for the next year, but these often end up being optimistic best guesses that are manipulated for the financial benefit of their department.

Here are 3 steps to help you improve your company's budgeting and forecasting processes:

1. Build flexibility into your budgeting and forecasting. This is the most important step to better budgeting and forecasting. Static and inflexible budgets and forecasts can lead to many different financial problems.
Traditional annual forecasts and projections made by managers are often inaccurate and obsolete by the end of the first quarter. However, managers are still expected to meet them and important business decisions are made based upon them. This leads to frustrated employees who are held accountable for hitting unrealistic numbers — and worse, faulty decisions and plans that can end up being very expensive.
Instead, your processes should include a review of your budget and forecasts at the end of each quarter, if not each month. Doing so will allow you to make necessary adjustments that will improve overall accuracy and lead to better business decision-making.

2. Create rolling forecasts and budgets. This is a flexible alternative to the traditional static annual budgeting and forecasting process that most companies follow. It enables you to regularly update your forecasts and budgets based on actual current business results, not what managers guessed might be happening many months ago.
The rolling process involves using actual quarterly financial data to update your forecasts, which typically extend out for five or six quarters. Each quarter, you will update your forecasts for the next quarter based on the most recent quarter's results. You will then adjust your budget so that it reflects these new, updated forecasts.
With this process, detailed monthly forecasting at the category level is only done for the next quarter, not the entire year. Subsequent quarters' forecasts are broader, since they will likely be updated in the future. Rolling forecasting and budgeting will enable you to better align your budget with your strategic plan while also improving the accuracy of your forecasts and budgets.

3. Budget to your plan, instead of planning to your budget. This is a fairly simple but often overlooked concept because it requires discipline on the part of ownership and management. It requires that spending decisions be made based on actual revenue, rather than on opportunities that such spending might (or might not) lead to. Budgeting to plan considers the true impact that spending decisions will have on the company's finances.

Receiving Tips Can Be Taxing
Article Highlights:

- Tips are taxable and must be included on your tax return
- Tip splitting and cover charges
- Tip reporting to employer
- Employer tip allocation
- Daily log for tip record keeping

If you work in an occupation where tips are part of your total compensation, you need to be aware of several facts relating to your federal income taxes:

- **Tips are taxable —** Tips are subject to federal income, social security, and Medicare taxes. The value of non-cash tips, such as tickets, passes, or other items of value, is also income and subject to taxation.
- **Include tips on your tax return —** You must include in gross income all cash tips received directly from customers, tips added to credit cards, and your share of any tips received under a tip-splitting arrangement with fellow employees.
- **Report tips to your employer —** If you receive $20 or more in tips in that month, you should report all of your tips to your employer. Your employer is required to withhold federal income, social security, and Medicare taxes. If the tips received are less than $20 in any month, they need not be reported to the employer. However, these tips are still taxable and must be reported on your tax return, as they are subject to income and social security taxes.
- **Tip-splitting and cover charges —** Tips you give to others under a tip-splitting arrangement are not subject to the reporting requirement, so you should report to your employer only the net tips you receive. Service (cover) charges, which are arbitrarily added by the business establishment, are excluded from the tip reporting

requirements. The employer should add each employee's share of service charges to each employee's wages.

- **Employer allocation of tips —** Tip allocation is applicable to "large food and beverage establishments" (i.e., food service businesses where tipping is customary and that have 10 or more employees). These establishments must allocate a portion of their gross receipts as tip income to those employees who "underreport." Underreporting occurs if an employee reports tips that are **less than 8%** of the employee's applicable share of the employer's gross sales. The employer must allocate to those underreported employees the difference between what the employee reported and the 8%. If you are in this situation, your allocation amount will be noted on your W-2 form. These allocated tips will not have been included in the total wages box on your W-2, so they must be accounted for as additional wage income on your return, unless you have adequate records to show that the amount is incorrect. Because social security, Medicare, and Additional Medicare taxes were not withheld from the allocated tips, to the extent these tips are included in your income, you must report those taxes as additional tax on your return. The IRS frequently issues inquiries when the taxpayer's W-2 shows an allocation of tips and a lesser amount is reported on the tax return.
- **Keep a running daily log of tip income —** Tips are a frequently audited item and it is a good practice to keep a daily log of your tips. The IRS provides a log in Publication 1244 that includes an *Employee's Daily Record of Tips* and a *Report to Employer* for recording your tip income.

If you are receiving tips and have any questions about their taxation, please give this office a call.

Tips To Reduce Payroll Stress

When you hire your first employee, you create an entire new task of complying with employment and labor laws and issuing a payroll. Payroll taxes create more administrative burden for small businesses than any other tax, according to the 2015 Small Business Taxation Survey from the National Business Association.

Plus, compliance with payroll laws is a challenge for many businesses. The IRS levied more than $6.9 million in penalties related to employment taxes for the fiscal year ended September 30, 2014, according to the 2014 Internal Revenue Service Data Book.

The Stress of Payroll

Your payroll responsibilities include making tax payments to appropriate government agencies and filing all the associated paperwork on time. It's not just for the IRS; you have to follow all state rules and laws. If you have employees in more than one state, you have to follow the rules for each state, which vary widely in regards to filing frequencies, deadlines, how you must file, and how you determine taxes.
Payroll stress stems not only from taxes but also from the accounting involved in calculating hours and accrued vacation and sick day pay and tracking other employee benefits.
You can reduce payroll stress by setting up a system. Here are four steps to take.

1. Get the Initial Paperwork Filled Out.

All new employees must complete a Form W-4, Employee's Withholding Allowance Certificate, which you must submit to the IRS. The exemptions claimed on the form determine the amount of tax you withhold from an employee's pay. Check whether your state requires the completion of any forms.

2. Document How You Process Payroll.
How often do you pay employees? Some states have specific requirements about pay periods. Are you paying hourly or on salary?
How do you track employee hours? What about overtime: Does your state define overtime as working more than eight hours a day or more than 40 hours a week? How do you handle paid time off (vacation and sick leave)?
How do you manage items such as health plan premiums and retirement contributions that you deduct from employee paychecks and pay to the appropriate organizations?

3. Set Up a Tracking System.
Set up a system to track everything. It could be a manual system using pen and paper or a spreadsheet. You could use accounting and/or payroll software. You or an employee could do the tracking, or you could hire an accountant.

4. Pay Taxes and File Paperwork On Time.
You must pay payroll taxes to the IRS within a specific number of days after you pay employees, though you have eight different payroll periods and two deposit schedules to select from. IRS forms you must file include:

- Employer’s quarterly payroll tax return (Form 941)
- Annual Return of Withheld Federal Income Tax (Form 945)
- Annual Federal Unemployment Tax (FUTA) Return (Form 940 or 940EZ)
- Wage and Tax Statements (Form W-2)

For more information, see the IRS Employer's Tax Guide. You also need to learn your state's requirements for paying and filing paperwork.
You can take much of the stress out of payroll by working with a small business professional who understands your business to handle the details. A knowledgeable professional will save you a lot of time and greatly reduce the risk of errors that can lead to penalties. This type of help leaves you to focus on the purpose of your business.