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Monthly Newsletter

Time to Start Thinking About Year-End Tax Moves

Article Highlights:

- Maximize Education Tax Credits
- Roth IRA Conversions
- Minimum Required Distribution
- Advance Charitable Deductions
- Maximize Health Savings Account Contributions
- Prepay Taxes
- Pay Tax-deductible Medical Expenses
- Take Advantage of the Annual Gift Tax Exemption
- Avoid Underpayment Penalties

With year-end just around the corner, it is time to think about those last-minute actions you can take to improve your tax situation for 2016. Year-end tax planning is probably something you will want to deal with before the holiday season crush arrives.

There are numerous steps that can be taken before January 1 to save a considerable amount of tax. Not all actions recommended in this article will apply to your particular situation, but you will likely benefit from many of them.

Maximize Education Tax Credits – If you qualify for either the American Opportunity or Lifetime Learning education credits, check to see how much you will have paid in qualified tuition and related expenses in 2016. If it is not the maximum allowed for computing the credits, you can prepay 2017 tuition as long as it is for an academic period beginning in the first three months of 2017. That will allow you to increase the credit for 2016. This technique is especially helpful when a student has just started college in the fall.

Roth IRA Conversions – If your income is unusually low this year, you may wish to consider converting some or all of your traditional IRA into a Roth IRA. The lower income results in a lower tax rate, which provides you an opportunity to convert to a Roth IRA at a lower tax amount.

Don't Forget Your Minimum Required Distribution – If you are over 70.5 years of age and have not taken your 2016 required minimum distribution from your IRA or qualified retirement plan, you should do that before December 31 to avoid possible penalties. If you turned 70.5 this year, you may delay your 2016 distribution until the first quarter of 2017, but that will mean a double distribution in 2017 that will be taxed.

Advance Charitable Deductions – If you regularly tithe at a house of worship or make pledges to other qualified charities, you might consider pre-paying part or all of your 2017 tithing or pledge, thus advancing the deduction into 2016. This can be especially helpful to individuals who marginally itemize their deductions, allowing them to itemize in one year and then take the standard deduction in the next. If you are age 70.5 or over, you can also take advantage of a direct IRA-to-charity transfer, which will count toward your RMD and may even reduce the taxes on your Social Security income.

Maximize Health Savings Account Contributions – If you become eligible to make health savings account (HSA) contributions late this year, you can make a full year's worth of deductible HSA contributions even if you were not eligible to make HSA contributions earlier in the year. This opportunity applies even if you first become eligible in December.

Prepay Taxes – Both state income and property taxes are deductible if you itemize your deductions and you are not subject to the AMT. Prepaying them advances the deductions onto your 2016 return. So if you expect to owe state income tax, it may be appropriate to increase your state withholding tax at your place of employment or make an estimated tax payment before the close of 2016, and if you are paying your real property taxes in installments, pay the next installment before year-end.

Pay Tax-deductible Medical Expenses – If you have outstanding medical or dental bills, paying the balance before year-end may be beneficial, but only if you already meet the 10% of AGI floor for deducting medical expenses, or if adding the payments would put you over the 10% threshold. You can even use a credit card to pay the expenses, but if you won't be paying off the full balance on the card right away, do so only if the interest expense on the credit card is less than the tax savings. You might also wish to consider scheduling and paying for medical expenses such as glasses, dental work, etc., before the end of the year. See the "Seniors Beware" article if you or your spouse is age 65 and over.

Take Advantage of the Annual Gift Tax Exemption – You can give $14,000 to each of an unlimited number of individuals without paying gift tax each year, but you can't carry over unused amounts from one year to the next. (The gifts are not tax deductible.)

Avoid Underpayment Penalties – If you are going to owe taxes for 2016, you can take steps before year-end to avoid or minimize the underpayment penalty. The penalty is applied quarterly, so making a fourth-quarter estimated payment only reduces the fourth-quarter penalty. However, withholding is treated as paid ratably throughout the year, so increasing withholding at the end of the year can reduce the penalties for the earlier quarters.

There are additional factors to consider for a number of the strategies suggested above, and you are encouraged to contact this office prior to acting on any of the advice to ensure that you will benefit given your specific tax circumstances.

Year-End Investment Moves

Article Highlights:

- Zero Capital Gains Rate
- Offset Gains With Losses
- Wash Sales

If you invest in publicly traded securities, here are a couple of tax-saving possibilities you shouldn't forget to consider before year-end.

Zero Capital Gains Rate - If you are having a low-income year, there may be a way for you to take advantage of it. There is a zero long-term capital gains rate for those taxpayers whose regular tax brackets are 15% or less. This may allow you to sell some appreciated securities that you have owned for more than a year and actually pay no or very little tax on the gain.

Offset Gains with Losses - At this time of year, you should review your portfolio with an eye to offset gains with losses and to take advantage of the $3,000 ($1,500 for married taxpayers filing separately) of allowable annual capital loss allowance. Any losses in excess of those amounts are carried forward to future years. However, keep in mind that if you replace a security that you sell for a loss, either 30 days before or after the date of sale, it

will be considered a wash sale, and the loss cannot be used on your return, and instead, adjusts the basis of the replacement security.
Please contact this office for assistance with your year-end tax planning needs.

De Minimis Expense Election Required Before Year End

Article Highlights:

- Accounting Procedure
- $2,500 De Minimis Expensing
- Annual Election

Small businesses can adopt an accounting procedure that allows them to expense, rather than to capitalize, the purchase (cost) of tangible business property. Generally, the maximum that can be expensed under this provision is whatever amount the business decides between $1 and $2,500 per item or per invoice. So if you have not adopted the accounting procedure, you have until December 31, 2016, to do so for 2017. (The rules require that the accounting procedure be in place as of the beginning of the business's tax year.) In addition, and even if your business may have already adopted an accounting procedure, an annual election is required to be included with your 2017 tax return to apply the accounting procedure to 2017. This can be used for computers, printers, tools, etc., rather than the Sec 179 expense allowance, which recaptures as income if the item is disposed of early.

If you need assistance developing a de minimis expense accounting procedure and making the election to apply that procedure for 2017, please give this office a call.

Having a Low Taxable Income Year? Ways to Take Advantage of It

Article Highlights:

- Taxable Income
- Graduated Individual Tax Rates
- Take IRA Distributions
- Defer Deductions
- Convert Traditional IRA Funds into a Roth IRA
- Zero Capital Gains Rate
- Business Expenses

Being unemployed, having had an accident that's kept you from earning income, incurring a net operating loss (NOL) from a business, having an NOL carryover from a prior year, suffering a casualty loss or other incidents that result in abnormally low taxable income for the year can actually give rise to some interesting tax planning strategies.

But, before we consider actual strategies, let's look at key elements that govern tax rates and taxable income.

Taxable Income - First, of all, to be simplistic, taxable income is your adjusted gross income (AGI) less the sum of your personal exemptions and the greater of the standard deduction for your filing status or your itemized deductions:

AGI	XXXX
Exemptions	<XXXX>
Deductions	<XXXX>
Taxable Income	XXXX

If the exemptions and deductions exceed the AGI, you can end up with a negative taxable income, which means to the extent it is negative you can actually add income or reduce deductions without incurring any tax.

Graduated Individual Tax Rates - Ordinary individual tax rates are graduated. So as the taxable income increases, so do the tax rates. Thus, the lower your taxable income, the lower your tax rate will be. Individual ordinary tax rates range from 10% to as high 39.6%. The taxable income amounts for 10% to 25% tax rates are:

Filing Status (2016)	Single	Married Filing Jointly	Head of Household	Married Filing Separate
10%	9,275	18,550	13,250	9,275
15%	37,650	75,300	50,400	37,650
25%	91,150	151,900	130,150	75,950

So for instance if you are single, your first $9,275 of taxable income is taxed at 10%. The next $28,375 ($37,650 - $9,275) is taxed at 15% and the next $53,500 ($91,150 - $37,650) is taxed at 25%.

Here are some strategies you can employ for your tax benefit. However, these strategies may be interdependent on one another and your particular tax circumstances.

Take IRA Distributions – Depending upon your projected taxable income, you might consider taking an IRA distribution to add income for the year. For instance, if the projected taxable income is negative, you can actually take a withdrawal of up to the negative amount without incurring any tax. Even if projected taxable income is not negative and your normal taxable income would put you in the 25% or higher bracket, you might want to take out just enough to be taxed at the 10% or even the 15% tax rates. Of course, those are retirement dollars; consider moving them into a regular financial account set aside for your retirement. Also be aware that distributions before age 59½ are subject to a 10% early withdrawal penalty.

Defer Deductions – When you itemize your deductions, you may claim only the deductions you actually pay during the tax year (the calendar year for most folks). If your projected taxable income is going to be negative and you are planning on itemizing your deductions, you might consider putting off some of those year-end deductible payments until after the first of the year and preserving the deductions for next year. Such payments might include house of worship tithing, year-end charitable giving, tax payments (but not those incurring late payment penalties), estimated state income tax payments, medical expenses, etc.

Convert Traditional IRA Funds into a Roth IRA – To the extent of the negative taxable income or even just the lower tax rates, you may wish to consider converting some or all of your traditional IRA into a Roth IRA. The lower income results in a lower tax rate, which provides you with an opportunity to convert to a Roth IRA at a lower tax amount.

Zero Capital Gains Rate - There is a zero long-term capital gains rate for those taxpayers whose regular tax brackets are 15% or less (see table above). This may allow you to sell some appreciated securities that you have owned for more than a year and pay no or very little tax on the gain.

Business Expenses – The tax code has some very liberal provisions that allow a business to currently expense, rather than capitalize and slowly depreciate, the purchase cost of certain property. In a low-income year it may be appropriate to capitalize rather than expense these current year purchases and preserve the deprecation deduction for higher income years. This is especially true where there is a negative taxable income in the current year.

If you have obtained your medical insurance through a government marketplace, employing any of the strategies mentioned could impact the amount of your allowable premium tax credit.

If you would like to discuss how these strategies might provide you tax benefit based upon your particular tax circumstances or would like to schedule a tax planning appointment, please give the office a call.

Tips for Holiday Charity Giving

Article Highlights:

- Holiday Season Charity Gifts
- Long-form Itemization Required
- Documentation for Taxes
- Monetary Donations
- Property Donations
- Charity Scams
- Qualified Charities Only
- Disaster Scams
- ID Thieves

The holiday season is the favorite time of the year for charities to solicit donations. It is also the time of year when scammers show up in force, pretending to be legitimate charities in hopes of swindling you. It is also a festive and very busy time of the year, and you may inadvertently overlook the documentation needed to verify your generosity for tax purposes. Here are some tips for charitable giving.

Documentation – To claim a charitable deduction, you must itemize your deductions; if you don't, there is no need to keep any records of your donations. There are two types of charitable gifts: monetary and property.

Monetary donations include those made by cash, check, credit card, or other means. This type of contribution is only deductible if the donor maintains a record of the contribution in the form of either a bank record (such as a cancelled check) or a written communication from the charity (such as a receipt or a letter) showing the name of the charity, the date of the contribution, and the amount of the contribution. In addition, if the contribution is $250 or more, the donor must also get an acknowledgment from the charity for each deductible donation. Keep in mind that dropping cash in a holiday donation kettle without any documentation is not deductible.

Non-cash holiday contributions to organizations such as Toys for Tots and to seasonal food drives by recognized charities are also deductible. The deductible amount is the fair market value (FMV) of the items at the time of the donation, and you must document your donation with a detailed list of what was given and the name of the charity receiving the gift. Where the FMV of your gifts is $250 or more, you must also obtain an acknowledgment from the charity for each deductible donation. When gifts of property are $500 or more, there are additional record keeping requirements, so please call for details if you plan to make gifts of this value.

Watch Out for Charity Scams – To avoid scammers getting your charitable donations, make sure you are contributing to a legitimate charity and not to a bunch of crooks who work overtime during the holidays to trick you out of money.

Be wary of charities with names that are similar to familiar or nationally known organizations. Some phony charities use names or websites that sound or look like those of respected, legitimate organizations.

When in doubt, you should take a few extra minutes to ensure your gifts are going to legitimate charities. IRS.gov has a search feature—Exempt Organizations Select Check—that allows you to find legitimate, qualified charities to which donations may be tax deductible.

Disaster Scams – In the wake of significant natural disasters, such as Hurricane Matthew, it's common for scam artists to impersonate charities to get money or private information from well-intentioned taxpayers. Scam artists use a variety of tactics including contacting people by telephone or email to solicit money or financial information, and they may even set up phony websites that claim to solicit funds on behalf of disaster victims.

Watch Out for ID Thieves – Don't give out personal financial information such as your Social Security number or passwords to anyone who solicits a contribution from you. Scam artists may use this information to steal your identity and money. Using a credit card to make legitimate donations is quite common, but please be very careful when you are speaking with someone who called you; don't give out your credit card number unless you are certain the caller represents a legal charity.

Don't be a victim; make sure you are donating to recognized charities. Deductions to charities that are not legitimate are not tax deductible. If you have questions, please give this office a call.

Habits That Threaten Your Identity and Pocketbook

Article Highlights

- What's In Your Wallet Or Purse
- Your Fear Of The IRS
- Using Public Internet Connections
- Not Screening Your E-Mails
- E-Mailing And Texting Sensitive Information
- Being Free and Easy With Passwords
- Using Identical Passwords

They're just old habits. You likely to do them without even thinking. But these habits could be making you vulnerable to hacks, scams, ID theft and Internet phishing schemes out to separate you from your hard-earned money.

1. **What's in Your Wallet or Purse?** Does it contain items that include your Social Security Number (SSN) and birth date? For instance, does it contain your driver's license and either your Social Security card or Medicare card? If it does, and the wallet or purse falls into the wrong hands, the thief will have both your SSN and birth date, the two key items that can be used to compromise your identity. If your ID gets hacked, you are in for a long-running and expensive nightmare. Make sure your wallet or purse isn't a jackpot for an ID thief.

2. **Your Fear of the IRS**. It is common for most folks to have a natural fear of the IRS. Get a letter in the mail from the IRS, and the adrenalin kicks in and your pulse rate quickens. Scammers play on that emotion to ply their scams on the unsuspecting who don't want to have any problems with the IRS. These range from e-mail messages to personal calls threatening arrest, property seizure or other dire consequences. But wait a minute! The IRS only initially communicates by U.S. mail, so any other form of communication is fake, and you can hang up on the caller or delete the e-mail without fearing you'll incur the IRS's wrath. Still unsure? Call your tax preparer. **Don't be a victim!**

3. **Using Public Internet Connections.** These days you can find public Internet connections almost anywhere – at the airport, your favorite coffee house and even shopping malls. Getting work done or taking care of financial dealings while you are out and about may seem like a good idea, but remember the cyber thieves also have access to that Wi-Fi and they have the know-how to access your computer through that Wi-Fi connection. Only use secure Internet connections to get work done or conduct financial transactions, and save public connections for personal browsing purposes.
4. **Not Screening Your E-Mails**. ID thieves send out e-mails trying to entice you into clicking on an imbedded link within the e-mail, which will then allow them access to your computer and whatever is on it. They will try to sucker you into clicking on the imbedded link by promising free this and that, or even telling you that you have won a monetary prize and need to go to a website to claim it. Don't be tempted; just remember, if it's too good to be true it probably isn't true. Just delete the e-mail!
5. **E-Mailing and Texting Sensitive Information.** What we all forget is how easy it is for e-mail and text messages to get hacked. You have to worry not only about your end getting hacked but also about the one to whom you are sending the message. Never send documents that include sensitive information. A common error is to inadvertently send a document with your SSN, birth date, passwords, or other information. The best practice is to always assume your e-mails and texts can be seen by others and act appropriately.
6. **Being Free and Easy With Passwords.** It may not seem like a big deal to share your password with a family member that you're close to, but even if that person is completely trustworthy, they may not be as safety conscious as you and may accidently leak the password. You should always keep your passwords completely confidential to ensure that they don't fall into the wrong hands.
7. **Using Identical Passwords.** It is easier to remember one password than several, and in today's digital world just about everything needs a password. But if you use just one and it gets compromised, then all your accounts are compromised. It is a best practice to use a different password for every account. In addition, it is a good idea to periodically change your passwords.

Bottom line, stop and think before you act, always be skeptical of unsolicited and unexpected communications, guard your sensitive information like you are guarding Fort Knox and when in doubt call this office for assistance.

10 Insane (But True) Ways to Grow Small Business Profits

When you were a kid, you imagined becoming an entrepreneur — a dream that turned into reality a few years ago when you started your first small business and began enjoying the freedom of being your own boss. But, since then, your profits haven't grown at the rate you'd hoped they would. If you can relate to this scenario, you're not alone. Thankfully, many proven methods exist to help small businesses increase revenues, cut costs and improve their bottom line. If you're ready to take your company to a new level of success, consider implementing one or more of the following insane (but true) ways to grow small business profits.

Eliminate Low-Margin Clients, Products or Services
To boost your small business profits, ask yourself the following questions:

What clients, products or services generate the most money and offer the greatest growth potential right now?

What clients, products or services generate the least profit and provide the least growth potential currently?

After analyzing your findings, eliminate low-margin clients, products and services. With the saved time and money, focus on the higher-producing areas of your business. Purging clients, products or services from your company might be painful at first. However, this practice will likely slash stress and pay dividends in the long run.

Embrace Technology
Embrace technology, automate and go paperless. Besides helping the environment, you'll probably save a ton of money. In addition to cutting costs on paper, you'll also spend less money on printer maintenance and toner as well as file cabinets and binders.

Increase Conversion Rates Through A/B Testing
Regardless of what type of small business you have, turning more shoppers into buyers will improve your bottom line. To increase conversion rates, consider implementing A/B testing. Also referred to as split testing, A/B testing utilizes two distinct sales pages in order to ascertain which page converts more effectively. Depending on the nature of your business, converting might equate to a customer buying a product or a client purchasing a service.

Experiment With Pricing
Raising prices while adding value can perhaps be the simplest way to improve small business profits. However, you risk losing bargain-oriented customers. Fortunately, for many people, price isn't the most important factor when purchasing products and services. Lowering prices with the express intent of selling more products or services can also be a winning strategy.

Increase Average Lifetime Value of Each Client
Repeat customers can help your small business survive during stagnant economic times. Besides searching for effective ways to attract new customers, focus on increasing the average lifetime value of each client. You can accomplish this important task by:

- Offering loyal customers a product or service upgrade
- Providing customers with something your competitors don't offer them
- Being more convenient than your competitors
- Looking for ways to solve problems for your customers
- Providing stellar customer service
- Reduce Churn Rates

Churn refers to when a client ends his or her relationship with a business. A high churn rate will negatively impact your ability to grow your small business profits. To reduce churn rates:

- Establish customer expectations and strive to meet or exceed them
- Make your first impression a great one
- Listen to your clientele
- Closely monitor external environment changes
- Speed Up Product or Service Delivery

Speeding up the delivery of your products and services is another ingenious way to improve profits. Fast deliveries make customers happy and encourage repeat business. Decreasing the amount of time projects sit in limbo will also save money.

Bundle Products or Services
Do you offer products or services that naturally fit together? Providing customers with product or service bundles is a great way to increase both your revenues and your bottom line. For example, an accounting firm might bundle bookkeeping, tax preparation and consulting services.

Expand to a New Geographic Market
If you've saturated your current geographic market, consider expanding to a new one. Obviously, the costs of such an undertaking must be analyzed. But the long-term benefits of tapping into new geographic markets might make the venture worthwhile.

Provide Maintenance Contracts
Do you want to generate a steady income stream for an extended period of time? Think about charging customers an ongoing fee in exchange for maintenance contracts. You can even offer discounts to customers who sign longer contractual agreements. When developing maintenance contacts, clearly list the products or services customers can expect to receive.

For some professionals, growing small business profits seems like an impossibility. Dealing with saturated markets and a sluggish economy can dampen the outlook of even an eternally optimistic business owner. If you're struggling to improve the bottom line of your small business, consider adhering to one or more of these strategies.

Ringing Out 2016 in QuickBooks

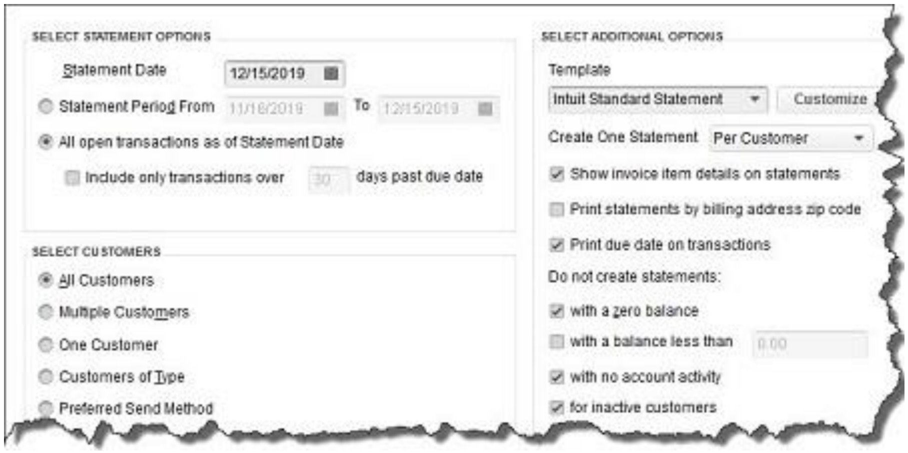
2017 is just around the corner. Now's the time to do your end-of-year QuickBooks tasks.

Since early January of this year, you've been faithfully creating new records, entering transactions, and recording payments. You've run basic reports. You've done your collection duties. You may have paid employees and submitted payroll taxes.

Now the end of the year is rapidly approaching. In the midst of holiday get-togethers, gift shopping, and perhaps preparing for travel, you probably have a list of work tasks that must be completed by December 31.

Is your annual QuickBooks wrap-up on that list? It should be. Here are some of the things we suggest you fit into your busy schedule sometime this month.

Create and send year-end statements.



As your customers wrap up 2016, too, it's good to send statements to past-due accounts.

In an ideal world, all of the invoices that are currently due would be paid off by the end of the year. We all know that that's not usually the reality. Two reports can help you here: the **A/R Aging Summary** and **Open Invoices**.

Give everyone a chance to clear their accounts before December 31 by sending statements. Click **Statements** on the **Home** page (or **Customers | Create Statements**) to open the window pictured above.

You have multiple options here that are fairly self-explanatory. The screen above is set up to create statements for all customers who have an open balance as of the date you select, but not for inactive customers or those with a zero balance or no account activity. That way, no one who's paid in full to date will receive a statement. Of course, if you didn't want statements created for anyone who's less than 30 days past due, you'd click in the box in front of **Include only transactions over** and enter a "30" in the following field. Questions about all of this? Give us a call.

*Tip: You can also find out who's overdue by clicking on the **Customers** tab in the left vertical pane to open the **Customer Information** screen. Click on the down arrow to the right of the field just below **Customers & Jobs**. QuickBooks provides several filters for your list.*

Reduce your inventory.

*Want to discount all or selected items in your inventory by the same percentage or amount? Open the **Customers** menu and click **Change Item Prices**. We can work with you on the whole item pricing process.*

The week between Christmas and New Year's Day might be a good time to sell excess inventory by having a sale. If you only sell a few products, you probably know what hasn't sold well in 2016. If your stable of products is larger, you can run QuickBooks reports like **Inventory Stock Status by Item** and **Sales by Item Detail** to identify your slow-sellers and discount them. You may need to filter your reports to see the right data. Talk to us about customization options if you're unsure of this.

Clean up your contact lists.

If you don't maintain your customer and vendor lists, you'll eventually start wasting time scrolling through them when you enter transactions. So this would be a good time to designate those contacts that you've not dealt with in 2016 as Inactive (you can delete their records entirely, but we advise against that). Simply open a **Customer** record, for example, and click the small pencil icon in the upper right to edit it. Click on the box in front of **Customer is inactive**.

Run advanced reports.

Here's where we come in. If we're not already creating and analyzing QuickBooks' advanced financial reports (found in the **Accountant & Taxes** submenu of **Reports**) monthly or quarterly, talk to us about it. They're important, and they give you insight that you can't get on your own. This is another activity that can spill into January.