Dear Client:

Before the truly busy season begins for you and your family with school and the upcoming holiday obligations, now is the time to give some thought to your year-end tax planning strategies. Are you planning on cleaning out your house and donating to the local Goodwill Center? Maybe you are researching the benefits of contributing to a traditional IRA or a Roth IRA? Or is 2015 the year you decided to start a new business? Following are tips for these considerations as well as other tax issues you may be encountering.

Charitable Donations:

Not all charities are qualified charitable organizations. Examples of qualified charities include churches, Boy Scouts, Red Cross, United Way, nonprofit schools and colleges, and government agencies if funds used solely for public purposes. Some nonqualified organizations are country clubs, civic leagues, social clubs, chamber of commerce or homeowner's associations. If you are not sure the IRS website has a complete listing of approved charitable (501(c) (3)) organizations.

Noncash donations:

Many court cases have been won by the IRS regarding the recordkeeping requirements for the donation of noncash items. No deduction is allowed for a charitable contribution of clothing or household items unless the clothing or household item is in good used condition or better. The IRS is allowed by regulation to deny a deduction for any contribution of clothing or a household item that has minimal monetary value, such as used socks and underwear.

To help substantiate a deduction for the fair market value of used items donated to charity, make a list of the items donated, along with the following information:

- name and address of charity,
- date items were donated to the charity,
- description of each item donated,
- how the property was acquired (purchase, gift, inheritance),
- fair market value of each item at the time they were donated,
- date each donated item was originally purchased or acquired, and
- cost or other basis of each item donated.

If the information on when the items were acquired or the basis of the items is not available then note the reason on your worksheet.

While websites such as the Salvation Army or Goodwill may provide guidance on the fair market value of items donated, their worksheets will not suffice as substantiation in an audit situation. Receiving a blank receipt from a Goodwill drop-off center is not sufficient recordkeeping. It is recommended that your worksheet be prepared before heading off to the drop-off center and have your document signed as proof of the donation. It is also recommended that pictures of large items such as televisions, computers, electronics or furniture be retained as part of your tax records.

If you use a drop-off box, such as those found in community centers, which has no attendant a complete record of your donation is still required with the information listed above.

For contributions of noncash items that exceed $5,000 a written appraisal of the item is required to accompany the tax return. This must be performed by a qualified appraiser. The IRS has established the following requirements:

- a Qualified Appraiser has earned a professional designation from a recognized professional appraiser organization for demonstrated competency in valuing the type of property being appraised, or has met certain minimum education and experience requirements;
- the appraiser regularly prepares appraisals for which he or she is paid;
- the appraiser demonstrates verifiable education and experience in valuing the type of property being appraised; and
- the appraiser has not been prohibited from practicing before the IRS at any time during the 3-year period ending on the date of the appraisal.

The appraisal should be completed no more than 60 days prior to the donation or any time after, as long as it is completed before the tax return is due. The cost of the appraisal may be deductible on Schedule A of the Form 1040, under Miscellaneous Deductions which are subject to a 2% threshold.

Cash donations:

The recordkeeping requirements for cash donations depends on the amount of the donation. The documentation for cash donations is critical as this is an area that is regularly audited by the IRS. The receipt for any donation must be received contemporaneously, meaning it must be obtained from the charity prior to the filing of the income tax return. The courts have consistently supported the IRS disallowance of any deduction for charitable donations that does not have the proper timely substantiation.

For cash contributions up to $250, one of the following is needed:

1) Bank record with organization's name, date, and amount of contribution. Bank records may include canceled check, bank statement, or credit card statement.
2) Receipt showing organization's name, date, and amount of contribution.
3) Payroll deduction record.

For cash contributions in excess of $250, the following is needed:

1) Same as less than $250, plus:
2) Written acknowledgement from the charitable organization or payroll deduction record. The acknowledgement must (a) show the date and amount of the contribution, (b) state whether any goods or services other than intangible religious benefits were provided by the charitable organization (including a good faith estimate of the value), and (c) a statement that the only benefit the taxpayer received was an intangible religious benefit, if that was the case.

Volunteer work:

Unfortunately, for tax purposes your volunteer time has no value. While your volunteer efforts may be desperately needed by the organization it is not a tax deduction. However, the costs you incur in your volunteer work may by deductible. Report out-of-pocket expenses as cash contributions. These expenses may include:

- Auto expenses: Deductible out-of-pocket expenses include the cost of using the taxpayer's auto in providing services for a charitable organization. Deduct the actual cost of gas and oil or the standard mileage rate. Add parking and tolls to amount claimed for either standard mileage rate or actual expenses. The standard mileage rate for charitable deductions is 14¢ per mile for 2015.
- Travel expenses: The cost of travel, such as air, rail, and bus transportation, as well as meals and lodging, are deductible while away from home doing volunteer work if there is no significant element of personal pleasure, recreation, or vacation in the travel. The deduction will not be denied simply because the taxpayer enjoys doing the volunteer work. However, if the taxpayer has only nominal duties for the charity, or if for significant parts of the trip the taxpayer does not have duties to perform, the travel expenses are not deductible.

- Conventions: Travel expenses to attend a convention of a qualified organization are deductible only if the taxpayer is a chosen representative. Expenses to attend a church convention, for example, are not deductible if the taxpayer attends as a member of the church rather than as a chosen representative.
- Uniforms: The cost and upkeep of uniforms not suitable for everyday use are deductible if required to be worn while performing volunteer work.

Donating a vehicle:

The donation of a vehicle to a charitable organization comes with its own sets of rules and limitations. The charitable organization must provide Form 1098-C, Contributions of Motor Vehicles, Boats, and Airplanes, which must be attached to your income tax return.

- Written Acknowledgement: Obtain written acknowledgement from the organization, which includes details on the use or disposition of the vehicle by the organization. A copy of the written acknowledgement must be attached to the tax return.
- Deduction Limits: A deduction for used items donated to a charity are generally equal to the fair market value of the item at the time of the donation. In the case of vehicles, the deduction may be less than fair market value under the gross proceeds deduction limit.

  1) If the organization sells the donated vehicle without a significant intervening use or material improvement by the donee organization, then the deduction is limited to the gross proceeds received from the sale.

  2) If the organization sells the donated vehicle after significant intervening use or material improvement to the vehicle, the deduction is limited to the fair market value of the vehicle.

  3) If the organization sells the vehicle at significantly below fair market value, the gross proceeds limitation will not apply if it was a gratuitous transfer to a needy individual in line with the purpose of the charity to provide transportation to the poor.

  4) If the organization retains the vehicle for its own charitable purposes, the deduction is limited to the fair market value of the vehicle.

This is a brief overview of the rules involving charitable giving. Contact us if you have any questions regarding donations or documentation needed at tax preparation time.

Traditional IRA vs Roth IRA:

Are you confused about your choices for deferring taxable income? Is it better to defer now or contribute to a post-tax IRA which then lets you grow your retirement money tax-free? Many factors can contribute to this decision including your age, taxable income bracket or other retirement options. There are many software tools available to help you with these choices. You can get help from your financial advisor or there are many online software tools such as the Vanguard calculator which determines your net benefit after taxes.

What is a Roth IRA?

A Roth IRA is an individual retirement arrangement. It is a personal savings plan that gives you tax advantages for setting aside money for retirement. An account must be designated as a Roth IRA when opened.

What is a SIMPLE IRA?

A savings incentive match plan for employees (SIMPLE) plan is a salary reduction between you and your employer that allows you to choose to reduce your pay by a certain percentage each pay period, and have your employer contribute the salary reductions to a SIMPLE IRA on your behalf. All contributions under a SIMPLE IRA plan must be made to a SIMPLE IRA, not to any other type of IRA. The SIMPLE IRA can be an individual retirement account. If your employer maintains a SIMPLE IRA plan, you must be notified, in writing, that you can choose the financial institution that will serve as trustee for your SIMPLE IRA and that you can roll over or transfer your SIMPLE IRA to another financial institution.

What is an IRA?

An IRA is an individual retirement arrangement. It is a personal savings plan that gives you tax advantages for setting aside money for retirement. An IRA is referred to as a Traditional IRA if it is not a Roth IRA or a SIMPLE IRA. Traditional IRAs include SEP IRAs.

Roth IRA tax advantages and rules compared to a Traditional IRA:

- Contributions to a Roth IRA are not deductible. Active participation in an employer plan is irrelevant. Contributions to a Traditional IRA may be fully or partially deductible subject to whether you are covered by an employer retirement plan.

- If certain requirements are satisfied for your Roth IRA, qualified distributions are tax free. Amounts in your Traditional IRA (including any earnings or gains) are taxed upon distribution.

- Can withdraw Roth IRA contributions any time for any reason without owing taxes or penalties. Early distributions from a Traditional IRA (before you are age 59½) may be subject to a 10% additional tax if no exceptions apply.

- Contributions can be made to a Roth IRA after the participant reaches age 70½. The required minimum distribution (RMD) rules do not apply. Distributions are not required until death of the participant. However, contributions are not allowed past age 70½ to a Traditional IRA and required minimum distributions begin after age 70½.

- Contributions are not allowed to a Roth IRA when modified adjusted gross income (MAGI) is above certain limits. There is no limit on how much you can earn and still contribute to a Traditional IRA, however there may be a limitation on the amount deductible above certain income thresholds.

- You cannot set up a SEP IRA nor a SIMPLE IRA as a Roth IRA.

Contact us for help in assessing your tax situation before making your investment choices. There are significant penalties for excess or ineligible IRA contributions.

Rollover of IRA funds:

There has been a change in the rules from the IRS regarding the withdrawal of funds from your Traditional IRA. The regulations state that any funds withdrawn from your IRA account is subject to income tax (and the 10% penalty if withdrawn before age 59 ½). There are several exceptions to the penalty if the funds are withdrawn for hardship, your first home, etc. However, you are still subject to ordinary income tax. If the funds are re-deposited (or rolled over) within 60 days then there is no tax consequence and it is treated as if nothing happened. The regulations were originally interpreted to mean one rollover per IRA account. So, if you had several IRA accounts you could rollover the money from each account effectively having tax-free and interest-free use of the money.

However, all of that changed last year with a tax court case that now defines the regulations to read one rollover **per taxpayer.** If you have subsequent rollovers from other accounts those are treated as a withdrawal and excess contribution to your IRA which is not only subject to the 10% penalty (if under age 59 ½) but an additional 6% excise tax.

So what does this mean? You have IRA accounts in Bank of America, Wells Fargo and Chase which are self-directed. Funds are withdrawn from Bank of America, used for 59 days and redeposited. You then withdraw funds from the Wells Fargo IRA account which are used for 59 day and redeposited. And so it goes. Prior to this court case this activity did not generate any additional tax scrutiny. However now – any withdrawals after the first withdrawal are not eligible for the rollover provisions and will be subject to ordinary income tax and any applicable penalties.

This is not a surprise we want to discover at tax time. Contact me if you have had multiple withdrawals from your IRA's to determine the tax consequences.

Did you start a business in 2015?

While the start of a business is an exciting time there are many considerations to be taken into account for a business to succeed. We know we are technically competent to provide the service or product we are selling but many new business owners fail to take into account the tax and regulatory issues required. The many details that go into the planning process all start with your business plan.

The Purpose of a Business Plan:

A business plan is a written document created to detail all aspects of a business on a comprehensive level. Many banks and investors require a written business plan before lending to, or investing in, a business.

Executive Summary:

The executive summary is a summary of the entire plan. It should be written when all other sections of a business plan are complete and should be less than one page in length. The executive summary should include enough detail to allow a user to read the summary and gain a basic understanding of the business.

Mission, Vision, and Description:

• Mission statement. The mission statement should be less than 30 words and describe why a business exists, as well as its fundamental purpose at present.

• Vision. The vision statement defines the intended future state of an organization. It sets a high, long-term goal which is used to guide decisions of management and ownership.

• Description. The description section defines goals and objectives, business philosophy, target market, industry, and the legal entity under which the business will operate.

Products and Services:

Provide a detailed description of the products and services the business will offer. Include pricing, unique features, and the required level of quality. Create an appendix for any photos, technical specifications, drawings, or brochures.

Marketing Plan:

The marketing plan is developed by conducting (or having conducted) market research to define the clientele of a business and how to best market products and services. The sales forecast is the final element in a marketing plan. It forecasts over a 12-month period the quantities of each product or service expected to be sold. It is the base from which the financial plan will develop.

Operational Plan:

The operational plan details the day-to-day operations of a business. Items discussed in an operational plan should include issues such as location, licensing, personnel, inventory, suppliers, credit policies, and managing payables.

Management and Organization:

• Key employees: The term key employee refers to a person or persons who will manage the business on a daily basis. Include in the list the key employees' talent, experience, and distinctive competencies brought to the business. Incorporate job descriptions of key employees, as well as resumes of the owners and key employees if using a business plan to seek financing.

• Management continuation plan: Management continuation planning involves determining how a business will continue should one or more of the key employees leave the company or become unable to fulfill his or her duties. The plan should specify the exact procedures for transferring duties when required, including arrangements with vendors, banks, employees, and owners.

Personal Financial Statement:

A personal financial statement (PFS) is a balance sheet for each owner on an individual basis. It includes values and detail of all assets owned, as well as amounts and terms for all debt obligations. This is not a profit and loss statement. It is an accounting for all your personal assets including land, investment accounts, whole life insurance policies, collectibles including antiques and jewelry, or other business ventures and the corresponding liability against those assets.

Financial Plan for the Business:

• Capitalization: Capitalization is the source of cash used for start-up costs, including professional consulting, asset acquisition, and buying or leasing business property. Information about any debt or equity financing should be included in this section.

• Forecasting cash flow: For new businesses, cash flow, more than profit, is the best indicator of whether a business will survive. It determines whether a business will be able to pay its expenses and debts as they come due. A business plan should contain a statement of projected cash flow for the first 12 months of the business. Lenders or investors may require customized reports indicating cash flow and profit projections.

Business Agreements:

A business agreement is a key component of any business arrangement whether it be with your spouse, family or friends. It lays out the rules and expectations while everyone is still friends and excited about the business opportunities. Think of it as a pre-nuptial agreement for your business. The discussions generated by the formation of a business agreement may help you decide if this is the right fit for you and your business associates. While the following list is a start to the discussion it is not comprehensive. The discussion needs to continue with your tax professional, legal counsel and insurance professional. Be sure you understand all of the implications of your chosen profession and the contractual agreements that are developed.

Choice of business entity:

- Incorporation agreements.
- Partnership agreements.
- LLC agreements. Consult an attorney to ensure compliance with state laws when forming a business entity.

Business organization:

• Name and address of business.

• Names and addresses of owners.

• Description of business purpose. Products, services, market.

• Contributions to capital. Loans to the business, repayment guarantees.

• Special allocations for partnerships.

• Number and duties of employees.

• Responsibilities of owners. (1) Administrative duties; (2) Services to be performed as well as hours dedicated to business, time off, length of commitment, wages/guaranteed payments, contributions to retirement funds, other payments. More business arrangements fall apart due to the lack of understanding of the commitment required of each owner.

Divisions of responsibility:

- Authority to: Hire and fire employees, train employees, make loans, purchase inventory and supplies, enter into contracts, incur business debt.
- Books and records: Responsibility for bookkeeping, accounting, and tax compliance, location of books and records, fiscal or calendar year, accounting method, tax elections, responsibility for legal compliance.
- Payment of expenses not covered by business operations. Stop loss agreements, percentage contributions in case of shortfall, expenses to be paid personally by owners, provisions for additional capital contributions
- Draws. Scheduled draws, limits on draws, restrictions on draws
- Amendment provisions. Circumstances, authority, procedures
- Rights of owner withdrawal or transfer of interest. Ability to withdraw, requirements for sale of interest, rights of first refusal, ability to sell to outside party, advance notice of retirement, methods of evaluating owner's share.
- Death of an owner. Buy/sell agreements, succession plan, rights and authority of relatives, location of each owner's will, right to divide interest of owner.
- Decisions / disagreements. Situations that will require a vote, majority or unanimous vote requirements, arbitration agreement.
- Amending the agreement. Situations where amendment is mandatory, situations where amendment is a choice, vote required for amendment.

Starting a Business Checklist:

✓ Done. Skip any item which does not apply to the business.

1) __ Develop a business concept

2) __ Select and retain accountants and attorneys

3) __ Select a business entity

4) __ Determine ownership structure

5) __ Complete a business plan

6) __ Obtain initial start-up capital

7) __ File for organization with state

8) __ Hold first board of directors meeting

9) __ Apply for a federal employer identification number (EIN) by submitting Form SS-4

10) __ Apply for S corporation status by filing Form 2553

11) __ Establish accounting procedures

12) __ Choose an accounting software

13) __ Input all transactions from the beginning of business development into accounting software

14) __ Apply for business financing and solicit investors

15) __ Open business bank accounts

16) __ Apply for required permits or licenses

17) __ Select an insurance agent

18) __ Purchase insurance

19) __ Select a commercial real estate agent

20) __ Locate and obtain office or production space

21) __ Acquire furniture and equipment

22) __ Complete any needed build-out of space

23) __ Select a payroll processing company

24) __ Select an employee benefits company

25) __ Hire staff and complete training

26) __ Commence marketing

27) __ Order initial inventory and begin production

28) __ Conduct a grand opening

Both the Small Business Association (sba.gov) and the Internal Revenue Service (irs.gov) have substantial information on their websites concerning business plans and considerations for start-up businesses.

Contact us for help in putting together your business plan, developing your financial forecasts, setting up your accounting systems or any other concerns regarding your business activity. It is crucial that you contact us before the end of the year for any tax planning strategies that may be needed to prepare for possible tax liabilities.