RRBB ACCOUNTANTS + ADVISORS

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RRBB Announcements

Client Highlights

RRBB congratulates our client and friends at Green Distribution and Green Applications, LLC, for tremendous growth and expansion this past year. Green Distribution made the Inc. 5000 fastest growing companies list by showing more than 200% growth in three years! And their subsidiary, Green Applications, LLC, recently announced an expansion of their East Coast operations. Green Applications, along with Virginia governor Terry McAulliffe, announced that Green will invest a considerable sum to acquire and renovate a facility in Gordonsville, Virginia. With this expansion, Green also expects to create 323 new jobs in their first Virginia operation. Based in New Jersey, Green Applications LLC, a Division of Green Distribution, is one of the largest printers and distributors of textile merchandise and heat-applied graphics on the East Coast. We at RRBB are excited and proud to be a part of their growth and success. Robert and his team are really doing a great job expanding and persevering to succeed. And, we are happy to hear Green CEO Robert Butters talk about us this way: “It is great to be recognized for our hard work, growth and performance. And it is great to have the RRBB team in our corner, giving us good insight, advice and ideas as we expand and grow.”

Another long-time client and friend of RRBB has some wonderful developments to celebrate. After a very successful career at Ernst & Young, Frank Sonnenberg has had much success as an author as well. Frank is coming out with another great book, *Follow Your Conscience—Make a Difference in Your Life & in the Lives of Others*, due out in mid-November. It looks to be another terrific thought leadership book. It is a follow-up to his best seller, *Managing with a Conscience,* and is expected to be a best seller, too. Frank has already written four books and published over 300 articles. He served as the National Director of Marketing for Ernst & Young’s Management Consulting Group for over a decade. FrankSonnenbergOnline was named “Among the Best 21st Century Leadership Blogs.”

He is the author of the best-selling books, *Marketing to Win* (Harper & Row, 1990), *Managing with a Conscience* (McGraw-Hill, 1994), which was selected by *Industry Week* as one of the top ten business books of the year, *It’s the Thought That Counts* (Executive Excellence 2001) and *Managing with a Conscience*, 2nd edition (Amazon/CreateSpace, 2012), which was named one of the Top Small Business Books of 2012. Trust Across America named Frank one of America’s Top 100 Thought Leaders for 2011, 2012, 2013 and 2014. Switch and Shift named him one of the “Top 75 Human Business Champions—2014.” *Social Media Marketing Magazine* selected Frank as one of the top marketing authors in the world on Twitter in 2011. Frank was also nominated one of “America's Most Influential Small Business Experts of 2012.” Please join us in congratulating Frank on his latest work.

Our client MTBC went public this summer. Congratulations! They were also asked to ring the closing bell at the NASDAQ in late August. For our work in helping them, RRBB was invited to celebrate with others at this closing bell ceremony. Managing partner, Dave Roth and Mike McDyer represented RRBB for the closing bell at the NASDAQ market site.

RRBB Happenings

Stuff the Bus—For the 10th year, RRBB participated in the Somerset County “Stuff the Bus” program run by the United Way of Northern NJ. The “Stuff the Bus” program helps low-income families in our communities. The donations from this program provide necessary school supplies that can be a financial hardship for families to purchase. As a result, children are better prepared for success in school each year.

Donations vary from pens and pencils to book bags and lunch boxes. Last year, employees at 66 local companies—along with civic organizations, community groups, and individuals—donated more than $79,000 worth of school supplies that were distributed to children in need at 44 schools. Allison Valdes coordinates RRBB's efforts here and says, "This is a great program the United Way runs, and we are proud to and will continue to support this to help kids learn."

New Team Members—We are excited to announce two new members to the RRBB team. Join me in welcoming Michael Mehaffey and Danielle Ligouri. Michael is a May 2013 graduate of the College of New Jersey, with a Bachelor's degree in Accounting. While there, Mike made the Dean's List and spent time volunteering as a certified tax volunteer, providing free tax services to low-income and disabled individuals. He has some experience working in the accounting department of a private company in Bridgewater and had an internship at a small CPA firm. Most importantly, Michael has passed all sections of the CPA exam. Danielle is a May 2014 graduate of Rider University, with a Bachelor's degree in Accounting. While at Rider, she was active in a service fraternity as house manager, philanthropy chairman and community service chairman. She raised money for charity, facilitated social and educational programs, and encouraged community service among members. Danielle studied in Turkey and England during her time at Rider. During college, she interned and was a sales associate with Michael Kors in NY and a local store in Lawrenceville, NJ.

Congratulations—We want to recognize and congratulate two members of our team: An Hu in our Maplewood office and Mike Mehaffey in Somerset. They both recently passed the CPA exams. We are excited for them in taking this next step in their professional careers.

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Beware of Charitable Deduction Pitfalls

Special rules may limit annual deductions

When you make a donation to a qualified charitable organization, you probably think you can write off the full amount of the contribution, no questions asked. In fact, you might not even give the matter a second thought. But the tax rules for charitable deductions are fraught with perils, including numerous limitations and special restrictions.

It is important to know and understand the rules relating to charitable deductions before you start giving your money or property away. This could have an impact on your gift-giving decisions.

Background: Generally, a taxpayer can deduct the full amount of cash or cash-equivalent contributions made to charity, as long as strict substantiation requirements are met. But there are limits depending on whether you donate the funds to a "50% charity" or a "30% charity."

As the name implies, the total deduction for gifts to 50% charities cannot exceed 50% of a taxpayer's adjusted gross income (AGI). Accordingly, donations to 30% charities are limited to 30% of AGI. The list of 50% charities includes most religious groups, schools, hospitals and public charitable organizations, while certain other organizations—such as veterans associations and fraternal organizations—have been designated as 30% charities.

Suppose you donate property instead of cash to a charity. This is where things become more complicated. Usually, for donations of long-term capital gain property, you can deduct the property's full fair market value (FMV). This rule applies to property that would have produced a long-term capital gain (i.e., property you have owned for more than one year) had you sold it instead of donating it. There is no tax on the appreciation in value.

If long-term capital gain property is donated to a 50% charity, the deduction is limited to 30% of AGI. However, if long-term capital gain property is donated to a 30% charity, the deduction cannot exceed 20% of AGI. When your charitable donations exceed either of these limits for the current year, the excess may be carried forward for up to five years.

Other special rules may come into play. For example, when you donate property to charity, it must be used to further the charity's tax-exempt cause. Otherwise, your deduction is limited to your basis in the property. In other words, you cannot deduct its FMV, even if it qualifies as long-term capital gain property.

Finally, the "Pease rule" may cause another complication. This rule was gradually phased out during the last decade before being reinstated in 2013. Under the Pease rule, certain itemized deductions claimed by high-income taxpayers, including deductions for charitable donations, are reduced by 3% of AGI above a specified income threshold (but not by more than 80%). The threshold for 2014 is $254,200 of AGI for single filers and $305,050 for joint filers.

Final words: It may be possible to maximize your charitable deductions with some astute tax planning. This is especially true as the end of the year approaches. If you have any questions regarding your situation, do not hesitate to seek professional assistance.

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IRS Announces Changes in Offshore Program

New developments concerning foreign assets

The IRS is encouraging taxpayers who have been hiding assets in foreign accounts to step forward and pay their fair share of U.S. taxes. To facilitate this goal, it has announced major changes to its Offshore Voluntary Disclosure Program (OVDP). In doing so, the IRS is using a "carrot-and-stick" approach by widening the scope of the program and increasing penalties for noncompliance.

Background: In recent years, the government has ramped up efforts to uncover assets being hidden in foreign bank accounts and other entities. Under the Foreign Account Tax Compliance Act (FATCA), U.S. taxpayers must meet certain obligations, including paying their tax liability and filing FBARs (Reports of Foreign Bank and Financial Accounts), when needed.

As an added inducement, the IRS initiated an amnesty program, the OVDP, back in 2009. It has been revived with a few modifications. Prior to the latest changes, taxpayers generally were required to pay a penalty of 27.5% of the balance in their foreign accounts covering a period of eight years. The OVDP also offered streamlined procedures for qualified taxpayers.

But not everyone could benefit from the OVDP. Now the IRS has expanded the streamlined procedures and made additional modifications to the program.

Specifically, the streamlined procedures are now available to more U.S. taxpayers living abroad. Also, for the first time ever, U.S. taxpayers residing in this country may be eligible. The changes include the following:

- Eliminating a requirement that the taxpayer have $1,500 or less of unpaid tax per year;
- Eliminating a previously required risk questionnaire;
- Requiring the taxpayer to certify that previous failures to comply were due to non-willful conduct.

Penalties will be waived for eligible taxpayers residing outside the United States. In addition, for taxpayers residing in the United States, the only penalty will be one equal to 5% of the foreign financial assets causing the tax compliance issue.

Other modifications to the OVDP include the following:

- Requiring additional information from taxpayers applying to the program;
- Eliminating the existing reduced penalty percentage for certain non-willful taxpayers in light of the expansion of the streamlined procedures;
- Requiring taxpayers to submit all account statements and pay the offshore penalty at the time of the application;
- Enabling taxpayers to submit voluminous records electronically rather than on paper; and
- Increasing the penalty from 27.5% to 50% in cases relating to an investigation by the IRS or the Department of Justice.

Thus, more taxpayers should be able to qualify under the OVDP, but the penalties resulting from noncompliance may be higher. This is the carrot-and-stick aspect.

Taxpayers are urged to comply with the laws and FBAR filings concerning foreign accounts as well as other tax liabilities. However, it is perfectly acceptable to use legal techniques to minimize the amount of tax you owe.

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Eight Ways to Be a Better Leader

How to improve leadership skills

As the owner or manager of a small business, you set the tone for the rest of the operation. But not everyone is born to assume the mantle of leadership, nor are dynamic leaders usually created overnight. What can you do to improve your skills? Here are eight practical suggestions.

1. Get organized. Disorganization often leads to chaos in the office. If you are running amok, the business will not be able to operate smoothly. Improving your organization can result in greater productivity from everyone else.
2. Lead by example. It might be what you do, rather than what you say, that really counts. For instance, you will have less impact if you are hardly ever around the office or you always work behind closed doors. Get out front, and show the staff what you can do. Do not hesitate to roll up your sleeves and take on some of the grunt work yourself.
3. Show your passion. How can you expect employees to be excited about coming to work if you are not? Inspire others to perform better through your own passion and enthusiasm. That does not mean you always have to be a cheerleader, but you should demonstrate that you believe in the company's mission and objectives.
4. Don't hesitate to delegate. You cannot do everything at your company at all times. Concentrate on what is most important to the business and assign other tasks and responsibilities. Let employees take ownership of certain projects for which they are well suited, and let them run with it.
5. Communicate with the staff. To paraphrase a saying among real estate agents, three key aspects of being a good leader are communication, communication and communication. Of course, every manager knows the importance of communicating, but many forget to do it or only pay it lip service.
6. Listen to employees ... carefully. Part of being a good communicator is being a good listener. A leader should not do all the talking. Keeping people motivated means listening to them, asking them questions and understanding the issues. The more you listen, the easier it will be to respond in an effective manner.
7. Be brave. Sometimes, you have to be the bearer of "bad news." Do not shirk your responsibilities. Tackle problems head-on, and do your best to resolve them. You might have to weather some hard looks for a short time, but in the end the staff will respect you more for it. Don't try to hide from confrontations; eventually, they will find you anyway.
8. Know your employees. This is more than just learning their names. What makes them tick? What are their lives like outside work? Keep track of events like birthdays, marriages, births and graduations, and mention them to workers. This will help you strengthen the ties with the staff.

Remember that a successful business starts at the top and trickles down to the bottom line. Make a conscious effort to provide the leadership that is needed in the workplace.

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Retirement Planning: Age Before Beauty

Financial benefits of getting older

There is more to look forward to than just senior citizen discounts as you approach the end of your working career. When you cross certain thresholds, you may benefit from special provisions affecting retirement savers. Here is a brief rundown of these age-based mileposts.

Social Security benefits: Generally, you must wait until a specified age before you can claim the full amount of your Social Security retirement benefits. The full retirement age, which is based on the year in which you were born, is age 66 for most baby boomers and gradually increases to age 67. However, you may opt to claim a lower monthly benefit amount at age 62 or a higher amount by postponing your application until age 70. With professional assistance, you can crunch the numbers and figure out the best approach for your personal situation.

Catch-up contributions: Although the tax law provides generous annual limits on contributions to qualified retirement plans where you work, such as a 401(k) plan, as well as traditional and Roth IRAs, you can do even better after you have reached age 50. To help you save more for retirement later in your working years, you can add a "catch-up contribution" to your regular contribution. For instance, in 2014 you can increase the maximum 401(k) deferral of $17,500 by $5,500 or tack on another $1,000 to the maximum $5,500 IRA contribution.

Early distributions: Typically, you cannot withdraw funds from a qualified plan or IRA prior to age 59½ without paying a penalty tax—on top of regular income tax—unless a special exception applies. However, you may tap into a qualified plan (but not an IRA) in the year you turn age 55 if you retire, quit or are laid off from your job (age 50 for public-safety workers). Another provision allows you to take substantially equal periodic payments (SEPPs) under one of three IRS-approved methods. The SEPPs are made over your life expectancy or the joint life expectancies of you and a beneficiary (or beneficiaries).

Once you reach the magic age of 59½, you can take penalty-free distributions from qualified plans and IRAs, but you still must pay any regular income tax that is due. Note that distributions from a Roth IRA that has been in existence five years are completely tax-free.

Required minimum distributions (RMDs): On the downside, you're generally required to begin taking RMDs from qualified plans and IRAs in the year after the year you turn age 70½. This requirement is postponed until retirement for qualified plans (but not IRAs) if you are still working full-time and you do not own 5% or more of the company. Furthermore, the rule for RMDs does not apply to Roth IRAs during your lifetime.

As you can see, age clearly matters in retirement planning. Whenever possible, avoid penalties for age-related requirements and take advantage of the breaks for getting older. Your professional advisers can assist you.

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Facts and Figures

Timely points of particular interest

False Promises—According to a new report from the Government Accountability Office (GAO), the IRS can do a better job of managing correspondence audits. The GAO says notices sent by the IRS often mislead taxpayers by providing unrealistic time periods for which a response can be expected. Being more realistic may improve compliance and reduce taxpayer burden.

Reprimanding Employees—If you must correct an employee, do you mix in the reprimand with some positive feedback? Although you are softening the blow, the message may be lost in the shuffle. Usually, it is better to be direct and address the specific problem. It may cause hard feelings for a short time, but could lead to better performance in the future.

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Big Break for Short-Term Rentals

Do you rent out a vacation home? Be aware of a little-known tax break.

Due to complex rules for passive activities such as rental real estate, tax losses may be limited. However, if rentals average seven days or less and you meet certain requirements, the IRS may treat the activity as a business, not an investment activity. This removes the rental activity from the passive activity rules, so losses may be fully deductible.

Want to know more? Details are available upon request.

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