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August 2014

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RRBB Announcement

Client highlight:
Chinese boxer to enter U.S. professional ranks.

Be sure to tune in to ESPN2 on August 8th to see RRBB client and Chinese amateur Zhang Zhilei make his professional boxing debut in Fallon, Nevada. He is well known for his Olympic super heavyweight silver medal at the 2008 Beijing Olympics and bronze medals at the 2007 and 2009 amateur world championships. The fight is being promoted by Dynasty Boxing partner Dino Duva and should turn out to be an action-filled four-round bout with the 6-foot, 6-inch, 245-pound southpaw.

At RRBB, we are excited to help Zhang with the accounting and business part of his work. And it is a great start for one of our young and bright stars here, An Hu. An is using her Chinese language skills, her work ethic and great accounting skills to help grow yet another exciting niche within RRBB.

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When to Harvest Capital Gains or Losses

Tax planning depends on your circumstances

As the summer draws to a close, it's time to size up stocks in your portfolio that may be ripe for selling this year, especially when you factor in the tax consequences. It's an annual ritual known as "harvesting" capital losses. However, due to recent tax law changes, you may be inclined to reap different tax benefits.

Basic rules: The capital gains you recognize during the year from sales of securities can be offset by capital losses on sales of securities, and vice versa. In addition, if you have an overall loss at the end of the year, you can offset up to $3,000 of highly taxed ordinary income before carrying over any remainder to the next year. This capital loss carryover can offset capital gains and up to $3,000 of ordinary income in 2015.

This is traditionally the time when investors start perusing their portfolios to find securities that can be sold at a loss to absorb capital gains recognized earlier in the year. The harvesting loss strategy is especially valuable for offsetting short-term gains (i.e., gains from sales of property owned for a year or less) that are taxed at ordinary income tax rates. For 2014, the top ordinary income tax rate is 39.6%, plus upper-income investors may also be liable for a 3.8% Medicare surtax on capital gains. Thus, it may still behoove you to harvest capital losses.

On the other hand, long-term capital gains (i.e., gains from sale of property held more than one year) are in line for preferential tax treatment. Currently, the maximum tax rate is 15% for most taxpayers. (Investors in the two lowest ordinary income tax brackets can benefit from a 0% rate.) For taxpayers in the top 39.6% bracket, the maximum tax rate on long-term capital gain is increased to 20%.

Therefore, the optimal tax strategy for 2014 varies for taxpayers, depending on such factors as your gains and losses thus far, your current tax rate, and your expected tax rate for next year. As an example, if you expect to be in the 35% tax bracket this year and then jump to the 39.6% tax bracket next year, you might realize more long-term capital gains this year to benefit from the 15% tax rate. Conversely, if the situation is reversed—you anticipate that you will reach the top 39.6% rate this year and slide back into the 35% bracket next year—you might decide to postpone gains and/or harvest losses to offset this year's gains.

In addition, consider the potential impact of the "wash sale rule" that prevents you from claiming a tax loss from the sale of securities if you acquire substantially identical securities within 30 days of the sale. Give yourself plenty of time to maneuver around this rule if you are trying to harvest losses.

For example, suppose you are holding a stock showing a $5,000 loss. You would like to realize the loss this year but believe the stock will rebound. One idea is to sell the shares now and then wait at least 31 days to buy back the same stock. Alternatively, you might "double up" now and wait 31 days to sell the shares you originally owned.

Final words: Above all, it is important to stay flexible enough to adjust your investment strategies to meet your changing needs and objectives. Consult your financial and tax advisers concerning harvesting of capital losses or gains between now and the end of the year.

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Danger Ahead! Heed Seven Fraud Signs

Businesses must remain on high alert

Workplace fraud is a legitimate threat around the country. Recent estimates of the cost of employee theft and fraud to U.S. businesses range from $20 billion to $50 billion a year. No business, regardless of size or nature, appears immune.

Sound advice: Do not sit around waiting for fraud to endanger your small business. By identifying the areas where fraud may occur and taking steps to thwart it, you may be able to avoid the common pitfalls that plague other employers. Be on the lookout for these warning signs that should set off alarms.

1. No division of accounting duties: The person in your organization who authorizes actions like invoicing and payroll should not be the one responsible for completing those payments. Those duties should be segregated and assigned to different employees. Also, a third party should maintain custody of cash accounts. In all cases, rely only on employees you trust.
2. Inadequate recordkeeping: To expose fraud and, equally important, to be able to prove it, you must keep detailed records. For example, if proper accounting procedures are not put in place to cover cash disbursements, it will be difficult to detect instances of abuse.
3. Unusual cash transactions: Any significant differences between cash expectations and actual receipts should be quickly investigated. Do not wait for further evidence if a pattern seems to be emerging. Frequently, an employee will try to embezzle funds by writing checks to himself or herself and signing the employer's name on the checks.
4. Lack of physical safeguards: Start with simple precautions such as sticking identification tags on computers or locking down expensive equipment so it cannot be moved easily. Always make sure that safes and other valuables, such as data and records, are secure. Lock office doors after hours, and limit access to sensitive areas whenever possible.
5. Suspicious documents: Be wary of invoices, purchase orders, checks, expense reports, time cards, etc., that do not pass the "smell test." In some companies, the fraudsters may even arrange for fictional employees to be paid salaries. Make sure that payment procedures are carefully followed.
6. Unreasonably high costs: It is not unusual for rising prices to occur due to inflation or other factors, but any increases should stay in line with industry standards. A classic example of fraud involves a kickback from a vendor or supplier.
7. Phony travel reimbursements: This is another area that is often ripe for abuse. It is easy for an employee to falsify these records if no one is paying close attention. Make sure that receipts coincide with all aspects of travel

expense reports.

Reminder: It usually takes more than one person to stop fraud in its tracks. Bring other supervisory personnel into the loop. The entire management team must remain vigilant in these efforts. Above all, do not ignore the warning signs discussed above.

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Ins and Outs of Moving Deductions

Tax law limits for job-related moves

Are you moving to a new home or planning a move in the near future? If you are, you should be aware of the tax rules for moving expenses. In some cases, moving expenses are fully or partially deductible, but other times they are not.

Starting point: You may deduct moving expenses only if you switch jobs or get a new position. In other words, you cannot deduct expenses simply because you decided to get a bigger place or relocate to a nicer area. Assuming that the move is job-related, you still must pass this two-part test to qualify for deductions.

Part 1. The new job location must be at least 50 miles farther from your old home than your old job was. For this purpose, the most commonly traveled route generally measures the distance between two points.

For example, say that Mr. Smith works for XYZ Co. XYZ is transferring Smith from its Northtown office to a similar position in Southtown. Previously, Smith lived 5 miles from his job in Northtown. But his new job location in Southtown is 45 miles from his old house. Since Smith's new job is only 40 miles farther from his old home than the old job, he cannot deduct his moving expenses.

Part 2. If you are an employee, you must work full time for at least 39 weeks during the first 12 months after you arrive in the general area of the new job. Note: You do not have to work for the same employer, as long as the 39-week test is satisfied. If you are self-employed, you must work full time for (1) at least 39 weeks during the first 12 months and (2) a total of at least 78 weeks during the first 24 months after you arrive in the general area.

Be aware that there are several key exceptions to this second part of the test. For instance, the time requirement does not have to be met if you are in the armed forces and you moved due to a change of station; your main job was outside the United States and you moved to the United States because you retired; you are the survivor of a person whose main job location was outside the United States; your job at the new location ends because of death or disability; or you are transferred for your employer's benefit or you are laid off for a reason other than willful misconduct.

In general, you may deduct the "direct" expenses of moving to a new home. This includes the cost of transferring household goods and personal effects (e.g., furniture, appliances and car) and your traveling expenses during the move. If you travel by car, you can keep track of the exact amount of your expenses or deduct a flat rate (plus related parking fees and tolls). The IRS recently announced that the flat rate for 2014 is 23.5 cents per mile (down from 24 cents per mile in 2013).

Note, however, that deductions are not allowed for "indirect" moving expenses. These include, but are not limited to, the following:

- Meals;
- Pre-move househunting trips;
- Temporary living expenses; and
- Attorney's fees and real estate commissions related to the move.

Final point: Moving expenses are deductible on your personal tax return before you determine your adjusted gross income (AGI). As a result, they are not subject to the "Pease rule" reducing itemized deductions for upper-income taxpayers. In addition, deductions used to arrive at AGI may further lower your overall tax bill.

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Should Your Company Rehire Workers?

Establish guidelines for job candidates

It is difficult to find good workers and often even tougher to keep them. That is why you might entertain the idea of rehiring someone who left the business and is now hoping to return. However, this scenario is not without potential pitfalls, especially if you encountered problems with the worker the first time around.

First, you should address the issue of whether it is a good idea to rehire an employee who was disruptive in the past. Unless the business is truly desperate for someone with his or her particular skill set, it is usually not recommended. The same types of incidents—such as tardiness, inability to work with others or displaying a poor attitude—are likely to resurface.

Second, consider those employees who left on reasonably good terms and thus may be classified as being “rehireable.” Although this could work out for both sides, and it has on numerous occasions, employers should still proceed carefully. A possible solution is to document company policy concerning these situations.

Typically, the policy should cover the basic rules and limitations involved in a rehire. For instance, it might list restrictions when an employee was previously terminated for just cause. Similarly, it can establish when an employee is eligible for rehiring. Here are several possible qualifications for allowing a rehire based on the employee’s past performance:

- Completion of a probationary period;
- Submitting appropriate notice of resignation;
- Participation in an exit interview, if applicable;
- Performance evaluations reflecting that the employee’s work consistently met the requirements of the job; and
- Termination was due to company actions (e.g., layoffs or workforce reduction).

Conversely, former employees may not be eligible for rehiring if there was an involuntary termination for wrongdoing or misconduct or if a termination was based on violations of company rules.

Educate all your employees on the policy so they are aware of their responsibilities in this area. Ex-employees seeking to be rehired should indicate their former employment with the company on any application for employment. Assign verification to a specific individual or the Human Resources Department, if you have one.

Finally, the policy should require rehired employees to be treated like any other new hire for purposes of employment documents, orientation and benefits waiting periods. Rehired employees generally cannot have their prior benefits reinstated. Rely on your business advisers for assistance.

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Facts and Figures

Timely points of particular interest

Virtual Taxes—Although using Bitcoin and other virtual currencies may seem futuristic, it is gradually becoming more prevalent both online and at brick-and-mortar outlets. Now, in a new ruling, the IRS says that Bitcoin and similar currencies constitute property for U.S. tax purposes. This could cause complications for individuals and businesses that must account for the tax consequences.

Confidentiality Agreements—In a new case, the headmaster at a Florida prep school settled an age discrimination lawsuit with the school. But the settlement included a confidentiality agreement prohibiting him or his wife from revealing the terms. After his daughter posted a Facebook message proclaiming that the school was paying for her summer vacation to Europe, the school sued for a reduction and won.

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Are You in Line for Tax Rewards?

Say that you forgot your briefcase or laptop on the train on the trip home or left it in a coffee shop. If you offer a reward for the item's return, can you deduct the cost if a Good Samaritan comes through?

It would seem to depend on whether it's a personal or business item. It is logical that rewards for personal items would be nondeductible, but business-related rewards may be deducted as an employee business expense, subject to the usual limits.

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