RRBB ACCOUNTANTS + ADVISORS

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RRBB Announcements

Client Highlights

Celebrating 17 years

Our good friends in Securities law, Sichenzia Ross Friedman Ference LLP, just passed the 17-year mark. Congratulations! The story of their start is a good one, with some comedy around the location of the meeting where it all began. Sichenzia Ross Friedman Ference LLP was formed in May 1998 by Gregory Sichenzia, Richard A. Friedman and Marc J. Ross, who had been partners at a boutique securities law firm located at 40 Exchange Place in New York City. The three made a decision to go out on their own over cheeseburgers at the 42nd Street McDonald's across from Grand Central Station. With a copy of the *New York Law Journal* in hand, the three found office space in the iconic Sports Illustrated Building in Rockefeller Center and subleased this first office from Jacoby and Meyers LLP, the infamous New York City private injury firm. And the rest is history. Again, congratulations!

RRBB Happenings

RRBB offers support

For the second year, RRBB Accountants and Advisors is a proud sponsor of a golf outing to support "Save a Child's Heart Foundation." Our friends at Lucosky Brookman, LLP hosted the second annual golf outing on June 8, 2015, at the Trump National Golf Club in Colts Neck, New Jersey. In only its second year, the outing continues to build on its success. This year's event raised over $155,000 for SACH, a 50% increase over last year's tally of $101,000. Rob Quick represented us on the course and was on hand for the festivities. RRBB is very happy and excited to be part of such a great cause and commend our friends at Lucosky Brookman for another outstanding job coordinating the event.

ABOUT SAVE A CHILD'S HEART FOUNDATION

Save a Child's Heart (www.saveachildsheart.org) is an international humanitarian project whose mission is to improve the quality of pediatric cardiac care for children from developing countries who suffer from heart disease. SACH is dedicated to the idea that every child deserves the best medical treatment available, regardless of nationality, religion, color, gender or financial situation.

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Evaluating a Franchise Business Plan

Decide if the opportunity is right for you

It is hard to open a business and turn it into a successful operation. Despite the best efforts of entrepreneurs, a vast number of new businesses in the United States fail each year. Instead of starting from scratch, you or another family member, such as an adult child, might search for a ready-made franchise. There are literally thousands of them in the marketplace, ranging from

McDonald's to Jiffy Lube to Fantastic Sams hair salons.

But how does one evaluate the merits of such a business opportunity? At the outset, it is necessary to go over the franchise business plan with a fine-tooth comb. This document, prepared by a franchisor for review by a franchisee, typically encompasses three main parts: introductory materials, marketing strategies and financial aspects. Here is a brief overview of these items:

1. Introductory materials: The first few sections of the plan will likely provide some basic information and descriptions. Check to make sure that these materials mirror the materials on the franchisor's Web site. Investigate the description of the products and/or services offered, the size and nature of the business, and the risk involved.

Typically, this section will describe the management team and their roles in the operation. Again, you can verify this information from other Internet sources. Also, the business plan will likely include an overview of the market you will be in and competitive challenges you might face. For example, you should learn how your projected territory will be divided. Finally, the plan should describe the franchise's corporate culture.

2. Marketing strategies: The sections on marketing strategies should answer several important questions, including the following:

- How will the business develop its customer base?
- What makes the products and/or services attractive to the public?
- What is the franchisor's role in marketing activities?
- What resources are budgeted for marketing activities?
- What are the key components of the marketplace (e.g., territory and sector)?
- What are the marketing plans for the future?

The answers to these questions may help you determine whether the franchise is a worthwhile undertaking for your situation.

3. Financial aspects: Last, but not least, the financial sections of the franchise business plan provide information needed for a thorough analysis. It is usually divided between two main components: financial projections and financial needs.

Financial projections: This includes detailed income statements, cash-flow estimates and balance sheets for estimated income. Be suspicious of projections that seem too good to be true or are predicted to skyrocket in future years. There should be some wiggle room for downturns or other complications.

Financial needs: The nitty-gritty of the plan covers all start-up and operational expenses. The total amount of capital required, as well as any loans, should be clearly stated. Review this section carefully, and determine if it matches your needs and expectations, considering your willingness to take on risks, your available capital and other circumstances. Note: Exhibits and other supporting items will be attached in an appendix.

For most would-be franchisees, this is not a do-it-yourself proposition. Even if you're an experienced entrepreneur, rely on expert assistance from your professional advisers.

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When Can You Undo a Roth Conversion?

Retirement savers benefit from flexibility

Usually, in the tax and financial world, you cannot change a transaction and pretend it never happened. Once you make your decision, you have to live with it, for better or worse. But there is a notable exception for retirement-savers: When it suits your purposes, you can "recharacterize" a Roth IRA conversion.

In other words, if you converted funds in a traditional IRA to a Roth last year, you can reverse the conversion as if it did not occur, no questions asked. And you have until the extended deadline for filing your 2014 tax return—October 15, 2015—to make this maneuver.

Background: The annual contribution limit for traditional and Roth IRAs is the same. For 2015, the limit is $5,500 per person, or $6,500 if you are age 50 or older. Although traditional IRA contributions may be partially or wholly tax-deductible, distributions are generally taxed at ordinary income tax rates. Conversely, you can never deduct contributions to a Roth, but qualified distributions, such as those made at age 59½, are completely tax-free five years after setting up the account. Plus, you don't have to take mandatory lifetime distributions after age 70½ as you do with a traditional IRA.

When you convert to a Roth, the value of the funds transferred to your new account is taxed just like a regular distribution from a traditional IRA. Therefore, if you convert funds this year, the tax will be due on your 2015 return, but you are in line for future tax-free benefits (assuming no legislative changes).

However, there is a time and a place for a recharacterization. Here are a few common examples.

- The value of the funds has declined since the conversion, so you have effectively overpaid the tax liability.
- The amount of the conversion tax caught you by surprise and you cannot afford to pay the IRS.
- You simply decided that the Roth conversion is not the best approach for your situation.

If any of these is the case, you can choose to recharacterize the Roth back into a traditional IRA by the tax return due date for the year of the conversion, plus extensions (i.e., October 15, 2015, for a conversion in 2014). This extended deadline generally gives you plenty of time to figure out the best course of action.

Note: You can reconvert back to a Roth if it suits your needs. The earliest date allowed for a reconversion is the later of either (1) the beginning of the tax year following the tax year of the conversion or (2) the end of the 30-day period beginning on the day of the recharacterization.

As you can see, the rules for recharacterizations and reconversions provide flexibility for retirement savers. Consult a professional adviser.

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Seven Tax Moves to Make at Midyear

Strategies for individuals and small-business owners

The summer is not just the season for recreation and relaxation. It can also be the time to reduce your 2015 tax liability. Here are seven prime examples for individuals and small-business owners:

1. Harvest gains or losses. The maximum tax rate for long-term capital gains is 15%, increasing to 20% for some high-income taxpayers. When appropriate, you may realize capital gains to benefit from this special tax treatment. Conversely, if it suits your purposes, you might harvest capital losses instead. Capital losses offset capital gains plus up to $3,000 of ordinary income. Any remaining loss is carried over to the next year.

2. Maximize Section 179 benefits. Under Section 179 of the tax code, you may currently deduct the cost of qualified business property placed in service during the year. The maximum deduction, which was $500,000 for 2014, is reduced to only $25,000 for 2015 unless Congress chooses to extend a higher allowance again. At this point, wait to see what happens after you reach the $25,000 maximum.

3. Sell real estate on an installment sale basis. Generally, you can defer tax on the sale of real estate if you receive payments over a period of two years or longer. Not only do you stretch out the tax liability over time but you might also reduce your overall effective tax rate. Also, you are more likely to complete a deal if you do not insist on receiving full payment up-front.

4. Schedule summer business trips. If you travel away from home on business, you may deduct your travel expenses—including airfare, lodging and 50% of the cost of meals—if the primary purpose of the trip is business-related. But the number of days spent on business vs. pleasure is crucial, so be careful how you allocate your time.

5. Enjoy business entertainment. A small-business owner who entertains clients during the summer may claim entertainment deductions. For instance, if you treat a client to a round of golf before or after a “substantial business discussion,” you can deduct 50% of the fees, club rentals, and meals and drinks afterward. Note: If the client comes from out of town, the business discussion can take place either the day before or the day after the golf outing.

6. Support a college graduate. If your child graduated from college this year, you still may be entitled to a $4,000 dependency exemption for the child if you provide more than half of his or her support in 2015. Figure out how much more support you must give to push you over the halfway mark and give it as a gift. This is likely the last time you will qualify for the exemption.

7. Sweep up charitable deductions. As a general rule, you can deduct the fair market value of property you donate to a qualified charitable organization if you have owned the property for more than a year. For example, if you decide to clean out the basement, attic or garage during the warm weather, you might give used clothing and furniture in good condition to charity and then claim a deduction.

These are just seven midyear tax-planning ideas to consider. Schedule a meeting to discuss the best strategies for your particular circumstances.

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New Tax-Free Accounts for the Disabled

ABLE Act authorizes state programs

When the Tax Increase Prevention Act of 2014 (TIPA) was passed late last year, most of the attention was directed at the long list of extenders that were included in the new law, many of them retroactive to the beginning of 2014. But another piece of legislation attached to TIPA has “flown under the radar” thus far. Significantly, the Achieving a Better Life Experience (ABLE) Act authorizes the individual states to establish tax-free savings accounts for disabled individuals.

As of this writing, the Treasury Department is expected to issue new regulations governing ABLE accounts midway through the year. This should enable some states to get their programs up and running near year-end.

Background: ABLE accounts are designed to resemble Section 529 accounts used for higher education. As with 529 plans, contributions to the plan are made to an account designated for a qualified individual. And, just like a 529 plan, the earnings inside the account and distributions for “qualified expenses” are completely tax free. Qualified expenses must be related to the beneficiary’s needs, including housing, education, transportation, employment training and support, technology used for assistance, personal support services, health care expenses, financial management and administrative services, expenses for monitoring and oversight, and funeral and burial expenses.

But the rules for eligibility are strict. To qualify to use an ABLE account, an individual must be either blind or have experienced another severe disability before the age of 26. Thus, these accounts are not available to a sizable segment of the population that is disabled.

If a disabled individual meets the requirements and is receiving Supplementary Security Income (SSI) and Medicaid benefits, or either one, he or she is eligible to participate. (Note that the funds inside the ABLE account do not count toward the limits on personal assets for these public benefits.) If the assets in the account exceed $100,000, the beneficiary’s SSI benefits will be suspended until the total drops below this threshold. However, Medicaid eligibility will not be affected by the account’s amount.

Who can contribute? It can be anyone from the disabled individual to a family member or friend. But the annual limit for contributions from all sources is $14,000. This limit is tied to the annual gift-tax exclusion and is indexed annually for inflation. Also, the total limit on contributions that can be made to an ABLE account over time is the same as the applicable state’s limit on Section 529 accounts (with certain modifications). In most states, this limit is well into six figures.

In some cases, an ABLE account may be used to supplement a special-needs trust, but such trusts may offer more flexibility than an ABLE account. Consider all the implications for your personal situation.

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Facts and Figures

Timely points of particular interest

Business Meeting Tips—How can you stand out at a business meeting? By saying the right thing at the right time in the right way. Here are four helpful hints: (1) Avoid stating the obvious. No one wants to hear it. (2) Take notes. This will help crystallize your thoughts. (3) Speak slowly. Try not to rush through your comments. (4) Focus on a specific issue. Do not ramble on indefinitely. You will lose your audience.

Home Office Deductions—The IRS often challenges home office deductions when it believes the office is not used exclusively for business purposes. In a new case, a vascular ultrasound technologist in Philadelphia claimed that he used a portion of the living room in his small home as an office. But you had to enter the living room to access every other room. Thus, the office space was not used exclusively for business.

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Tax Crumbs at Company Picnic

Are you planning to throw a picnic or host a barbecue for employees this summer? Besides building morale, you can derive tax benefits from the get-together. Normally, business entertainment deductions are limited to 50% of the expenses, but you can write off 100% of the cost of a company outing.

There is, however, one catch: You have to invite the entire staff. Otherwise, the usual tax limit for business entertainment applies.

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