RRBB ACCOUNTANTS + ADVISORS

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September 2015 www.rrbb.com

RRBB Announcements

New team member

RRBB is proud to announce that Joseph Sheehan has joined our Somerset office as a staff accountant. Joe graduated from Rider University with a Masters of Accountancy. While at Rider, he worked full time for a small accounting firm in Flemington, NJ. Outside the office, Joe is a competitive bowler. (Don’t know his best score, but he promises to be very good.) Please join us in welcoming Joe. We are very excited to have him.

RRBB featured in NJ Biz Profiles

For a second year, RRBB was one of the featured businesses in NJ Biz Business Profiles section included in their July 27th edition of the newspaper. Take a look; we were even able to get all the partners together (except Larry Frankel—sorry, Larry) for a new photo!

www.rrbb.com/wp-content/uploads/2015/08/RRBB-Cover-Bus-Profile.pdf

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Five Steps to Close the Leadership Gap

Developing and refining workplace skills

A perceived lack of leadership within firms of all sizes is a recurring theme in business journals and other literature. But how can you help close the “leadership gap” at your company? There are no guarantees, but these five suggestions could aid your efforts.

1. Focus on the specifics. It may seem obvious, but training programs designed to improve leadership skills often ignore this strategy. Many such programs follow generic standards, but a better idea may be to develop those precise talents needed for your business. Don’t settle for a cookie-cutter approach. Start by identifying your leadership skills gap and what you have to do to address the situation at your company.

2. Aim to solve real issues. Along the same lines, the best way to develop leadership skills is to address actual issues that occur, preferably at the workplace. Team building in the woods or on a river may be beneficial (as well as fun), but the practical usage is not the same. It is more useful to concentrate on achieving current objectives. This can facilitate your key projects at the same time that you enhance leadership skills. What’s more, it may require several leaders to work together to be successful.

3. Learn from your experiences. If, at a minimum, you follow the first two steps, you will be far ahead of many other businesses. Keep the momentum going by refining the training program as you go along. In other words, react to what you have learned up to this point, and incorporate those lessons into the training. As a result, your program will continue to evolve over time. Again, this differs from a traditional approach that remains rigid and fails to take changes in circumstances into account.

4. Remain committed. All too often in the business world, a company will embark on a training program but unintentionally abandon it when other, more pressing matters take precedence. This is particularly true with training sessions where the results are difficult to quantify. Of course, you will still have to "put out fires" when they arise, but you must stick with a leadership program through thick and thin to attain the best results. There may be no overnight miracles, but you will see some positive forward movement after a few months.

5. Monitor the proceedings. Because a successful program requires commitment, it is important to track the plan's progress. Develop a system to correlate the training to productivity or other workplace benchmarks. Make an assessment, and discuss these findings with the program participants. But don't stop there: Use the information you have garnered to further adjust the training regimen.

Remember that there is no wrong way or right way to try to fill a leadership gap. Furthermore, any efforts in this area are likely to reflect the personality of business ownership and the corporate culture. Nevertheless, devising and coordinating a plan of action is likely to produce better results than no plan at all.

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Weighing In on Hardship Distributions

Rules for taking in-plan withdrawals

If you have been able to build up a sizable fund in a 401(k) or other qualified retirement plan, you have a good head start on a nest egg for retirement. Sometimes, however, extenuating circumstances may force you to tap into your account prematurely. Specifically, you might apply for a "hardship distribution" when the plan permits it. Although you may decide this is your best option, consider all the implications.

Background: You can take a hardship distribution from a 401(k) plan up to the amount of your elective deferrals upon severance from employment, termination of the plan, death or disability, or for a hardship withdrawal. A hardship withdrawal is defined as a distribution made due to an "immediate and heavy financial need." It is limited to the amount required for that need.

Of course, hardship withdrawals are still subject to federal income tax in the year they are paid out. To qualify as a hardship withdrawal, the distribution may be used in any of the following situations:

- medical expenses of an employee, his or her spouse, or a dependent;
- college tuition and certain other education fees of an employee, his or her spouse, or a dependent;
- expenses to purchase a principal residence for an employee (excluding mortgage payments);
- expenses to stave off eviction or foreclosure of the employee's principal residence;
- burial or funeral expenses for an employee's deceased parent, spouse, child or dependent; or
- expenses for repairing casualty damage to an employee's principal residence (e.g., as a result of a hurricane or other natural disaster).

Note that similar rules apply to other tax-qualified plans permitting elective deferrals, such as a 403(b) plan offered to employees of a tax-exempt organization.

However, to discourage these hardship withdrawals early in your career, the IRS imposes a 10% penalty tax if you are younger than age 59½, unless a special exception applies. The penalty tax does not apply in the following situations:

- You are totally disabled.

- You pay for medical expenses exceeding 10% of your adjusted gross income.
- You are required by a court order to give money to your divorced spouse, a child or a dependent.
- You separate from service (through quitting, retirement, termination or layoff) in the year you turn age 55, or later.
- You separate from service and establish a payment schedule to withdraw money in substantially equal amounts over the course of your life expectancy. (Once you begin taking this kind of distribution, you are required to continue for five years or until you reach age 59½, whichever is longer.)

Employers are not required to offer hardship withdrawals, so check to see if this option is available to you. Then consider all the economic ramifications of such a distribution. Finally, remember that your 401(k) or other plan is meant to be used for retirement saving.

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Take Tax Credit for Making History

Rundown on tax break for renovations

A real estate owner may be contemplating the renovation of an older building in a historic part of town or a place that otherwise has historical implications. Fortunately, the federal tax law provides some incentives. Before you start tearing down walls and putting up a new façade, follow the steps for having the building certified as a historic structure. The payoff is a tax credit—a dollar-for-dollar reduction of your tax bill—equal to 20% of the renovation costs.

Note that the tax credit for restoring historic structures is twice the usual 10% tax credit available for rehabilitating older buildings. For example, if the renovation costs, say, $500,000, you can effectively reduce the expenditures by $100,000. This is true even though the requirements generally aren't as stringent as they are for the "rehab credit."

Background: The 10% rehab credit can be claimed for renovating a building placed in service before 1936. To qualify, the work must be substantial in nature (i.e., expenses over a two-year period must exceed the greater of $5,000 or the adjusted basis of the building and its structural components). Furthermore, the rehabilitation work must meet certain specific wall-retention requirements. Finally, the building must have been placed in service by the taxpayer before the rehabilitation work began.

For this purpose, qualified expenses include architectural and engineering fees, site survey and development fees, legal expenses, and other construction-related costs, as long as they are added to the property's basis, reasonable in amount and related to services performed.

Key point: Unlike the rehab credit, you do not have to stick to strict wall-retention rules to qualify for the historic credit. However, you must meet the following additional requirements:

- The building must be listed on the National Register of Historic Places or located in a registered historic district, and certified by the Secretary of the Interior as being historically significant.
- The rehabilitation work must also be certified. This means the finished product must retain the original historic character (but not necessarily the original use) of the building.

Also, the owner of a historic building must own it for at least five years after completion of the rehabilitation work or he or she will have to pay back all or part of the 20% credit. Remember this special recapture provision before you begin the work.

In summary: More properties will qualify for the historic credit than you might think. It is not necessary for George Washington to have slept there nor does the place have to be an antebellum mansion. The list of historic structures is far more inclusive than that.

Currently, the National Register of Historic Places names more than 80,000 locations that are eligible for the credit. You can visit its Web site to obtain more information, including an application for certification, at www.nps.gov/nr/about.htm. If you need more assistance, rely on your professional tax advisers for guidance.

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Can You Control Romance at Work?

Issues involving company policies

The possibility of romantic entanglements with legal and business complications exists in virtually any workplace. And where there is smoke there is a chance of fire. It may be in your company's best interests to keep feelings on a low simmer.

Background: When coworkers in comparable positions strike up a romantic relationship, it is often perfectly harmless, assuming both parties are single. But if one or both parties are married, it can cause strife on both personal and business levels. Furthermore, if one party is the other's superior, or is in a higher position than the other, the situation could result in retaliation or allegations of sexual harassment being filed with the Equal Employment Opportunity Commission (EEOC).

Frequently, in reports presented to the EEOC, the supervisor will argue that any physical contact was consensual. At other times, people who have allegedly been harassed will claim that they have been discriminated against because of their relationship with the supervisor. This is a classic example of "quid pro quo harassment," which is prohibited under Title VII of the Civil Rights Act of 1964. If the claim is proven, liability may attach to the employer as well as the supervisor.

Under EEOC guidelines, mere favoritism exhibited toward a coworker involved in an interoffice romance is not necessarily considered discriminatory. However, if favoritism is frequently based on quid pro quo sexual activity, the employer may be liable for creating a hostile work environment.

What can an employer do about the situation? Some companies have instituted a "no-dating" policy among staff members. Typically, the policy restricts or prohibits dating or other fraternization, but the boundaries can be difficult to define, especially if employees routinely gather for lunch or other social get-togethers. In a variation on this theme, the policy may be limited to relationships between supervisors and subordinates. Also, a policy might be suspect if it does not adequately address penalties and means of enforcement. Finally, such a policy can expose the employer to claims of invasion of privacy.

One possible alternative is to ask employees to notify the company if they are entering into a consensual relationship with a coworker. As part and parcel of the agreement, employees must notify management when they break up. In this situation, an employer will likely be absolved of liability if subsequent charges are made under the basic rules discussed above.

In summary: This is an area where employers must act with great sensitivity to the privacy of employees. If you are considering use of a written policy for employees, obtain expert guidance from your professional advisers.

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Facts and Figures

Timely points of particular interest

Travel Snafu—The need to keep detailed and accurate business travel records cannot be overemphasized. New case: A taxpayer failed to keep contemporaneous mileage logs for business trips. In addition, the logs did not provide the names or addresses of the customers visited, nor did they specify the business purpose of the travel. As a result, the tax court agreed with the IRS that deductions should be denied.

Health Insurance Mandate—The mandate for mid-size employers to provide health insurance under the Patient Protection and Affordable Care Act (PPACA) finally kicks in next year. (It was previously postponed twice.) Under the PPACA, employers with at least 50 full-time employees must meet minimum essential requirements or face stiff penalties. If your company is not prepared, start making plans right away.

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What States Are Tax-Friendly?

What are the friendliest states from a tax perspective? According to the 2015 State Business Tax Climate Index (SBTCI) produced by the Tax Foundation (the most often cited), the 10 best states for businesses are as follows: (1) Wyoming, (2) South Dakota, (3) Nevada, (4) Alaska, (5) Florida, (6) Montana, (7) New Hampshire, (8) Indiana, (9) Utah and (10) Texas.

Conversely, the states bringing up the rear are (48) California, (49) New York and (50) New Jersey. These three states are perennially at the bottom of the SBTCI.

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