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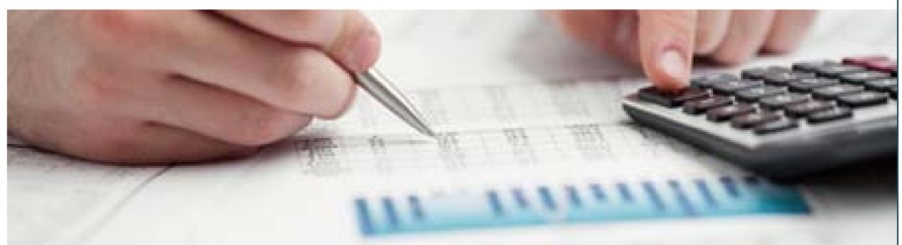

RRBB Announcements

RRBB Happenings

We are very proud to announce that one of our bright young accountants has completed his “Masters of Accountancy” from Rider University. Sal Lavadera completed his masters degree as of the end of December. Join me in congratulating Sal on his hard work and effort to attain this high level of education in the field of accounting. This achievement shows his commitment to learning and truly “mastering” the profession. Great job Sal!

Also, this year 2016 is the 35th year at RRBB for both Carl Schwartz and Steve Truppo. Wow time flies. Our Maplewood office is buzzing with excitement in anticipation of a celebration, after tax season of course. Congratulations to Steve and Carl for their 35 years and hopes of many more.

Finally, two of our partners Gary Sherman and Carl Schwartz were awarded the prestigious Five Star Professional Award for 2016, which was noted in *New Jersey Monthly’s* January edition. Congratulations to both Carl and Gary for all the work they do for clients. The award is client service–focused and therefore speaks volumes for their dedication. Be sure to see them in *New Jersey Monthly*.

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How to Get Ready for Tax Filing

Seven steps of preparation

Now that the holidays are over, another event that is looming on the horizon may not be a cause for celebration: filing your tax return. Nevertheless, you can relieve some of the stress by having your return professionally prepared. There still is a little “work” required on your part, but it should not take much time or effort. Here are seven steps to guide you along the way.

1. Assemble tax documents. Undoubtedly, you have been inundated with numerous tax forms for the 2015 tax year, including W-2s and 1099s. Employers are required to send W-2s to employees by February 1, 2016. Similarly, investors will receive 1099s with the details of their investment activities. Instead of just dumping these in a pile on your tax return preparer’s desk, review them first to ensure they are accurate. In particular, verify the cost basis used to determine the tax ramifications of securities transactions.

2. Verify Social Security information. It is critical to provide correct Social Security numbers for all dependents, including any children who were born or adopted in 2015. You can claim an exemption of $4,000 that is available for each dependent, in addition to a $1,000 credit for qualified children, but exemptions for some high-income taxpayers are reduced under a reinstated tax rule. Also, retirees may owe tax on Social Security benefits.

3. Organize financial statements. Having your bank and investment statements on hand will make it easier to trace the origin of funds and reasons for deposits or payments. For instance, it may be determined that a bank deposit constituted a tax-free gift rather than earned income. Similarly, brokerage statements might indicate a carryforward of a tax loss that can be used to offset capital gains realized in 2015.

4. Organize business records. The same advice applies to self-employed individuals and business owners, who are often lax with their record keeping. Make sure that expenses can be substantiated through receipts and other documentation. Remember that the IRS pays close attention to travel and entertainment (T&E) expenses, including deductions for business use of vehicles, so proper record keeping for T&E is critical.

5. Check IRA details. A taxpayer can contribute up to $5,500 to any combination of traditional and Roth IRAs ($6,500 if age 50 or older) for the 2015 tax year. Deductions for traditional IRAs are phased out for active participants in employer-sponsored retirement plans (and spouses of active participants). Roth IRA contributions are nondeductible, but generally lead to future tax-free payouts. Note: The deadline for IRA contributions for 2015 is April 15, 2016.

6. Audit-proof charity deductions. Under the current tax rules, cash and cash-equivalent gifts to charities must be supported by records, including written acknowledgements for donations of $250 or more. For a contribution of a lesser amount, the appropriate statement will suffice. Stricter substantiation requirements apply to gifts of appreciated property (e.g., an independent appraisal is required for gifts valued above $5,000).

7. Schedule a meeting. The last item on the checklist is arranging an early meeting with your tax return preparer. This can head off potential problems and resolve any discrepancies. Then you can relax in the knowledge your return is in good hands.

Even if you are not preparing your own return, do not wait until the last minute to get started. The sooner you provide the necessary documents, the sooner you can receive any refund.

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Coping with New Social Security Changes

New law eliminates two strategies

A new law passed late in 2015—the Bipartisan Budget Act—effectively closes down two popular Social Security strategies for retirees. However, proper planning may still maximize your benefits in retirement.

Basic rules: When you retire and apply for Social Security benefits, the monthly benefit is based on your personal work history and, if you are married, the work history of your spouse. If you would receive a higher amount of benefit based on your spouse's work history, you are entitled to that amount.

Another critical factor is the timing of your application to receive benefits. To receive 100% of the available amount, you must have attained full retirement age (FRA). Alternatively, you can elect to receive a lower monthly benefit by retiring as early as age 62 or a higher amount by retiring as late as age 70. In either case, the reduction or increase in benefits is gradual, depending on the difference between your age at application and FRA.

FRA varies according to your date of birth. For those born between 1943 and 1954, FRA is age 66. It increases gradually before reaching age 67 for those born after 1959.

Previously, retirees could generate extra benefits through either one or a combination of two strategies: the "file-and-suspend" strategy and the "restricted application" strategy.

- File-and-suspend strategy: With this strategy, a worker claims benefits and then suspends them, thus earning extra Social Security credits. For instance, the higher-earning spouse could put in a claim at FRA (currently, age 66) and then suspend benefits until age 70. In the meantime, the lower-earning spouse could claim benefits based on the higher-earning spouse's work history.

Effective after April 30, 2016, the new law eliminates the file-and-suspend strategy.

If the higher-earning spouse chooses to suspend benefits, the benefits of the lower-earning spouse will also be suspended. However, you may still be able to use this strategy if you will reach FRA before May 1, 2016. What's more, if you were already using the file-and-suspend strategy, you can continue to do so under the new law.

- Restricted application strategy: A lower-earning spouse who is nearing FRA files a restricted application for spousal benefits based only on the higher-earning spouse's work history. Then the lower-earning spouse waits until age 70 to apply for benefits based on his or her own work history, thereby adding Social Security credits.

The new law eliminates this strategy for spousal benefits. If you are turning age 62 after 2015, you must claim all of your benefits based on the higher amount of your own or the spousal benefits. However, if you attained age 62 before January 1, 2016, you can still use the restricted application strategy when you reach FRA.

Despite these significant changes under the new federal legislation, the basic rules relating to Social Security still remain in effect. If you are approaching retirement, you may face important decisions that could affect your monthly benefits. Do not hesitate to seek professional guidance for your personal situation.

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Four Kiddie Tax Ideas in Play

How parents can avoid or reduce tax

Despite its name, the "kiddie tax" is not limited to toddlers or preschool children. In fact, it may continue to apply to 20-somethings. Saving grace: At least you may be able to minimize or even eliminate this additional tax.

Basic rules: Generally, income is taxed at the tax rate of the individual who receives it. For example, if you are in the top 39.6% tax bracket, your top dollars are taxed at the 39.6% rate. On the other hand, if your child is in the 10% bracket, the child pays tax at a maximum rate of only 10%.

However, a special rule applies to certain children who receive unearned income above an annual threshold. In this case, the excess is taxed at the top tax rate of the child's parents. Thus, instead of being taxed at the 10% rate, your child may be taxed at the 39.6% rate on the excess.

The annual threshold is adjusted for inflation, but recent increases have been small or nonexistent. For 2016, the threshold is $2,100 (the same as it is on 2015 returns).

Initially, the kiddie tax applied only to children under age 14, but the limit has been raised several times. The current age limit is 19 or age 24 for a full-time student if the child does not have earned income in excess of half of his or her annual support. In other words, if your dependent child is in college, the kiddie tax likely still applies. However, here are four possible ways to reduce the tax liability.

1. Keep your child's unearned income below or near the $2,100 threshold. For instance, you might wait until next year to give your child income-producing property. This technique works especially well if you do not expect your child to pay the kiddie tax in 2017.

2. Utilize tax-deferred investments that do not produce current income. This may include investments in growth stocks and U.S. savings bonds. Similarly, if the child buys certificates of deposit or Treasury bills that will not mature until next year, you can avoid or minimize the kiddie tax this year.

3. Allocate a portion of your child's investment portfolio to municipal bonds ("munis") or muni bond funds. Generally, the income received from these investments is completely free of federal income tax, so your child can pocket any amount without kiddie tax worries.

4. Hire your child to work for your company. Because the wages constitute earned income, this will not trigger any kiddie tax complications. As long as the child is paid a reasonable salary for the services performed, your company can deduct

the wages. This is a good way to help a child save money for college without adverse tax consequences.

Tax return option: If your child owes the kiddie tax for 2015, you may elect to have the extra income reported on your 2015 return as long as certain conditions are met. More details from your tax return preparer are available upon request.

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Do's and Don'ts for Small-business Owners

Strategies in good times and bad

Despite its success, a profitable small business can expect times when sales slow down, level off or even decline. Instead of waiting for the inevitable, here are some "do's" and "don'ts" to help.

DON'T think you have it made forever just because your business has been prospering.

All you should need for a warning is to pick up your Sunday newspaper and read yet another article about a corporate heavyweight taking it on the chin. There are simply no guarantees about the future success of your company. One of the worst enemies of a successful small-business owner is complacency.

DON'T take your customers or clients for granted.

For instance, you may assume that a certain sales territory is all wrapped up or a particular client will remain loyal forever. Then the other shoe drops when a large account unexpectedly switches to the competition. Even if you have provided quality services to someone in the past, you must show you will continue to do so tomorrow, the next day and the day after.

DO look to continue to expand your business.

It is rare to be in the enviable position of having "too much business." More often than not, a business tends to get bogged down at a certain comfort level. When that happens, a competitor may be able to siphon off some of your profits. Also, you may come across to clients as arrogant if you make only a halfhearted attempt to generate new business. A successful business is a growing business.

DON'T assume that you know everything you need to know about your clients.

Gathering information should be an ongoing process. Periodically, you should ask customers or clients questions about any concerns they have and opportunities they are facing, the changes that are affecting them, and any special conditions that are causing problems. If you do not keep in touch and up-to-date, you may not be able to meet their needs in the future.

DO hope for the best and plan for the worst.

This is not to say that gloom and doom should pervade your thinking. Rather, it is meant to convey that it is better to be safe than sorry. A safer approach is to recognize the inherent uncertainty in business and to act accordingly.

DON'T put all your eggs in one basket.

It is risky to stake your livelihood on just one or two accounts. Similarly, if your sales are completely price-driven, your business can go down the drain quickly if a competitor undercuts you. Offer more to customers than just a low price. This gives the impression that you intend to stay in business for the long haul.

If you take these precautions before danger signs appear, you can keep your business growing. However, if you wait until tough times arrive, it may be too late for meaningful action.

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Facts and Figures

Timely points of particular interest

Social Security Taxes—There is good news for employees and employers on the payroll tax front. Due to relatively low inflation, the Social Security wage base remains at $118,500 in 2016, the same as in 2015. So the 6.2% portion of FICA tax applies to the first $118,500 and the 1.45% continues to apply to all wages. But low inflation also means benefits do not increase for retirees.

Audit Rates—The IRS recently announced that the audit rate for individual taxpayers declined to 0.84% for fiscal year 2015, the lowest audit rate in 11 years. It shows 13,700 fewer audits than were conducted in fiscal year 2014. The trend has been attributed to budget cuts and reduced resources at the IRS. Nevertheless, it is still advisable to do your best to avoid potential problems.

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Tax Grades for Student Loan Interest

Did your child incur student loan interest last year? The payor may qualify for an above-the-line deduction on a 2015 return.

Under current law, a taxpayer may write off up to $2,500 in qualified student loan interest, subject to a phaseout at certain income levels. For 2015 returns, the phaseout occurs between $65,000 and $80,000 of modified adjusted gross income (MAGI) for single filers and $130,000 and $160,000 of MAGI for joint filers.

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