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RRBB Announcements

RRBB Happenings

Brian Zucker was out in support of The Navy SEAL Foundation again this year. Brian was in attendance on Thursday, March 3, 2016, for the 8th New York City Benefit for The Navy SEAL Foundation. It was held at the New York Hilton Midtown and was well attended.

The Navy SEAL Foundation was established in 2000 to serve U.S. Navy SEALs, Special Warfare Combatant-Craft Crewmen, Naval Special Warfare (NSW) support personnel and their families. The Navy SEAL Foundation provides a comprehensive set of programs specifically designed to reduce the stressors associated with the tremendous amount of uncertainty and pressure that comes with life in Naval Special Warfare (NSW). Since the 9/11 terrorist attacks, there has been an unprecedented demand for Special Operations Forces around the globe. SEALs spend up to 270 days away from home each year in the most unforgiving environments and training at an unrelenting pace to maintain their ability to execute our nation's toughest military missions. Their commitment to our country and the mission is only possible because of the significant personal sacrifices made by their families.

And, although they are diligently working on tax returns before the deadline, most here at RRBB anxiously await the celebration of 35 years with RRBB for both Carl Schwartz and Steve Truppo. Both are with RRBB for 35 years this year and our Maplewood office, especially, is excited to see the celebration they put together to commemorate (after tax season of course). Congratulations Carl and Steve!

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Open the Door to Home-office Deductions

Maximize tax benefits on 2015 returns

For a small-business owner who works out of his or her personal residence, a home-office deduction can provide significant tax savings, year in and year out. But keeping detailed records is critical. Although you may elect to use a simplified method for deducting home-office expenses on your 2015 tax return, the actual expense method usually produces a bigger deduction.

Background: To qualify for home-office deductions, you must use the office regularly and exclusively as your principal place of business or a place where you meet or deal with customers, clients or patients in the normal course of business. In addition, if you are an employee of a company, you must use the home office for the convenience of your employer.

For instance, if you are self-employed and you run your business from home, you will generally qualify for home-office deductions. But if you merely bring work home from your office on weekends, you are not likely to realize any tax benefits.

Actual expense method: Normally, a home-office deduction includes direct expenses attributable to the office, plus a proportionate share of indirect expenses such as mortgage interest, property taxes, utilities, repairs and insurance. Caveat: Mortgage interest and property taxes are generally tax-deductible anyway. The deduction available for indirect expenses is based on the percentage of your home used for business purposes. Also, you may be entitled to a depreciation deduction for the part of the home used as an office.

However, this method requires you to keep detailed records of expenses. As an alternative, the IRS offers a streamlined option.

Simplified method: All you have to do is figure out the square footage of the part of your home used as an office. Then, you can deduct $5 per square foot, up to a maximum of $1,500.

Nevertheless, when you compare these two methods, the actual expense method may produce a bigger deduction. If you have the necessary records, you might choose to bypass the simplified method.

Hypothetical example: A self-employed taxpayer uses a home office as her principal place of business. The home is 3,000 square feet and the home office is 300 square feet, or 10% of the home. Let's say that the taxpayer has $2,000 in direct home-office expenses plus indirect expenses—including utilities, insurance and repairs—of $10,000 for the year (disregarding mortgage interest and property taxes that would otherwise be deductible). According to the IRS table, she is also entitled to a $400 depreciation allowance.

Based on these facts, the taxpayer can deduct $2,000 in direct expenses, $1,000 in indirect expenses and $400 in depreciation, for a total of $3,400. With the simplified method, her deduction is limited to $1,500, less than half the total with the actual expense method.

Note that you may switch between the actual expense and simplified methods from year to year. You are not locked into either method.

Do not make any costly assumptions or rash decisions. Compare the deduction available with each method to see which way you come out ahead. A professional tax return preparer can provide the necessary assistance.

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Estate-planning Ideas for a Blended Family

Modern techniques for modern times

In this day and age, it is not unusual for a spouse, children and grandchildren from a second or even third marriage to form a so-called blended family. But these additions to the clan can complicate estate planning. Keeping that in mind, the following tools may be useful for blended families:

Will: Your will is the centerpiece of your estate plan and should be coordinated with other devices such as trusts. It can be amended through a codicil for minor changes or be completely rewritten to reflect major changes. For example, you might rework a will to include your spouse and your children from a second marriage or even the spouse's children from a prior marriage.

Living trust: Often viewed as a supplement to a will, a living trust enables you to maintain control over the disposition of assets. Typically, the trust is revocable, so you still have the ability to change the beneficiaries or allocations, or otherwise amend it during your lifetime. Because assets contained in a living trust avoid probate, this can be valuable to someone who wants to avoid public scrutiny.

Prenuptial agreement: This is no longer the exclusive domain of the rich and famous. A prenuptial agreement is often designed to protect assets before entering a second marriage and preserve wealth for the children of your first marriage. It may also be coordinated with other rights and responsibilities (e.g., conditions for a second spouse to act as executor of your estate).

Power of attorney: A power of attorney is a legal document authorizing the attorney-in-fact to act on your behalf. With a durable power of attorney, the power continues if you become incapacitated. The decision as to whom to designate as the attorney-in-fact can be a critical one for blended families.

Retirement plans and IRAs: It is likely that much of your wealth is socked away in qualified retirement plans, such as a 401(k) and traditional or Roth IRAs. Prior beneficiary designations should be updated when certain life events occur, such as a divorce, a marriage or remarriage, or a birth. The retirement plan and IRA designations supersede any declarations in your will or other documents.

Life insurance: As with retirement plans and IRAs, you may be inclined to amend your life insurance beneficiary designations. Alternatively, you might revise the percentages of proceeds going to the respective parties. Once again, these beneficiary choices supersede other designations.

QTIP trust: A Qualified Terminable Interest Property (QTIP) trust is comparable to a regular marital trust. However, if the surviving spouse is entitled to a portion of your assets upon your death, he or she receives regular income payments, but not the principal. When the surviving spouse dies, the remainder passes to the designated beneficiaries, potentially providing estate-tax benefits.

These are just some ideas to consider in estate planning for a blended family. Other options may be available for your situation. With assistance from your estate-planning adviser, create an overall plan that will hopefully provide family harmony.

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Grooming Your Company for Success

Establish a reasonable dress code

What is being worn or displayed in the workplace in 2016—including tattoos, body piercings, T-shirts with vulgar slogans and extremely short skirts—may not have been acceptable years ago, but many employers are relaxing their standards. Nevertheless, business managers may still impose certain dress and grooming codes on employees, especially if such standards are considered essential to the job. However, be sure to stay within the legal boundaries when it comes to dictating attire and grooming requirements.

Background: Under Title VII of the Civil Rights Act of 1964, and more recent amendments, certain dress and grooming codes might be discriminatory. The key is to set up a company policy that relates to either (1) health and safety in the workplace or (2) your company’s public image.

According to the body of case law in this area, you can set a reasonable policy for dress and grooming. (Of course, each case is decided on its own merits.) It may also be possible to establish separate rules for men and women, but consider these three key points.

1. Your company must have some legitimate business purpose behind its policy. For example, it would be unreasonable for most manual laborers to be required to wear suits and dresses.

2. Be sure all employees are advised of the policy. The policy should be included in a written employee manual. If you don’t have a manual, it may be a good time to create one.

3. Make the policy as fair as possible. Allowing men to come to work dressed casually while women have to wear uniforms is probably unreasonable. Use common sense. For instance, you should be especially careful with the following provisions.

- No-beard rules: It is generally advisable to make exceptions for those employees with documented medical skin conditions and for those workers whose religious beliefs may require a beard.
- Makeup: Be careful to relate this rule to the company’s public image. Trouble may arise if some women have little interest in wearing makeup but your company requires it. It is difficult to impose requirements without seeming sexist. As

with no-beard rules, exceptions should be made for medical reasons.
- Provocative dress: It is generally acceptable to require women to wear clothing that will uphold your company's image. But clothing that may subject female employees to sexual harassment may cause problems. On the other hand, you may prohibit employees from dressing too provocatively, assuming that these restrictions are reasonable.
- Varying rules: Usually, men and women dress differently. But you should try to apply the same or similar restrictions to men and women so your policy will not be viewed as being discriminatory.
- Hairstyles: Some company managers advocate short hair because they believe it promotes the company image. Generally, employees do not have a fundamental right to have long or braided hair. However, your hairstyle requirements cannot be overly restrictive.

If your company policy is reasonable under the circumstances, it should stand up to legal scrutiny. Also, make sure your policy is periodically reviewed and adjusted, when appropriate.

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Tabulate Results for a Sales Tax Deduction

Make tax election for renewed tax break

In this election year, one of the most important decisions will be made on your 2015 tax return. You must determine whether it is better to deduct state and local income taxes paid last year or to claim a deduction for state and local sales taxes. What's at stake? Tax dollars.

The optional sales tax deduction officially expired after 2014. But the new Protecting Americans from Tax Hikes (PATH) Act of 2015 revives the deduction retroactive to 2015 and makes it permanent.

For many taxpayers, particularly those residing in states where income taxes are relatively high, state and local income taxes will produce a bigger deduction. However, for other taxpayers, the sales tax deduction may be preferable, especially if you purchased certain big-ticket items last year.

Background: The optional sales tax deduction expired and was reinstated several times in the past. But the PATH Act removes the uncertainty. Beginning with the 2015 tax year, this deduction will be available on your personal tax return.

Note that both state and local income taxes and state and local sales taxes are claimed as itemized deductions. Such deductions are subject to a reduction for certain upper-income taxpayers on their 2015 returns.

If you elect to deduct sales tax on your return, you can choose one of two methods. With the first method, you deduct the actual amount of sales tax paid in 2015, based on the receipts you have. Although this method will often provide a bigger overall deduction than the second method, it requires diligent recordkeeping.

With the second method, which is simplified and less time-consuming, you are entitled to deduct an amount based on a special table prepared by the IRS. The table provides a specific amount for each state based on the size of your family. Icing on the cake: In addition to the amount listed for your state on the IRS table, you can increase your sales tax deduction by the amount of sales tax paid on

- the purchase or lease of a vehicle.
- the purchase of a boat or aircraft.
- the purchase or substantial addition to or renovation of a home.

Thus, even if you are using the simplified method for a sales tax deduction, it is beneficial to keep records for these big-ticket items.

Finally, other special rules may come into play if you are filing separately as a married person. If both spouses itemize deductions, both must claim either the state and local income tax deduction or the sales tax deduction on their 2015 returns.

These options may require in-depth analysis. Do not assume you are always better off with one option. Have the numbers *crunched to determine the best choice for your situation.*

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Facts and Figures

Timely points of particular interest

ACA Reporting—Due dates for filing certain Affordable Care Act (ACA) forms have been extended. Individuals should have received 2015 Form 1095-B by March 31, 2016, postponed from February 1, 2016. Also, the due dates for filing Forms 1094-B and 1094-C with the IRS, as mandated by the ACA, were changed from February 29, 2016, to May 31, 2016 (and from March 31, 2016, to June 30, 2016, if filing electronically).

Taxpayer Bill of Rights—The new Protecting Americans from Tax Hikes (PATH) Act of 2015 does much more than extend various expired tax provisions and make certain tax breaks permanent. Under the PATH Act, the Taxpayer Bill of Rights proposed by the IRS has been written right into the tax code. It delineates basic fundamental rights (e.g., rights of notice and appeal) available to every U.S. taxpayer.

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IRA Deadline Set in Stone

The deadline for contributing to an IRA for the 2015 tax year is April 18, 2016 (April 19 for residents of Massachusetts and Maine). Even if you obtain a tax filing extension, it does not extend the due date for IRA contributions.

The maximum contribution allowed to any combination of traditional and Roth IRAs for 2015 is $5,500 ($6,500 if you are age 50 or older). These contribution limits stay the same for the 2016 tax year.

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